

FACILITY ASSOCIATION

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TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F02-007
DATE: May 24, 2002
SUBJECT: MINUTES OF THE ANNUAL GENERAL MEETING

Attached, for your information, are the minutes of the Annual General Meeting of the Facility Association held on May 2, 2002.

David J. Simpson, M.B.A., FCIP
President & CEO

Attach.

CHAIRMAN'S REMARKS

ANNUAL GENERAL MEETING – MAY 2, 2002

Good morning, my name is Bob Cooke and I have been your Chairman for the past year. I would like to take a few minutes to highlight the significant issues addressed by your Board of Directors throughout 2001 – 2002.

Last year, at this meeting, your Chairman spoke of the “moderation” of the depopulation of both the Residual Market and the Risk Sharing Pool. As we all know, the market has hardened significantly in the past 12 – 18 months, and with the turning of the cycle, both the Residual Market and the Risk Sharing Pool are beginning to re-populate in virtually all jurisdictions. Our President will provide more details in his report.

Auto insurance and regulatory reform has been the subject of consultation processes in Newfoundland & Labrador, and in Ontario, and we have participated fully in both jurisdictions. We have been particularly forceful in emphasizing that it is not possible to achieve the goal of cost control for the consumer with a fragmented governance and operations structure. Indeed, our Plan of Operation provides something of a template of how harmonization can be achieved across jurisdictions.

Administratively, we saw some changes in senior management at FA. Stan Griffin returned to the IBC, where, as most of you know, he has been named President & CEO. He has been replaced by Dave Simpson. Long time CFO Sham Manji resigned in January, and Georgette Chan, an employee with FA for 28 years, has been named Acting Vice President of Finance and Operations.

On the legal front, it is my pleasure to congratulate Robin Cumine, Q.C. on the successful outcome of our case against the TTC, and work is ongoing to ensure that they participate in the residual market as the court has directed.

Our biggest challenge this past year, and in the coming year, is in achieving and maintaining rate adequacy in all jurisdictions, particularly in Atlantic Canada. Last year we had the challenges of lengthy review processes in Newfoundland & Labrador, Nova Scotia, and New Brunswick. This year, we have already corresponded with the PUB Chairs in each of those provinces to let them

know what we are seeing in term of rate need, and are consulting with them on ways the approval process might be accelerated. We have received written assurance from the Chair of the New Brunswick Board that the process will be faster than last year, and we will continue to work cooperatively with all jurisdictions.

As we move forward, it will be our responsibility to remind rate approval authorities of the negative impacts rate inadequacy in the Residual Market have on the consumer. As most of you know, these include cross—subsidization of the residual market by consumers in the voluntary market and the reduction in competition and choice that results from the inability of non-standard writers to operate profitably.

I would like to close by thanking my fellow Board members for their commitment and time over the past year. I would especially like to thank Don Lough of ING Canada, who is stepping off the Board this year after 12 years of dedicated service, including his two year term as Chair. Don's statesmanship and acute insight into Facility Association and its role in the marketplace will be sorely missed. Thanks, too, to Randy Gregory, who has ably represented the broker community of Alberta and the Territories for the last two years.

Now it is my pleasure to turn things over to our President, Dave Simpson, for his comments.

PRESIDENT'S REMARKS

ANNUAL GENERAL MEETING – MAY 2, 2002

As our Chairman noted, premium volume in the residual market is up in all jurisdictions. For fiscal 2001 Residual Market written premiums were up 27.3% to just under \$178 million, and in the Ontario Risk Sharing Pool, written premiums were up 32.1% to just over \$91 million.

I am going to spend just a few minutes going over our results and our market share in total and by jurisdiction. However, before we look at our market share in individual jurisdictions, I think it's important to emphasize residual market size is the function of two inter-related phenomena – the first is how well the voluntary market is functioning, the second is the price relationship between the voluntary market and the residual market. Given the cyclical nature of our business, a P & C Return on Equity of 3% for 2001, and auto insurance results that continue to be challenging, to say the least, I am sure the increases in volume we are seeing come as no surprise to anyone in this room.

Despite all this, market shares of the residual market remain at near record lows for every jurisdiction, and I am pleased to note that our industry is addressing these market forces “head on” with the recent formation of the market availability task force, of which Facility Association is a member.

And, just by way of interest, the experience in the United States is very similar to ours. Residual market premium volumes in that country, like ours, declined steadily throughout the 90s, but were up 31% for the 12 months ended March 31, 2001, the latest twelve month period for which data is available.

With that as background, I'll now move quickly through our Private Passenger Market Shares and Combined Operating Ratios for each jurisdiction:

TOTAL:

- This first slide shows the upswing in market share in the residual markets across our nine jurisdictions. These figures include the traditional residual markets and the Ontario risk sharing pool. Although the numbers are increasing, market share in 2001 was just over one and three quarters percent, and was the third lowest year in the last decade.
- The second slide shows our combined operating ratios for the past 10 years, and at 137%, this is the second worst year in the last ten.

ALBERTA:

- The depopulation trend of the last ten years moderated and market share remained just below 1%.
- The Combined Operating Ratio in Alberta in 2001 was 104%.

ONTARIO:

- After remaining stable for two years, market share of the Risk Sharing Pool and the Residual Market combined has moved up to nearly the level it was at in 1998.
- Results continued to deteriorate as the combined ratio moved to 144% from 109%. Taken separately, the risk sharing pool was at 158% and the residual market was at 112%.

NEW BRUNSWICK:

- Market Share continues to climb here as well, but remains at nearly historic lows and about one and half percent.
- The combined ratio in New Brunswick continues to deteriorate. As with the other Atlantic provinces, the combined ratio includes the results of the Uninsured Automobile Fund.

NOVA SCOTIA:

- Nova Scotia shows much the same trends as New Brunswick, with market share remaining below 2%, but with a more dramatic spike in the combined ratio.

NEWFOUNDLAND & LABRADOR:

- This jurisdiction is interesting in that it didn't experience the decline in market share the rest of North America did in the last decade, and after hitting a low of 3.59 percent in 2000 is now rising again.
- The combined ratio spiked heavily upwards as you can see, and remains high as we move into fiscal 2002.

PRINCE EDWARD ISLAND:

- Market share here took the biggest increase, in percentage terms, of any province.
- The combined ratios show the volatility typically expected from a small market.

NORTHWEST TERRITORIES, YUKON & NUNAVUT:

- Taken as a group, these three jurisdictions show relatively stable market share.
- The combined ratios have the volatility you would expect from small volumes of business.

Clearly, increases in our market share and deteriorating financial results point to the need, as our Chairman highlighted, for us to pursue rate adequacy aggressively not just to generate our own

financial results, but to ensure we occupy our appropriate place in the marketplace as the market of last resort and not as a “competitive alternative” for consumers.

On the policy front, one of the outcomes of the Newfoundland & Labrador consultation process is our new consumer brochure, which is at the printer. We’ll be working with the Market Availability Task Force to work out the details of our distribution strategy and will place a version on our website as well. We will introduce it in other jurisdictions over the next year.

Facility Association is now identified on pink slips and application forms in all jurisdictions. Our goal with all of these initiatives is to ensure that consumers are aware of the fact they are insured through the residual market and, even more importantly, aware of the steps they can take to seek re-entry into the voluntary market.

In Ontario, we have put forward several proposals to government:

- The first is the transfer of the Motor Vehicle Accident Claims Fund to Facility Association, so we can fulfill a similar role to the one we play in Atlantic Canada by administering the Uninsured Automobile Funds in those jurisdictions.
- We have also proposed that if the “Take All Comers” provisions are eliminated from the Ontario regulatory framework, as has been proposed by the IBC, that the Risk Sharing Pool be wound down as well. In 2001, each vehicle insured through the Risk Sharing Pool was subsidized over \$400 by the total market.
- In the spirit of harmonization across all jurisdictions in which we operate, we have developed alternative suggestions to some of the more bureaucratic procedural requirements relative to the residual market in Ontario, to bring procedures in that province into line with those in other jurisdictions.

New features on our website, in addition to the consumer brochure I mentioned earlier, include the Risk Sharing Pool Claims Guide and entire Ontario Manual of Rates and Rules. The Rates and Rules manual for other jurisdictions is our next planned addition. As well, we are beginning to place forms on the site that can be completed on screen, printed, signed and submitted.

Also, on the topic of technology, FA rates will be included in the broker portal being developed by CSIO.

Operationally, we continue to seek efficiencies to benefit the industry, and ultimately, the consumers we serve. To that end, we are sharing some corporate services with the Insurance Bureau of Canada and will be sharing premises with them as of December of this year. These initiatives will enable both of our organizations to positively impact our respective budgets. Our

relationships with the IBC are based on structured, formal agreements to ensure that we maintain our independence of governance and operation.

I would like to join our Chairman in extending thanks on behalf of myself and the staff to our departing Board members Don Lough of ING Canada and Randy Gregory of Provost Insurance Agencies.

I would like to end by thanking the Board, the Facility Association staff, and many business partners for their support and guidance since I took on this role. I enjoy working with, and learning from, all of you, and am looking forward to doing more, and doing it better, in the next 12 months.

Mr. Chairman, that concludes my report.