

FACILITY ASSOCIATION

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TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
ALBERTA RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F05 – 032

DATE: JUNE 28, 2005

SUBJECT: ALBERTA RISK SHARING POOLS –
MAY 2005 OPERATIONAL REPORTS

IBNR Not Included in the May 2005 Operational Reports

For months January 2005 through April 2005, the Facility Association (F.A.) provided members with provisional estimates for IBNR and Development for each month reported and a projection of IBNR for the two months following each reported month for Alberta Risk Sharing Pools (Grid and Non-Grid).

The provisional estimates were based on recent Alberta industry experience and the estimated effect on the industry of product reforms, as well as implementation of the grid system effective 1 October 2004. Every effort was made to reflect the limited amount of pool-specific information available at the time, and to consider reasonable expectations regarding future volumes, and the loss ratios attributable to business being ceded to the two pools. In Bulletin F05-014, members were advised that estimates of the provision for IBNR and Development are likely to change during 2005, perhaps by significant amounts.

In recent weeks, F.A. has become aware that a significant volume of claims arising from risks ceded to the pools has not been reported to F.A. by member companies. A reporting lag may also exist on the premium side. As a result of these reporting lags, it is very difficult to use the pools' reported experience to assess the reasonableness of the industry-based assumptions referred to above. F.A. is working closely with member companies to reduce these reporting lags as soon as possible. In conjunction with the Actuarial Committee, F.A.'s consulting actuaries are working to assess the reasonableness of the preliminary loss ratio assumptions in light of the potential effect of the reporting lags, and to consider updated industry and pool-specific experience.

Pending completion of that analysis, F.A. considers it prudent to exclude the provisional IBNR and Development from the Alberta Risk Sharing Pools Operational Reports. For the Grid Risk Sharing Pool, this represents a reduction of \$66.7 million from the IBNR held at 30 April 2005. For the Non Grid Risk Sharing Pool, this represents a reduction of \$1.5 million from the IBNR held at 30 April 2005. **It is important that members be aware that the outstanding losses shown in the May 2005 Operational Reports do not represent an estimate of the total claims liabilities for the Alberta Risk Sharing Pools. Members may wish to consider deriving an estimate for IBNR and Development based on the experience arising from business ceded by the member to the Alberta Risk Sharing Pools.**

Similarly, the May 2005 Operational Reports do not include estimates of a Premium Deficiency Reserve (or Deferrable Expenses if negative) as these estimates are closely related to the loss ratio assumptions underlying the provision for IBNR and Development.

Estimates Included in the May 2005 Operational Reports

The May 2005 Operational Reports for Alberta Risk Sharing Pools (Grid and Non-Grid) include estimates for each of the following items for the months of June 2005 and July 2005:

- Written Premiums
- Expense Allowance
- Earned Premiums
- Incremental Paid Losses
- Incremental Paid Expenses
- Outstanding Losses

Attached to this bulletin is a description of the key assumptions underlying the current estimates.

Should you require any further information, please call Norm Seeney, Vice President, Finance & Chief Financial Officer at (416) 644-4914.

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

Attach.

*Note: A copy of this bulletin has been attached to the May 2005 Alberta Risk Sharing Pool Operational Report.
Please ensure your CFO receives a copy of this bulletin.*

APPENDIX

The following comments apply to amounts shown in the Alberta Risk Sharing Pools May 2005 Operational Reports:

Grid Risks

- As at the end of May 2005, total written premiums amount to \$276 million, of which about \$80 million is estimated to be attributable to mid-term cessions of policies in-force at 30 September 2004.
- No further in-force cessions are expected.
- For the months of June and July, written premiums are projected to be \$29 million and \$28 million, respectively.
- The expense allowance is computed as 30.5% of estimated written premiums.
- No estimate has been derived for the provision for IBNR and Development, as addressed in Bulletin F05-032.
- At the end of May 2005, the reported loss ratio (excluding loss adjustment expenses) is 19% for accident year 2004 and 25% for accident year 2005.
- For the months of June and July, we have projected no activity on paid losses, but the projected values for outstanding losses have been set such that the reported loss ratio remains at the May 2005 level indicated above. No adjustment has been made to reflect the possibility that reporting lags will be reduced during the projection period.
- Consistent with the treatment of IBNR and Development, no estimate has been derived for the Premium Deficiency Reserve.

Non Grid Risks

- As at the end of May 2005, total written premiums amount to \$19.7 million.
- For months of June and July, written premiums are projected to be \$4.5 million and \$5.0 million, respectively.
- The expense allowance is computed as 30.5% of estimated written premiums.
- No estimate has been derived for the provision for IBNR and Development, as addressed in Bulletin F05-032.
- At the end of May 2005, the reported loss ratio (excluding loss adjustment expenses) is 137% for accident year 2004 and 43% for accident year 2005.
- For the months of June and July, we have projected no activity on paid losses, but the projected values for outstanding losses have been set such that the reported loss ratio remains at the May 2005 level indicated above. No adjustment has been made to reflect the possibility that reporting lags will be reduced during the projection period.
- Consistent with the treatment of IBNR and Development, no estimate has been derived for the Premium Deficiency Reserve.