

FACILITY ASSOCIATION

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TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F05-025

DATE: May 16, 2005

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 April 12, 2005.

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

Attach.

Facility Association

DRAFT MINUTES OF THE ANNUAL GENERAL MEETING HELD AT THE CAMBRIDGE SUITES HOTEL TORONTO, ONTARIO ON APRIL 12TH, 2005

1. The Deputy Chair read the notice of meeting dated February 25, 2005 (Bulletin F05-013) and confirmed the presence of a quorum.

Residual Market	Votes represented in person	826
Residual Market	Votes represented by proxy	117
Residual Market	Total represented (out of 1171 votes)	943

RSP	Votes represented in person	523
RSP	Votes represented by proxy	87
RSP	Total represented (out of 744 votes)	610

2. On a **MOTION** made by Mr. R. Cooke, **SECONDED** by Mr. I. Mayer and **CARRIED**, the Minutes of the Facility Association Annual General Meeting held on April 28th, 2004 as previously circulated, were approved.
3. On a **MOTION** made by Mr. I. Mayer, **SECONDED** by Mr. C. Brindamour and **CARRIED**, the Minutes of the Facility Association Special General Meeting held on June 21st, 2004 as previously circulated, were approved.
4. **THE CHAIRMAN'S REMARKS – ATTACHED**
5. **THE PRESIDENT'S REMARKS - ATTACHED**

The President's Remarks were presented by the Deputy Chairman in the absence of the President.

6. **REPORTS OF THE PROVINCIAL OPERATING COMMITTEES**

The written reports were attached to the Agenda. The Chairman noted that not all of the Chairpersons were present, however, their representatives would be responding to questions on their behalf.

On **MOTION** made by Mr. R. Cooke, **SECONDED** by Mr. I. Mayer and **CARRIED**, the reports were adopted.

7. **REPORTS OF THE TECHNICAL COMMITTEES**

The reports of the Technical Committees were circulated with the Agenda. The Chairman asked if there were any questions arising from these reports and indicated that representatives of these committees were present to answer any questions.

On **MOTION** made by Mr. C. Brindamour, **SECONDED** by Mr. R. Cooke and **CARRIED**, the reports were adopted.

8. **NOMINATING COMMITTEE REPORT**

Mr. R. Tisdale on behalf of the Nominating Committee presented the Nominating Committee Report.

Nominated for election to the Board of Directors by the Insurance Brokers Association of Canada for a two year term expiring in the year 2007:

David McInnis	Peake & McInnis Ltd.
Beth Pearson	Pearson Dunn Insurance & Financial Services

Nominated for election to the Board of Directors for a two year term expiring in the year 2007:

Robert J. Cooke	State Farm Mutual Automobile Insurers
Jules R. Quenneville	The Guarantee Company of North America
Gary Quon	Markel Insurance Co. of Canada
Rowan Saunders	Royal & SunAlliance Insurance Co. of Canada
J. Robert Tisdale	Pembridge Insurance Company

The continuing members of the Board of Directors with terms expiring in 2006 are:

Charles Brindamour	ING Canada Inc.
Andrew Cartmell	The Co-operators General Insurance Company
George L. Cooke	The Dominion of Canada General Insurance Co.
Daniel Demers	Meloche Monnex Inc.
Igal Mayer	Aviva Canada Inc.
Thom C.J. Young	Lundgren & Young Insurance Ltd.

Mr. David Simpson is a member of the Board by virtue of his office.

There were no further nominations from the floor.

On **MOTION** made by Mr. C. Brindamour, **SECONDED** by Mr. I. Mayer and **CARRIED**, the nominations from the floor were closed.

9. ELECTION OF DIRECTORS

On **MOTION** by Mr. C. Brindamour, **SECONDED** by Mr. R. Cooke and **CARRIED**, **IT WAS RESOLVED** that the Nominating Report be accepted by the Members. As there were no further nominations, the Chairman directed that a single ballot be cast in favour of those nominated.

10. FINANCIAL STATEMENTS

Mr. David Ross, Deloitte & Touche, explained that an error in the data used in the development of the IBNR had recently been detected by IBC and that it has not yet been possible to establish whether this error would result in any material changes to the financial statements. He indicated that the data is being corrected by IBC and that in 2 or 3 weeks, he should be in a position to determine whether the financial statements require to be restated.

11. APPOINTMENT OF AUDITORS

Upon **MOTION** made by Mr. R. Cooke, **SECONDED** by Mr. I. Mayer and **CARRIED**, the firm of Deloitte & Touche was appointed as the auditors for Facility Association for the fiscal year 2005, with terms to be negotiated by the Board of Directors.

12. OTHER BUSINESS

No other business was brought before the meeting.

13. ADJOURNMENT OF MEETING

There being no further business, on **MOTION** made by Mr. I. Mayer, **SECONDED** by Mr. C. Brindamour and **CARRIED**, **IT WAS RESOLVED** that the meeting be adjourned to a date to be set by the board for consideration of the audited financial statements.

A. Cartmell
Chairman

CHAIRMAN'S REMARKS

ANNUAL GENERAL MEETING – April 12, 2005

Good morning, my name is Andrew Cartmell, and I am the Chairman of the Board of Facility Association.

Last year marked a turnaround for us in many respects. Our financial results improved in a dramatic, and I think we would all agree, a surprising fashion. This improvement has been seen in auto insurance across Canada to one degree or another—whether in the voluntary market in the “free enterprise” provinces or by government insurers such as the Insurance Corporation of British Columbia.

Our financial turnaround was driven by two factors.

The first is the improvement of loss ratios for prior years, especially 2002 and 2003. On an all vehicles, country-wide basis, the loss ratio for 2002 dropped from 101% to 91% and for 2003 it moved from 104% to 93%. This shift was driven by a number of forces:

- the higher than average volatility always present in the residual market, both in terms of the size of our book and the mix of business within that book
- legislative and regulatory changes in most jurisdictions
- a decline in claiming behaviour that we have also seen in the voluntary market

The estimation of losses for 2003 was made especially difficult by the sudden influx of volume in the last quarter of that fiscal year. Of the total written premium of \$1.07 billion for fiscal 2003, nearly \$411 million was put on the books in the final three months of the year. That made the estimation of actuarial liabilities very difficult. Members may recall that we enlisted Barb Addie of Baron Insurance Services Inc. to perform an independent valuation of Ontario private passenger (our largest single line) claims liabilities for 2003 and I am pleased to report she is now our external reviewer for all lines in all jurisdictions.

The second factor is a GAAP accounting convention that requires us to immediately recognize policy acquisition expenses if we are projecting our unearned premiums to be inadequate to cover losses and expenses, but allows

us to defer those expenses in years when our premiums are estimated to be adequate. Our Accounting Committee Chair has compared this to “throwing a drowning man an anchor” in years when our results are negative, and it certainly causes the shift in our results to appear more dramatic than would otherwise be the case.

I suspect that most, if not all, of you find the volatility of Facility Association results maddening as you incorporate those results into your own statements. However, it is important that we remember that residual market volumes are symptomatic of how well the voluntary market is performing, and if we want to keep the residual market (and its impacts) small, it is incumbent on all stakeholders, including the regulatory community, to ensure that voluntary markets are competitively healthy.

I am pleased to report that our volumes have declined substantially in Alberta, Ontario and New Brunswick, and are starting to decline in Nova Scotia, Prince Edward Island, and Newfoundland & Labrador. I want to remind everyone that declining residual market volumes are a good thing, and in fact a useful gauge of how well the voluntary market is performing.

Your Board of Directors has been very active on your behalf, and I would like to take this opportunity to run through a number of issues the Board has tackled in the past year.

- Authorized participation with the Insurance Bureau of Canada and provincial brokers' associations in 'depopulation' initiatives in a number of jurisdictions.
- Responded to the needs of the industry through the formation of Risk Sharing Pools in Alberta and New Brunswick. The Alberta Risk Sharing Pool went live on October 1, 2004 and New Brunswick on January 1, 2005.
- Commissioned an Internal Control Review to be performed by our audit firm, Deloitte & Touche. Management's remediation plan arising out of that review has been approved by the Audit Committee. Our aim is to provide our members with any necessary support they need to meet their own statement certification requirements.
- Called a special members' meeting to address Facility Association's status in Newfoundland & Labrador.
- Authorized an independent review of Servicing Carrier compensation to be conducted to ensure that compensation is fair to the Servicing

Carriers and other members, serves to encourage Servicing Carriers to remain in their roles and to compensate them for the sudden volatility they need to manage.

- Worked with Facility Association management and our audit firm to make sure that an error in the calculation of agent/broker commission in the member share base was corrected permanently.

As I mentioned last year, the difficulties in the auto insurance system across Canada prompted a variety of political and regulatory responses including new Rate Boards in Nova Scotia, PEI, New Brunswick, and Alberta. Alberta also implemented a very strict “Take All Comers” environment. Whether these responses will decrease or increase availability or help or hinder the market’s ability to cope with cyclical changes over the longer term remains to be seen.

Given the changes in our environment, an ad hoc committee of the Board will meet in the next few months in a full day strategy session to develop a shared vision and understanding of where our industry is headed and what residual market structure or structures best suit that environment. We will be sharing

more on that exercise throughout the year as concrete proposals and initiatives are further developed.

This is my last day as Chair of the Facility Association Board after what are in all probability the most eventful two years in our history. I would like to take this opportunity to thank my fellow Board members for their constant support, our actuarial firm of Eckler Partners Ltd., our audit partner David Ross of Deloitte & Touche, our legal counsel Robin Cumine and last but not least the staff and volunteers at Facility Association who make so many things happen under challenging circumstances.

I now turn the podium over to our Deputy Chair, Bob Tisdale, to give our President's remarks in David Simpson's absence.

PRESIDENT'S REMARKS

ANNUAL GENERAL MEETING – April 12, 2005

Thank you, Mr. Chairman.

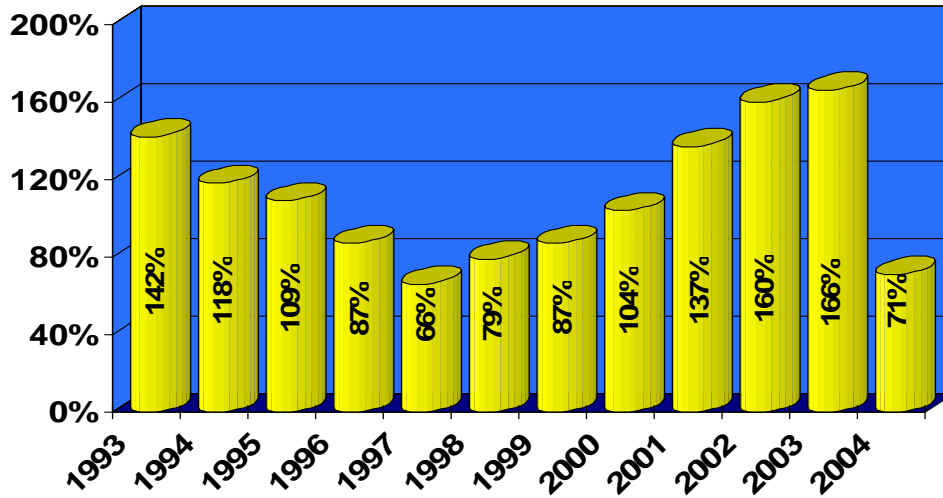
Residual market volumes tend to be “trailing indicators” of problems in the voluntary market, and now that prices have stabilized or come down in most provinces, and that some degree of profitability has returned, we are starting to see our volumes drop. At this time last year, approximately 306 thousand private passenger vehicles were insured through the residual market across Canada, as compared to 203 thousand today. That’s good news for everyone as the Chairman mentioned.

That said, our volumes are not going down as fast as we would like in Nova Scotia, Prince Edward Island, and Newfoundland and Labrador. “Clean driver” listings were provided to brokers and agents in PEI and Nova Scotia in 4th quarter 2004 but the marketing uptake has not been quite what we had hoped for, despite

communication support from the broker associations, the Insurance Bureau Canada and Facility Association. So the industry is trying some creative approaches, such as conducting three depopulation conferences where brokers and companies work together to remove risks from Facility Association. The first one started April 4 in Halifax; there is also one in Kentville, and Sydney in mid April. Now that Newfoundland & Labrador has lifted its price freeze on auto insurance we are optimistic we will see our numbers go down there as well.

As the Chairman mentioned, our results showed a dramatic and surprising turnaround in 2004 as our combined ratio moved from 166% in 2003 to 71.4%, our lowest level since 1997.

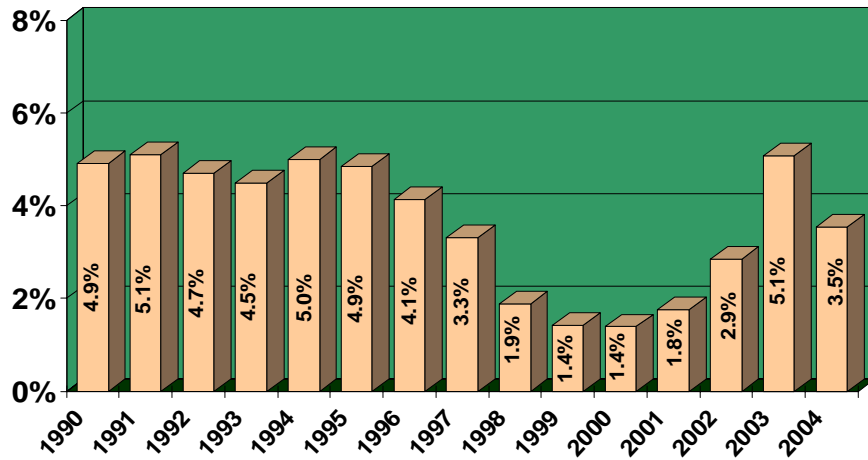
**Facility Association
Combined Operating Ratio (incl. RSP)
All Jurisdictions**



With these results, we are hopeful that the residual markets will act as less of a disincentive to participation by companies in Canada's voluntary automobile insurance markets.

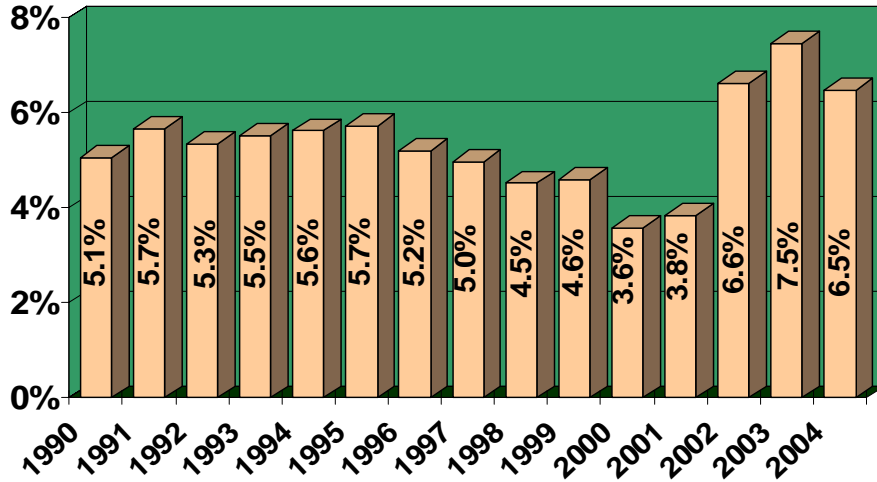
As I mentioned, our market share for all jurisdictions combined was down in 2004 at 3.5%, somewhat below our historical average since 1990 of 4.9%.

**Facility Association
Private Passenger Market Share (incl. RSP)
All Jurisdictions**

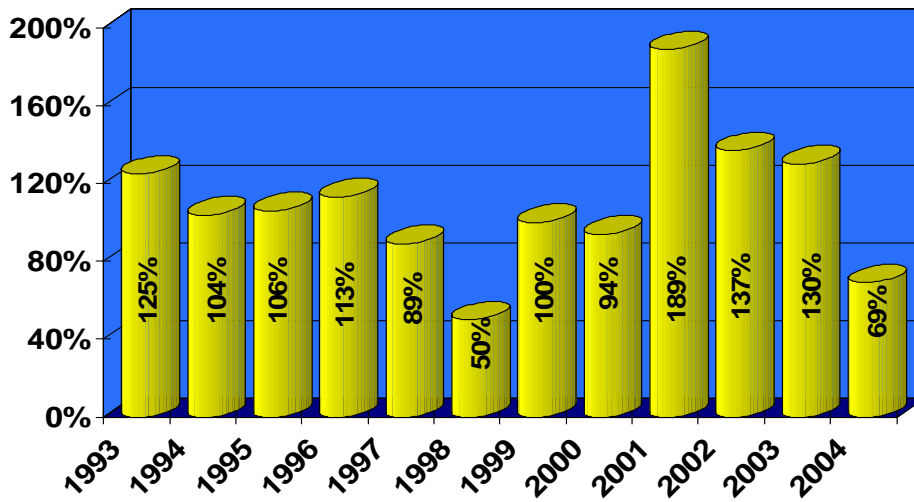


Moving through the jurisdictions we serve from East to West, our Market Share in Newfoundland & Labrador declined to 6.5%. Our combined ratio improved significantly to 69%.

**Facility Association
Private Passenger Market Share
Newfoundland & Labrador**

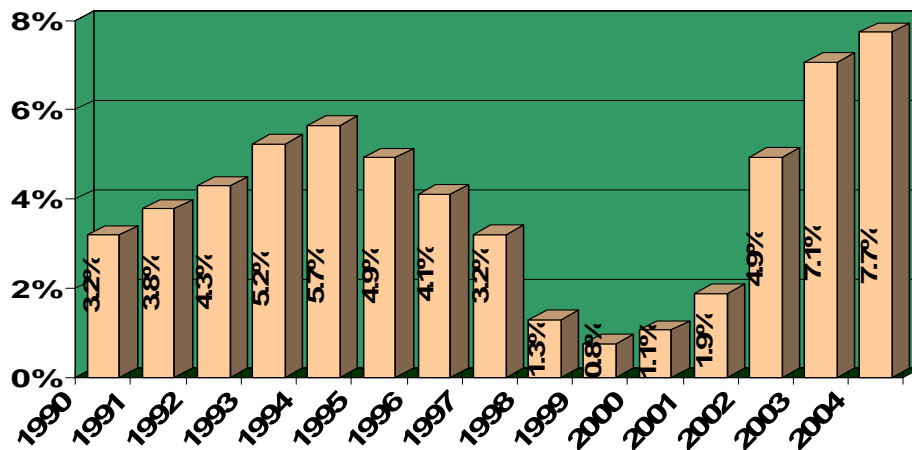


**Facility Association
Combined Operating Ratio
Newfoundland & Labrador**

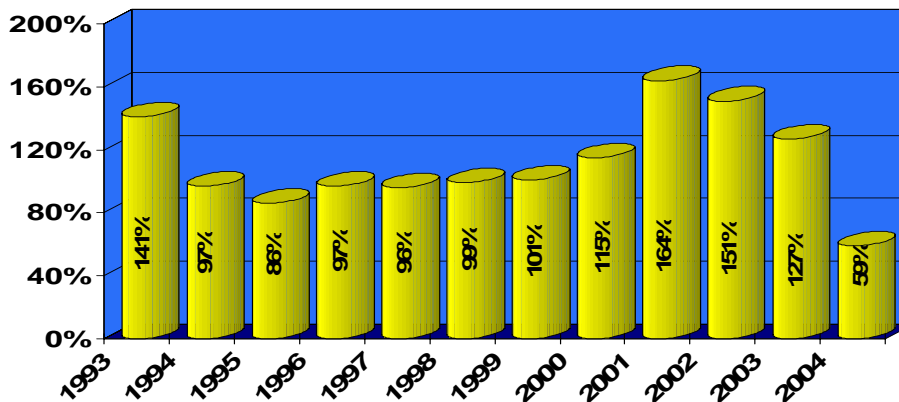


In Nova Scotia, our market share has increased, ending the year at 7.7%, another historic high, and our combined ratio improved to 59%.

**Facility Association
Private Passenger Market Share
Nova Scotia**

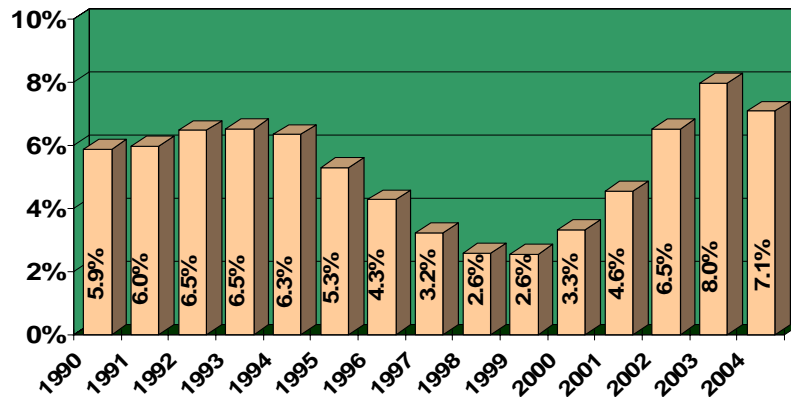


**Facility Association
Combined Operating Ratio
Nova Scotia**



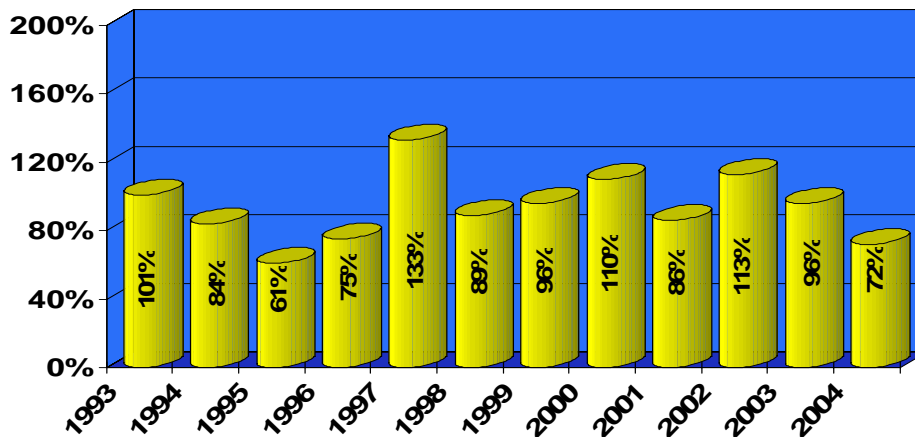
In Prince Edward Island, we started to see a decline in market share at 7.1%, down from 8.0%.

**Facility Association
Private Passenger Market Share
Prince Edward Island**



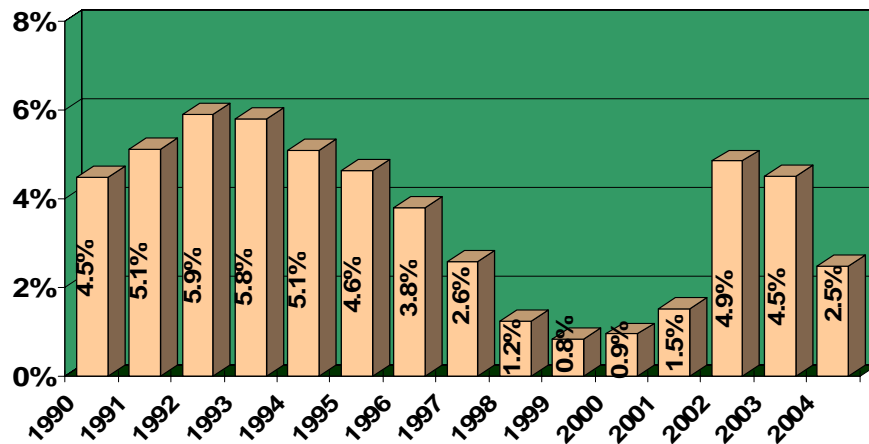
The combined ratio improved to 72%.

**Facility Association
Combined Operating Ratio
Prince Edward Island**



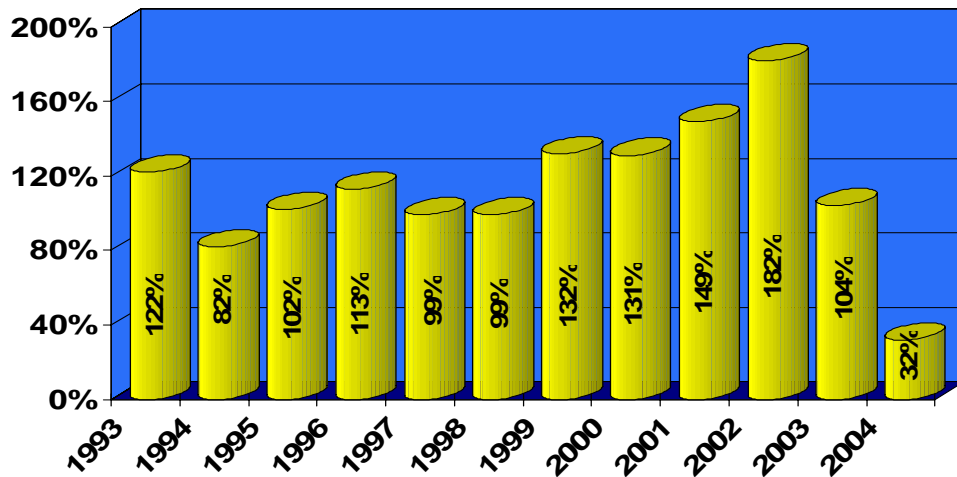
In New Brunswick, we've seen a dramatic departure from our experience in the other Atlantic provinces, as our numbers continued to decline. Our market share at year end was 2.5%, down from 4.5% at year end 2003.

**Facility Association
Private Passenger Market Share
New Brunswick**



In New Brunswick, our combined ratio was 32%, dramatic improvement after 5 years well over 100%.

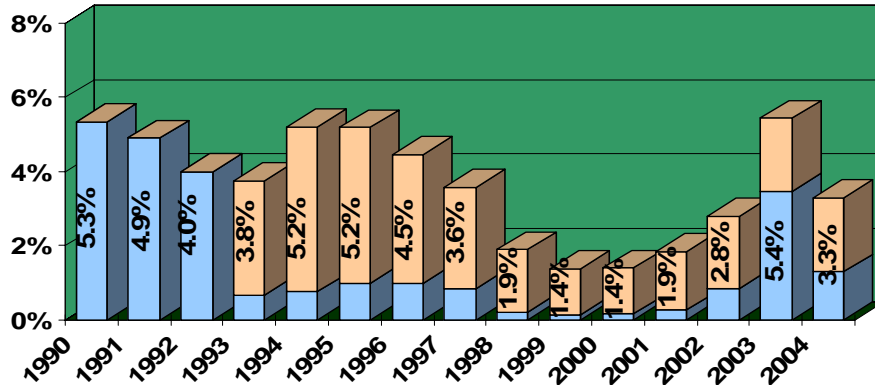
**Facility Association
Combined Operating Ratio
New Brunswick**



In Ontario, our market share for the traditional residual market shrank from 3.5% to 1.3%. That decrease was accompanied by a significant drop in consumer complaints to the IBC Consumer Centre.

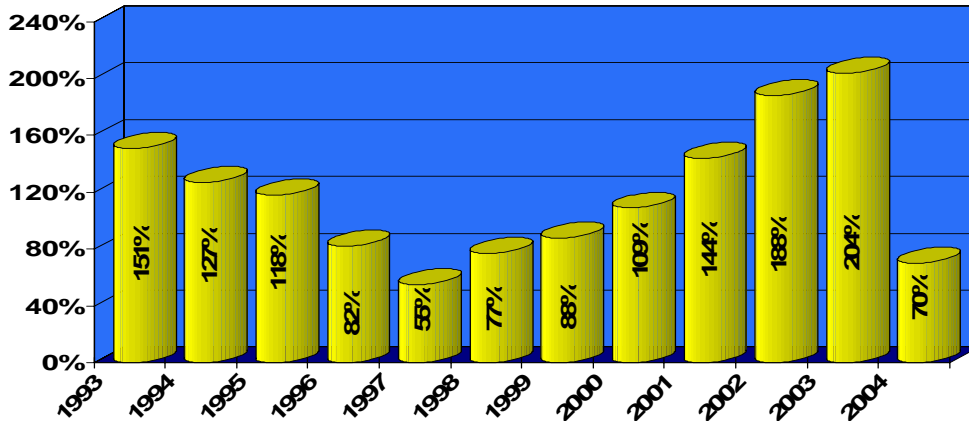
The market share of the Ontario Risk Sharing Pool, a mechanism designed to subsidize higher risk drivers and companies that insure them, held steady at 2%.

**Facility Association
Private Passenger Market Share (incl. RSP)
Ontario**



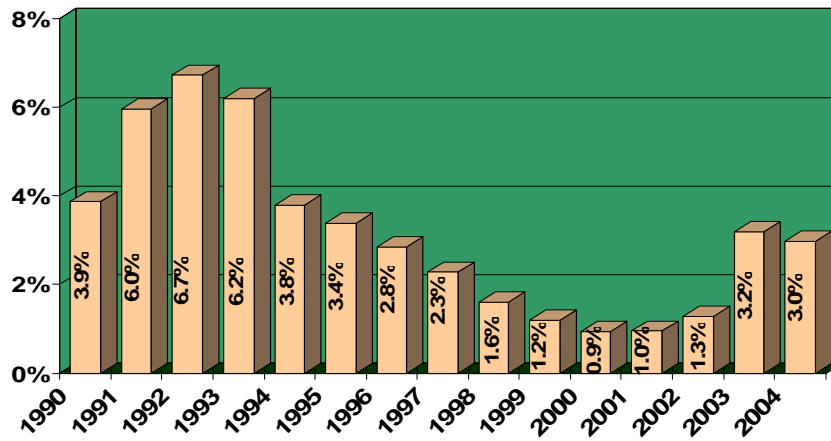
Our combined ratio in Ontario was 70%, down from 204% in 2003.

**Facility Association
Combined Operating Ratio (incl. RSP)
Ontario**



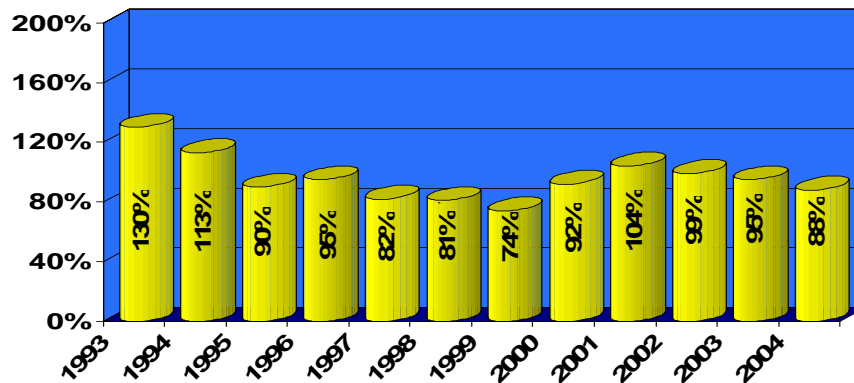
In Alberta, our market share held steady at 3.0%, and we expect a dramatic decline throughout 2005 due to the “Take All Comers” environment in the province and the restricted access to the residual market.

**Facility Association
Private Passenger Market Share
Alberta**



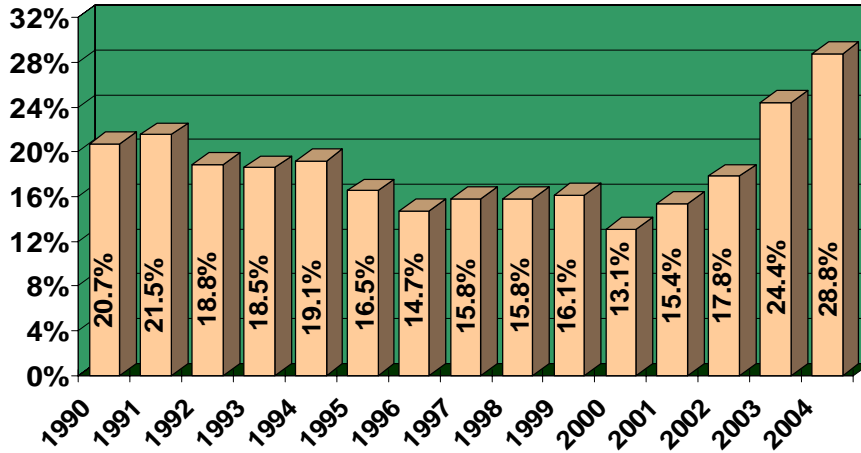
However, our combined ratio remained relatively steady at 88.1%

**Facility Association
Combined Operating Ratio
Alberta**

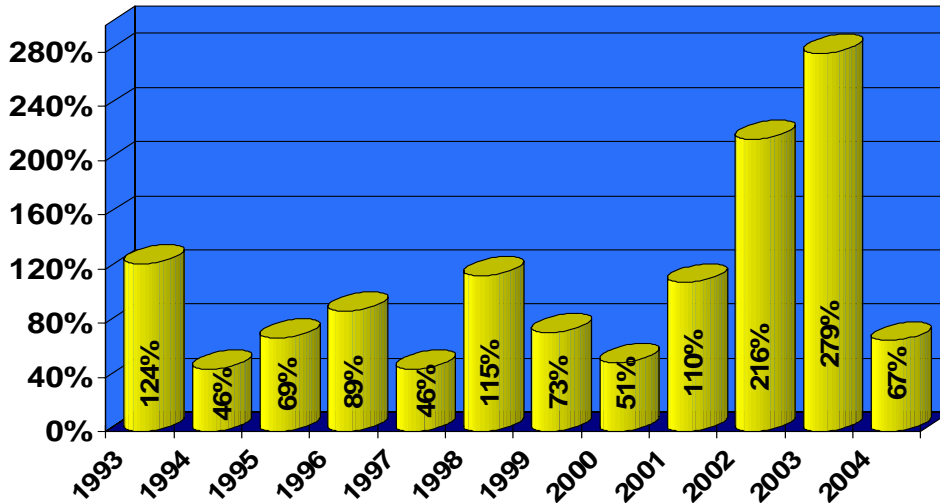


For the Northwest Territories, Yukon and Nunavut taken as a group, these jurisdictions continue show relatively stable market shares and volatile combined ratios you would expect from very small volumes of business.

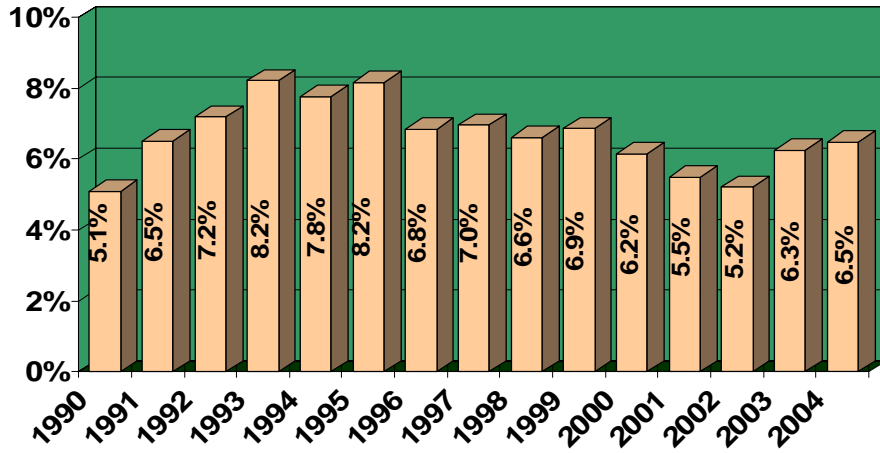
**Facility Association
Private Passenger Market Share
Northwest Territories**



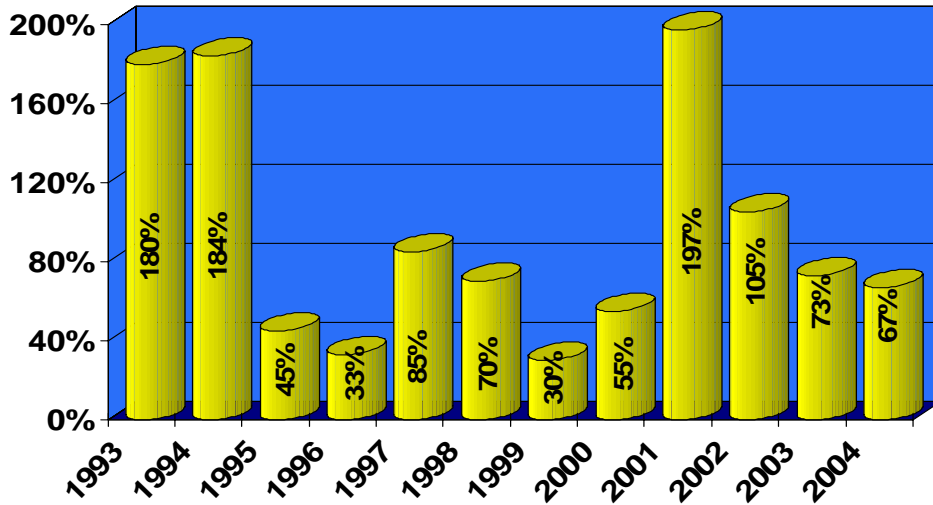
**Facility Association
Combined Operating Ratio
Northwest Territories**



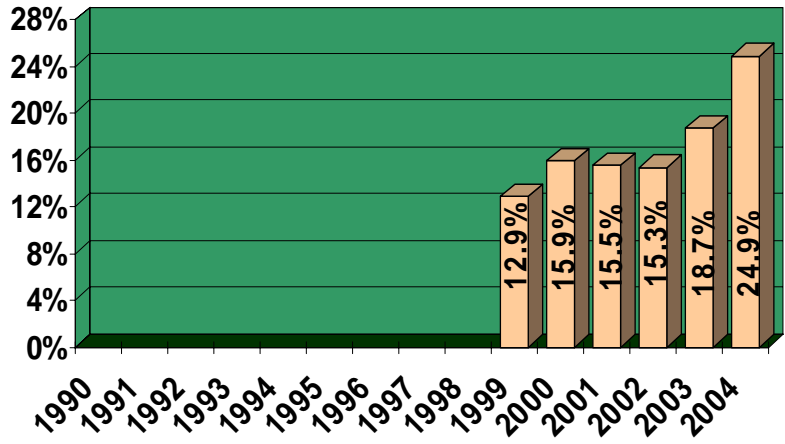
**Facility Association
Private Passenger Market Share
Yukon**



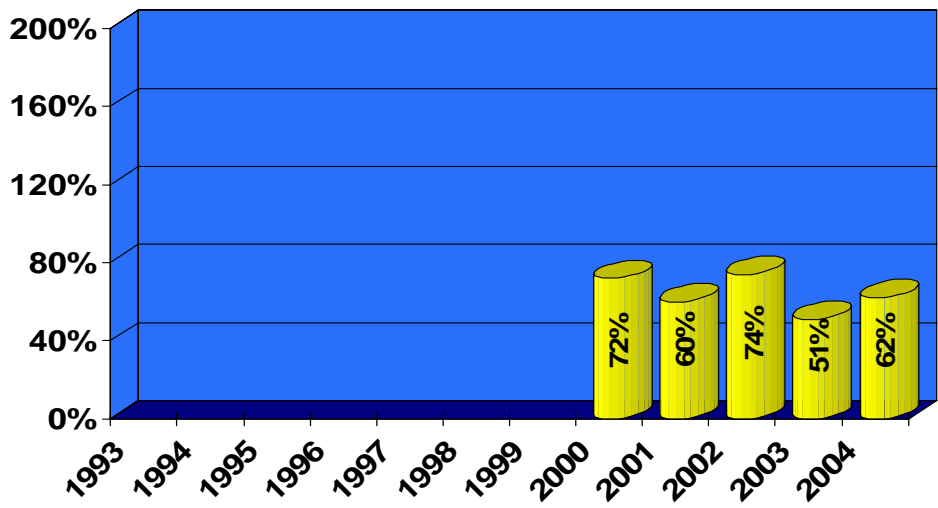
**Facility Association
Combined Operating Ratio
Yukon**



**Facility Association
Private Passenger Market Share
Nunavut**



**Facility Association
Combined Operating Ratio
Nunavut**



I would like to join the Chairman in extending thanks on behalf of myself and the staff to our departing Board member, Peter Johnson. I would also like to recognize the following long-serving committee members who have stepped away from their roles in the past year:

Blair Manktelow, James Russell and Richard Van Dyke from the Actuarial Committee;

Roger Long from the Ontario Operating Committee;

Robin Seacombe from the Alberta Operating Committee;

Robert Kimball from the New Brunswick Operating Committee;

Pamela Woolley from the Newfoundland & Labrador Operating Committee;

and Gary Quon from the Rates and Rules Committee.

I would like to end by personally thanking the Board of Directors, the Facility Association staff, and our many business partners for their support and guidance over the last year. As always I enjoy working with, and learning from, all of you. And,

as I always do, I am looking forward to doing more, and doing it better, in the next 12 months.

Mr. Chairman, that concludes my report.