

FACILITY ASSOCIATION

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TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
CHIEF FINANCIAL OFFICER
ALBERTA RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F05 – 042

DATE: SEPTEMBER 6, 2005

SUBJECT: ALBERTA RISK SHARING POOLS
- JULY 2005 OPERATIONAL REPORTS

IBNR Included in the July 2005 Operational Reports

The main purpose of this bulletin is to notify members that commencing with the July 2005 Alberta Risk Sharing Pool Operational Reports, the Facility Association (FA) is once again providing 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) – not provided for May and June. This bulletin is intended as supplementary information regarding the treatment of IBNR and Development for the July 2005 Alberta Risk Sharing Pool Operational Reports which were sent by e-mail on August 23, 2005.

Please refer to Bulletin F05-032 regarding the treatment of IBNR and Development in prior Alberta Risk Sharing Pool Operational Reports. Also, please note that the July 2005 and previously issued Bulletins can be accessed via the internet at www.facilityassociation.com.

The loss ratio assumptions underlying earlier estimates of IBNR for Grid business have been reviewed and revised as follows:

- To reflect higher than expected cessions to the pool, with higher than expected discounts from pre-grid rates.
- To include explicit consideration of the potential for previously uninsured drivers to re-enter the system, at a relatively high loss ratio.
- To include a higher margin for uncertainty, in part to consider the potential effect of the reporting lags referred to in Bulletin F05-029.

The reported loss ratios for Non Grid business continue to be much higher than those for Grid business, although to date a relatively small volume of business has been ceded to the Non Grid pool. As was the case in the April and prior Operational Reports, adjustments to the

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selected Non Grid ultimate loss ratios are being made on a month by month basis to ensure a reasonable relationship between the selected ultimate loss ratios and the loss ratios reported to date.

The selected loss ratios summarized below exclude all loss adjustment expenses. They reflect the time value of money, and include an explicit margin for adverse deviations in accordance with accepted actuarial practice. “In-Force” refers to business in force at pool inception (1 October 2004) while “Current” refers to business written after inception.

	Selected Loss Ratios By Operational Report Month			Earned Premiums YTD at Jul/05
	Jan 2005 to April 2005	May 2005 to June 2005	July 2005	
Grid – In Force	70%	N/A	87%	68.6
Grid – Current	75%	N/A	87%	59.2
Non Grid – AY 2004	150%	N/A	175%	0.7
Non Grid – AY 2005	75%	N/A	120%	3.9

(Amounts in \$ millions)

Premium Deficiency Reserve

The loss ratios underlying the IBNR calculations were also used to derive projected premium deficiency reserve amounts.

For the Grid pool, the premium deficiency reserve amounts are negative, and therefore represent an asset for deferred policy acquisition costs (“DPAC”). These amounts represent the portion of pool-related acquisition expenses, such as premium tax and commissions, that may be deferred by member companies.

For the Non Grid pool, the premium deficiency reserve amounts are positive, consistent with the relatively high selected ultimate loss ratios. These liabilities have been estimated on the assumption that member companies would first reduce to \$0 any DPAC in respect of pool-related unearned premiums.

Company-specific adjustments may be made to the premium deficiency reserve amounts (negative or positive) reported in Facility Association’s Operational Reports, depending on a company’s aggregate deferrable expenses and expected future costs.

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

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President & CEO