

FACILITY ASSOCIATION

151 Yonge Street • 18th Floor • Toronto • Ontario • M5C 2W7
Tel: (416) 863-1750 • Fax: (416) 868-0894 • Email: mail@facilityassociation.com

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F06-029

DATE: OCTOBER 2, 2006

**SUBJECT: MAIL VOTE
AMENDMENTS TO PLAN OF OPERATION**

The Facility Association's Board of Directors has proposed the attached amendments to the Articles of Facility Association's Plan of Operation, and is seeking members' approval for them.

These amendments are to facilitate the creation of a Risk Sharing Pool (RSP) for the province of Nova Scotia for "Inexperienced Drivers" with clean records.

The Inexperienced Driver RSP is being established as an industry-wide foundation for companies to create their own discount structures for inexperienced drivers with clean records. The primary parameters of the individual Inexperienced Driver RSP are:

- 1) Private Passenger vehicles only are eligible
- 2) Only drivers with less than 6 years experience are eligible
- 3) Premiums and Claims are transferred to the Inexperienced Driver RSP at 100%
- 4) No transfer limit for eligible risks
- 5) Results will be shared based on market share (earned exposure basis) excluding exposures transferred to the RSP.

The proposed Plan Amendments are attached. If you approve them, please sign the attached Consent Form and return it to the attention of Tina Cheung via fax at 416-868-0894 or email at tcheung@facilityassociation.com. Your response by October 16th, 2006 would be most appreciated.

For your convenience, a document providing a side-by-side comparison of the current and proposed changes to the Plan of Operation is also attached.

If you have any questions regarding the changes, please contact me at 416-644-4915.

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

Attach.

The Facility Association Board of Directors has duly proposed the following amendments to Articles of Association re: Nova Scotia.

Article V

Section 1 (c): Amend to read:

"business transferred to a risk sharing pool other than a pool operated in Alberta, New Brunswick or Nova Scotia or a fund established pursuant to Section 6 of Article II;"

Section 1 (d): Amend to read:

"business transferred to the risk sharing pool operated in Alberta, New Brunswick or Nova Scotia;"

Article XI

Section 2: Amend the first paragraph to read:

"2. Where any word or expression not defined herein is defined by regulatory authority for the jurisdiction concerned such definition shall apply herein. The following definitions shall apply for the purposes of Article X, Article XI (including XI.1, XI.2, XI.3 and XI.4) and part IV of the Operating Principles."

Article XI.3

Section 13: Add the following Article:

XI.4 – NOVA SCOTIA RISK SHARING POOL

1. The Association hereby establishes a risk sharing pool (herein called the "Inexperienced Driver Pool") into which Nova Scotia members are entitled to transfer, subject to the provisions hereinafter set out, the applicable percentage of any Nova Scotia risk that satisfies the Eligibility Requirements with respect to such Pool.
2. For the purposes of the application of Article X, Article XI.4 and Part IV of the Operating Principles to the Nova Scotia Pool the following definitions shall apply:
 - (a) Accident:

A chargeable accident as defined in the Facility Association Manual of Rules and Rates from time to time.

(b) Convictions:

A conviction as defined in the Facility Association Manual of Rules and Rates from time to time.

(c) Private Passenger Vehicle:

A motor vehicle listed in the Private Passenger Rate Group Tables contained in the Manual of Rules and Rates and used for pleasure, commute or business. Business use does not include use as driver training vehicles, funeral vehicles, courtesy cars, vehicles held for sale or used for demonstrating or testing or any use listed in the Commercial or Public Sections of the Manual of Rules and Rates, even though Private Passenger rates are used to determine the premium; but excluding any vehicle while in transit from a point of purchase to a permanent location where one of such points is within a jurisdiction in which a Nova Scotia Pool is in operation and further excluding any vehicle insured as part of a fleet, synthetic fleet or group plan unless such vehicle is individually rated in accordance with rates filed with the applicable regulatory authority and is coded as a private passenger non-fleet automobile under the Automobile Statistical Plan.

Note: Any vehicle classified as a recreational vehicle, for example, an antique vehicle, a motor home, or a motorcycle, is not eligible for placement in a Nova Scotia Pool.

3. (a) The following are the requirements for a risk to be eligible for transfer to the Inexperienced Driver Pool:

(i) The risk includes coverages on a motor vehicle with respect to which one or more household members is a driver with less than six years of licensed driving experience and having had no Accidents and no Convictions arising from events occurring during such period;

(ii) The vehicle is a Private Passenger Vehicle;

- (iii) The member has obtained the appropriate classification and rate procedures and has requested previous insurer reports and drivers record abstracts in order to verify that the conditions set out in (i) apply;
 - (iv) The risk is insured against Third Party Liability for at least the statutory limit,
 - (v) The premiums charged by the member to the insured for those parts of the insurance transferred to the Nova Scotia Pool are in accordance with its approved premiums for such risk.
- (b) A risk purportedly transferred to a Nova Scotia Pool which was not eligible for transfer at that time due to a failure to comply with one or more of requirements set out above will be considered ineligible for transfer, the purported transfer shall be deemed to be invalid and all claims, expenses and receipts or credits will be for the account of the submitting member. This provision shall not apply to a risk in relation to a specific term of transfer where a period ending the later of 24 months from the date of such transfer or 2 months after the first audit of the member following such transfer has expired.
- (c) A risk purportedly transferred to a Nova Scotia Pool in connection with which there has been a failure to comply with one or more of the requirements with respect to previous-insurer report(s), driver record abstract(s) or Autoplus report(s) shall be dealt with as set out in the appropriate Risk Sharing Pool Procedures Manual in accordance with provisions established by the Board from time to time.
- (d) If it is determined that a company is not ordering the appropriate reports, or has adopted a practice which fails to provide for proper compliance with its obligations, the company will be dealt with as an exception and a further investigation, or, where determined by the President and Chief Executive Officer to be appropriate, a full audit will follow.
- (e) Where it is decided that a full audit of all risks transferred by the member is appropriate the costs of the audit will be billed to the member.

- (f) Where such investigation or audit demonstrates to the satisfaction of the Executive Committee that there has been a general failure to order the required reports on time the expense allowance referred to in subsection 5(b) to the member will be reduced by two percentage points for a period of six months.
 - (g) Flagrant or continued failure to comply with these obligations could result in a directive to the member to remove all risks from a Nova Scotia Pool. This penalty would only be applied after a follow-up review by the President and Chief Executive Officer and the Executive Committee, and referral to the Board.
4. In respect of an eligible risk that a member wishes to transfer to a Nova Scotia Pool:
- (a) The member may provide whatever coverages and limits it deems appropriate.
 - (b) Any risk transferred will be transferred at 100%. The Board may from time to time by resolution establish maximum transfer limits and minimum deductibles with respect to risks transferred. Members may write coverage in excess of these limitations but such coverage and all expenses and liabilities in connection therewith will be for the member's own account.
5. In respect of each risk being transferred to a Nova Scotia Pool:
- (a) The premium actually charged by the member to the Insured net of any premium payment service charges charged to the Insured shall be the transfer premium in respect of each coverage provided that it is as approved by the regulatory authority concerned for the coverage and the applicable limit or deductible, and that it is a premium that is no lower than the member's manual rate.
 - (b) The member shall be entitled as a result of the transfer of premium to an expense allowance in an amount equal to a percentage of the written premium applicable to the transferred coverages, such percentage for use during a calendar year to be determined by the Board.

- (c) Such allowance is to settle all expenses incurred by the member including acquisition costs, operating costs and loss adjustment costs, but not including premium taxes and professional fees (such professional fees to be stipulated in the applicable Risk Sharing Pool Claims Guide with compensation to be as therein directed).
 - (d) In this section the word “member” shall mean “insurer” and the provisions of this section 5 shall apply to each insurer of a group of insurers separately.
- 6. In respect of an eligible risk that is “new” to the member – i.e., a new policy or a new (additional) vehicle:
 - (a) If the required transfer notification by form, disc or tape is dispatched to the applicable Nova Scotia Pool no later than fifteen days after the commencement date of the period of insurance concerned, the transfer effective date shall be the said commencement date and there shall be no prejudice to the member’s right to recover from such Pool in respect of a claim that arises within the period but prior to dispatch of the transfer form.
 - (b) If the required transfer notification is dispatched to the applicable Nova Scotia Pool more than fifteen days after the commencement date of the period of insurance concerned, the transfer effective date shall be the day following the date of dispatch of the notification and the transferred premium shall be pro-rata of that applicable to the period of insurance provided by the policy.
- 7. In respect of an eligible risk that is a “renewal” to the member:
 - (a) If the required transfer notification is dispatched to the applicable Nova Scotia Pool no later than the commencement date of the period of insurance concerned, the transfer effective date shall be the said commencement date.
 - (b) If the required transfer notification is dispatched to the applicable Nova Scotia Pool later than the commencement date of the period of insurance concerned, the

transfer effective date shall be the day following the date of dispatch of the transfer notification and the transferred premium shall be pro-rata of that applicable to the period of insurance provided by the policy.

8. In respect of all other eligible risks that are transferred to a Nova Scotia Pool in mid-term the transfer effective date shall be the day following the date of dispatch of the transfer notification and the transferred premium shall be pro-rata of that applicable to the period of insurance provided by the policy.
9. Satisfactory evidence sufficient to establish the “dispatch date” for the purposes of sections 7 and 8 above shall be as determined from time to time by the Board.
10. Any risk transferred to a Nova Scotia Pool within the first fifteen days after the commencement date of the period of insurance with respect to which a claim is incurred during such fifteen day period and any risk with respect to which a claim is incurred while such risk is within such Pool must remain within that Pool and may not be withdrawn by the member until at least the date of the first renewal following the incurring of such claim. Members may withdraw other risks transferred by them to a Nova Scotia Pool in accordance with the procedures set out in the appropriate Risk Sharing Pool Procedures Manual.
11. The share of any loss or gain resulting from the operation of the Nova Scotia Pool for each fiscal year for each member shall be calculated in accordance with the procedures set out in the Accounting and Statistical Manual and communicated to such member by the Association. The member will include the recapture of such loss in its calculations with respect to subsequent rate calculations with such loss or gain to be distributed evenly to all drivers.
12. Claims transferred to a Nova Scotia Pool shall include all paid losses, case reserves and IBNR including eligible claims settlement expenses but not including expenses relating to outside adjusters.

Article XX

Section 3: Amend to read:

- "3. The Rules shall consist of:
- (a) Accounting and Statistical Manual
 - (b) Manual of Rules and Rates
 - (c) Facility Association Residual Market Claims Guide
 - (d) Ontario Risk Sharing Pool Claims Guide
 - (e) Alberta Risk Sharing Pool Claims Guide
 - (f) New Brunswick Risk Sharing Pool Claims Guide
 - (g) Nova Scotia Risk Sharing Pool Claims Guide
 - (h) Ontario Risk Sharing Pool Procedures Manual
 - (i) Alberta Risk Sharing Pool Procedures Manual
 - (j) New Brunswick Risk Sharing Pool Procedures Manual
 - (k) Nova Scotia Risk Sharing Pool Procedures Manual
 - (l) Alberta Supplementary Market Availability Plan Manual
 - (m) Such additional manuals, forms and procedures adopted and approved in accordance with the Plan.

FACILITY ASSOCIATION PLAN OF OPERATION - CURRENT VS. PROPOSED CHANGES (SEPTEMBER 06)

Articles of Association	Original	Proposed Changes (changes are underlined)
<p>Article V</p>	<p>1. For the purpose of determining participation in Association business there shall be five classes of business:</p> <p>(c) business transferred to a risk sharing pool other than a pool operated in Alberta or New Brunswick or fund established pursuant to Section 6 of Article II;</p> <p>(d) business transferred to a risk sharing pool operated in Alberta or New Brunswick;</p>	<p>1. For the purpose of determining participation in Association business there shall be five classes of business:</p> <p>(c) business transferred to a risk sharing pool other than a pool operated in Alberta , New Brunswick or <u>Nova Scotia</u> or a fund established pursuant to Section 6 of Article II;</p> <p>(d) business transferred to a risk sharing pool operated in Alberta, New Brunswick or <u>Nova Scotia</u>;</p>
<p>Article XI</p>	<p>Section 2 , amend first paragraph</p>	<p>2. Where any word or expression not defined herein is defined by regulatory authority for the jurisdiction concerned such definition shall apply herein. The following definitions shall apply for the purposes of Article X, Article XI (including XI.1, XI.2, <u>XI.3</u> and <u>XI.4</u>) and part IV of the Operating Principles</p>
<p>Article XI.3</p>	<p>End of Article XI.3</p>	<p><u>Add the following</u> after Section 13:</p> <p><u>XI.4 –NOVA SCOTIA RISK SHARING POOL</u></p> <p>1. The Association hereby establishes a risk sharing pool (herein called the "Inexperienced Driver Pool") into which Nova Scotia members are entitled to transfer, subject to the provisions hereinafter set out, the applicable percentage of any Nova Scotia risk that satisfies the Eligibility Requirements with respect to such Pool.</p> <p>2. For the purposes of the application of Article X, Article XI.4 and Part IV of the Operating Principles to the Nova Scotia Pool the following definitions shall apply:</p> <p>(a) Accident: A chargeable accident as defined in the Facility Association Manual of Rules</p>

Articles of Association	Original	Proposed Changes (changes are underlined>)
<p>NEW Article XI.4 cont'd</p>		<p>and Rates from time to time.</p> <p>(b) Convictions: A conviction as defined in the Facility Association Manual of Rules and Rates from time to time.</p> <p>(c) Private Passenger Vehicle: A motor vehicle listed in the Private Passenger Rate Group Tables contained in the Manual of Rules and Rates and used for pleasure, commute or business. Business use does not include use as driver training vehicles, funeral vehicles, courtesy cars, vehicles held for sale or used for demonstrating or testing or any use listed in the Commercial or Public Sections of the Manual of Rules and Rates, even though Private Passenger rates are used to determine the premium; but excluding any vehicle while in transit from a point of purchase to a permanent location where one of such points is within a jurisdiction in which a Nova Scotia Pool is in operation and further excluding any vehicle insured as part of a fleet, synthetic fleet or group plan unless such vehicle is individually rated in accordance with rates filed with the applicable regulatory authority and is coded as a private passenger non-fleet automobile under the Automobile Statistical Plan.</p> <p>Note: Any vehicle classified as a recreational vehicle, for example, an antique vehicle, a motor home, or a motorcycle, is not eligible for placement in a Nova Scotia Pool.</p> <p>3. (a) The following are the requirements for a risk to be eligible for transfer to the Inexperienced Driver Pool:</p> <p>(i) The risk includes coverages on a motor vehicle with respect to which one or more household</p>

Articles of Association	Original	Proposed Changes (changes are underlined>
<p>NEW Article XI.4 cont'd</p>		<p>members is a driver with less than six years of licensed driving experience and having had no Accidents and no Convictions arising from events occurring during such period;</p> <p>(ii) The vehicle is a Private Passenger Vehicle;</p> <p>(iii) The member has obtained the appropriate classification and rate procedures and has requested previous insurer reports and drivers record abstracts in order to verify that the conditions set out in (i) apply;</p> <p>(iv) The risk is insured against Third Party Liability for at least the statutory limit,</p> <p>(v) The premiums charged by the member to the insured for those parts of the insurance transferred to the Nova Scotia Pool are in accordance with its approved premiums for such risk.</p> <p>(b) A risk purportedly transferred to a Nova Scotia Pool which was not eligible for transfer at that time due to a failure to comply with one or more of requirements set out above will be considered ineligible for transfer, the purported transfer shall be deemed to be invalid and all claims, expenses and receipts or credits will be for the account of the submitting member. This provision shall not apply to a risk in relation to a specific term of transfer where a period ending the later of 24 months from the date of such transfer or 2 months after the first audit of the member following such transfer has expired.</p> <p>(c) A risk purportedly transferred to a</p>

Articles of Association	Original	Proposed Changes (changes are underlined>
<p>NEW Article XI.4 cont'd</p>		<p>Nova Scotia Pool in connection with which there has been a failure to comply with one or more of the requirements with respect to previous-insurer report(s), driver record abstract(s) or Autoplus report(s) shall be dealt with as set out in the appropriate Risk Sharing Pool Procedures Manual in accordance with provisions established by the Board from time to time.</p> <p>(d) If it is determined that a company is not ordering the appropriate reports, or has adopted a practice which fails to provide for proper compliance with its obligations, the company will be dealt with as an exception and a further investigation, or, where determined by the President and Chief Executive Officer to be appropriate, a full audit will follow.</p> <p>(e) Where it is decided that a full audit of all risks transferred by the member is appropriate the costs of the audit will be billed to the member.</p> <p>(f) Where such investigation or audit demonstrates to the satisfaction of the Executive Committee that there has been a general failure to order the required reports on time the expense allowance referred to in subsection 5(b) to the member will be reduced by two percentage points for a period of six months.</p> <p>(g) Flagrant or continued failure to comply with these obligations could result in a directive to the member to remove all risks from a Nova Scotia Pool. This penalty would only be applied after a follow-up review by the President and Chief Executive Officer and the Executive Committee, and referral to the Board.</p>

Articles of Association	Original	Proposed Changes (changes are underlined>
<p>NEW Article XI.4 cont'd</p>		<p>4. In respect of an eligible risk that a member wishes to transfer to a Nova Scotia Pool:</p> <p>(a) The member may provide whatever coverages and limits it deems appropriate.</p> <p>(b) Any risk transferred will be transferred at 100%. The Board may from time to time by resolution establish maximum transfer limits and minimum deductibles with respect to risks transferred. Members may write coverage in excess of these limitations but such coverage and all expenses and liabilities in connection therewith will be for the member's own account.</p> <p>5. In respect of each risk being transferred to a Nova Scotia Pool:</p> <p>(a) The premium actually charged by the member to the Insured net of any premium payment service charges charged to the Insured shall be the transfer premium in respect of each coverage provided that it is as approved by the regulatory authority concerned for the coverage and the applicable limit or deductible, and that it is a premium that is no lower than the member's manual rate.</p> <p>(b) The member shall be entitled as a result of the transfer of premium to an expense allowance in an amount equal to a percentage of the written premium applicable to the transferred coverages, such percentage for use during a calendar year to be determined by the Board.</p> <p>(c) Such allowance is to settle all expenses incurred by the member including acquisition costs, operating costs and loss adjustment costs, but not including premium taxes and professional fees</p>

Articles of Association	Original	Proposed Changes (changes are underlined)
<p>NEW Article XI.4 cont'd</p>		<p>(such professional fees to be stipulated in the applicable Risk Sharing Pool Claims Guide with compensation to be as therein directed).</p> <p>(d) In this section the word “member” shall mean “insurer” and the provisions of this section 5 shall apply to each insurer of a group of insurers separately.</p> <p>6. In respect of an eligible risk that is “new” to the member – i.e., a new policy or a new (additional) vehicle:</p> <p>(a) If the required transfer notification by form, disc or tape is dispatched to the applicable Nova Scotia Pool no later than fifteen days after the commencement date of the period of insurance concerned, the transfer effective date shall be the said commencement date and there shall be no prejudice to the member’s right to recover from such Pool in respect of a claim that arises within the period but prior to dispatch of the transfer form.</p> <p>(b) If the required transfer notification is dispatched to the applicable Nova Scotia Pool more than fifteen days after the commencement date of the period of insurance concerned, the transfer effective date shall be the day following the date of dispatch of the notification and the transferred premium shall be pro-rata of that applicable to the period of insurance provided by the policy.</p> <p>7. In respect of an eligible risk that is a “renewal” to the member:</p> <p>(a) If the required transfer notification is dispatched to the applicable Nova Scotia Pool no later than the commencement date of the period of insurance concerned, the transfer effective date shall be the said commencement date.</p>

Articles of Association	Original	Proposed Changes (changes are underlined)
<p>NEW Article XI.4 cont'd</p>		<p>(b) If the required transfer notification is dispatched to the applicable Nova Scotia Pool later than the commencement date of the period of insurance concerned, the transfer effective date shall be the day following the date of dispatch of the transfer notification and the transferred premium shall be pro-rata of that applicable to the period of insurance provided by the policy.</p> <p>8. In respect of all other eligible risks that are transferred to a Nova Scotia Pool in mid-term the transfer effective date shall be the day following the date of dispatch of the transfer notification and the transferred premium shall be pro-rata of that applicable to the period of insurance provided by the policy.</p> <p>9. Satisfactory evidence sufficient to establish the “dispatch date” for the purposes of sections 7 and 8 above shall be as determined from time to time by the Board.</p> <p>10. Any risk transferred to a Nova Scotia Pool within the first fifteen days after the commencement date of the period of insurance with respect to which a claim is incurred during such fifteen day period and any risk with respect to which a claim is incurred while such risk is within such Pool must remain within that Pool and may not be withdrawn by the member until at least the date of the first renewal following the incurring of such claim. Members may withdraw other risks transferred by them to a Nova Scotia Pool in accordance with the procedures set out in the appropriate Risk Sharing Pool Procedures Manual.</p> <p>11. The share of any loss or gain resulting from the operation of the Nova Scotia Pool for each fiscal year for each member shall be calculated in accordance with the procedures set out in the Accounting and Statistical Manual and communicated to such member by the Association. The member will include</p>

FACILITY ASSOCIATION PLAN OF OPERATION - CURRENT VS. PROPOSED CHANGES (SEPTEMBER 06)

Articles of Association	Original	Proposed Changes (changes are underlined)
<p>NEW Article XI.4 cont'd</p>		<p>the recapture of such loss in its calculations with respect to subsequent rate calculations with such loss or gain to be distributed evenly to all drivers.</p> <p>12. Claims transferred to a Nova Scotia Pool shall include all paid losses, case reserves and IBNR including eligible claims settlement expenses but not including expenses relating to outside adjusters.</p>
<p>Article XX</p>	<p>3. The Rules shall consist of:</p> <ul style="list-style-type: none"> (a) Accounting and Statistical Manual (b) Manual of Rules and Rates (c) Facility Association Residual Market Claims Guide (d) Ontario Risk Sharing Pool Claims Guide (e) Alberta Risk Sharing Pool Claims Guide (f) New Brunswick Risk Sharing Pool Claims Guide (g) Ontario Risk Sharing Pool Procedures Manual (h) Alberta Risk Sharing Pool Procedures Manual (i) New Brunswick Risk Sharing Pool Procedures Manual (j) Alberta Supplementary Market Availability Plan Manual (k) Such additional manuals, forms and procedures adopted and approved in accordance with the Plan. 	<p>3. The Rules shall consist of:</p> <ul style="list-style-type: none"> (a) Accounting and Statistical Manual (b) Manual of Rules and Rates (c) Facility Association Residual Market Claims Guide (d) Ontario Risk Sharing Pool Claims Guide (e) Alberta Risk Sharing Pool Claims Guide (f) New Brunswick Risk Sharing Pool Claims Guide (g) <u>Nova Scotia Risk Sharing Pool Claims Guide</u> (h) Ontario Risk Sharing Pool Procedures Manual (i) Alberta Risk Sharing Pool Procedures Manual (j) New Brunswick Risk Sharing Pool Procedures Manual (k) <u>Nova Scotia Risk Sharing Pool Procedures Manual</u> (l) Alberta Supplementary Market Availability Plan Manual (m) Such additional manuals, forms and procedures adopted and approved in accordance with the Plan.

FACILITY ASSOCIATION

151 Yonge Street • 18th Floor • Toronto • Ontario • M5C 2W7
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CONSENT FORM

_____ as a member of the Facility Association hereby,
pursuant to Article XXI section 2 of the Plan of Operation of Facility Association;

approves and consents to

disapproves of and opposes

the proposed amendments of the Plan of Operation of Facility Association as set out in the
attachment to Bulletin F06-029.

Dated _____ day of _____ 20__

Member's Name

Per: _____

Title: _____

Please sign and return the Consent Form by October 16, 2006
by fax 416-868-0894 or tcheung@facilityassociation.com
Attn: Tina Cheung