

FACILITY ASSOCIATION

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TO: MEMBERS OF FACILITY ASSOCIATION

ATTENTION: Chief Executive Officer
Pool Project Manager

BULLETIN NO.: F06-030

DATE: October 3, 2006

SUBJECT: ONTARIO RISK SHARING POOL - EXPENSE FACTOR FORM

This is to inform you that the Facility Association Plan of Operation, Article XI.1, Section 6, requires every member of the Risk Sharing Pool in the Facility Association to submit its expense factor to the Facility Association.

We are enclosing herewith the Expense Factor Form together with its instructions. Every attempt has been made to make the form as clear and simple to follow as possible, but should you require any assistance or clarification please do not hesitate to call this office at the above number. Also, please note that the Expense Factor Form must be certified by your valuation Actuary.

We request that you complete the Expense Factor Form and return it to us **no later than October 28, 2006**.

We thank you for your anticipated co-operation in this matter.

David J. Simpson, M.B.A., FCIP
President & C.E.O.

Encl.

Please forward a copy of this bulletin to your Chief Financial Officer.

**FACILITY ASSOCIATION
RISK SHARING POOL (ONTARIO)
EXPENSE FACTOR FORM**

This Expense Factor Form is to be used by member companies in applying to Facility Association for consideration of their Expense Factor for the RISK SHARING POOL. (Please see attached for instructions)

Co. # _____ Co. Name _____

1. **FSCO Expense Factor** _____ %
 - Based on the latest approved FSCO filing for Personal Vehicles - Private Passenger Automobiles.
 - Date of FSCO filing ____/____/____.

2. **Adjustment for Claims Adjustment Expenses**
 - If not already included in the FSCO Expense Factor.
 - Add:** i) External/Allocated Loss Adjustment Cost _____ %
 - ii) Internal/Unallocated Loss Adjustment Cost _____ %

3. **Add: Adjustment for Monthly Policy Service Charge** _____ %
 - If the member company is charging a Monthly Policy Service Charge and is offsetting it against underwriting expenses and therefore reducing its FSCO Expense Factor, then this item should be added back.

4. **Subtract: Premium Taxes and Assessment of Health System Costs** (____) %
 - If the member company has included provisions for Premium Taxes and/or Assessment of Health System Costs in the FSCO Expense Factor, then these items should be taken out.

5. **Subtract: Professional Fees** (2.0) %
 - As defined in the 'Expense Factor Form - Instructions' attached herewith.
 - This is a predetermined set percentage.
 - This expense will be reimbursed by Risk Sharing Pool to the members on an actual paid basis.

6. **Subtract: Contingent Profit Commission** (____) %
 - If the member company has included a provision for Contingent Profit Commission in the FSCO Expense Factor, then this factor should be taken out.

The Net Expense Factor for the member company $[(1+2+3) - (4+5+6)]$ _____ % (A)

The Maximum Expense Factor as established by the Board of Directors for the year 2007 _____ % (B)

The Expense Factor Allowance to be used for the member company for the year 2007 is the lower of (A) or (B)

I, _____, a Fellow of the Canadian Institute of Actuaries, certify that the Company's expense information provided in items 1 through 6 is consistent with the comparable information included in the Company's latest approved FSCO filing for Personal Vehicles - Private Passenger Automobiles.

 Signature

 Date

FACILITY ASSOCIATION

RISK SHARING POOL (ONTARIO) **Expense Factor Form - Instructions**

Each member company is allocated a unique company number by I.B.C. for statistical reporting. This is the same number which you use for Facility Association and should be the same number which you will report on this Expense Factor Form.

The name of the member company should correspond with the company number. If, within the same organization, there are **several companies each with a separate company number**, then a **separate Expense Factor Form** should be used for each company.

Where there are several companies operating within **a single company number and they have submitted more than one rate filing**, these companies would still have to **file a single Expense Factor Form**; however they would have to indicate therein their Weighted Average Expense Factor.

Where a member company is conducting its business through different distribution channels such as “group plan” the company may have filed separate rates, it would then have to calculate the Weighted Average Expense Factor for all such filings.

The expenses to be reflected in the Expense Factor Form should be expressed as a percentage of written premiums.

1. The FSCO Expense Factor percentage is for that particular company with the same company number.

The Expense Factor percentage to be applied is the one which has been most recently approved by FSCO for Personal Vehicles - Private Passenger Automobiles and not necessarily the one which was filed with FSCO; however, the expense factor must have been approved no later than October 13th of the current year.

For this purpose, it is assumed that the FSCO Expense Factor, as defined, makes provision for categories of expense such as Commissions, Taxes, Assessments, Operating Expenses and possibly Loss Adjustment Expenses, but specifically excludes any provision for profit or return on equity and furthermore excludes any offsetting provision for the contribution of investment income on the cash flow from insurance operations.

RSP (Ontario) Expense Factor Form - Instructions

2. For those companies which do not include in their expense factor filed with FSCO, the External/Allocated Loss Adjustment Cost or the Internal/Unallocated Loss Adjustment Cost, then these expense factors should be added on.

Please note that some companies do include these expenses within their overall expense factor filed with FSCO. In that case, this item should be left blank.

3. Some companies apply the Monthly Policy Service Charge to offset against their underwriting expenses; as a result the expense factor is reduced by the Monthly Policy Service Charge earned. If your company has reduced its FSCO expense factor by such Monthly Policy Service Charge, you should add back the reduction for Monthly Policy Service Charge included in your FSCO filing, to a maximum as established by the Executive Committee of the Board from time to time.

Other companies add the Monthly Policy Service Charge to their investment income or other underwriting income. If your company follows one of these practices, this item should be left blank.

4. Companies which include provisions for Premium Taxes and/or Assessment of Health System Costs in their expense factor filed with FSCO should take out these provisions under this item. Otherwise, this item should be left blank.

For this purpose, Premium Taxes are narrowly defined to exclude other types of expenses such as license fees, dues, assessments, etc.

5. Professional Fees here refers to specific first party, allocated legal and other approved fees incurred for loss settlement purposes, which are as follows:

- | | |
|---|--|
| (i) Accounting Services | (ii) Actuarial Services |
| (iii) Alternate Dispute Resolution Services | (iv) Arbitration |
| (v) Architectural Services | (vi) Autopsy Reports |
| (vii) Coroners' Court transcripts | (viii) Court Stenographers transcripts |
| (ix) Engineering Services | (x) First Party Legal |
| (xi) Medical Reports | (xii) Notarial Services |
| (xiii) Translations | |

Please note that companies do not have to calculate this percentage. The Risk Sharing Pool will calculate the average percentage for the whole industry and apply the same percentage for all member companies. This figure is preprinted on the Form.

RSP (Ontario) Expense Factor Form - Instructions

Member companies will be reimbursed for this expense on an actual paid basis. Members will however have to provide notification of such expenses to the Risk Sharing Pool for reimbursement.

6. The Risk Sharing Pool expense factor is intended to include a provision for regular commission only. If the member company has made provision in their expense factor filed with FSCO for an additional expense for Contingent Profit Commission, then this provision should be taken out under this item. Otherwise, this item should be left blank.

7. The Executive Committee of the Board of Directors of the Facility Association will before the end of September of each year establish the Maximum Expense Factor to be used for the subsequent calendar year.

Please note that although the Risk Sharing Pool does not require you to submit the back-up materials with the Expense Factor Form it does reserve its right to audit and as such, we request that you retain the appropriate back-up material for a minimum period of two years.