

FACILITY ASSOCIATION

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

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
ALBERTA RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F06 – 039

DATE: NOVEMBER 21, 2006

SUBJECT: ALBERTA RISK SHARING POOLS
- OCTOBER 2006 OPERATIONAL REPORTS

A copy of this bulletin should be provided to your Chief Financial Officer and appointed actuary.

Enclosed please find the October 2006 Operational Reports.

IBNR Included in the October 2006 Operational Reports

For each of the Risk Sharing Pools (RSP) in Alberta, the assumptions underlying the provision for IBNR and Development included in the October 2006 Operational Reports are based on an actuarial analysis at June 30, 2006. They are consistent with the assumptions underlying the September 2006 Operational Report except that the discount rate has been increased from 3.50% per annum to 3.70% per annum. Please refer to Bulletin F06-33 that accompanied the September 2006 Report (Control + Left Click internet link below).

<http://www.facilityassociation.com/docs/bulletin/2006/F06-033ABRSP-September2006OperationalReport.pdf>

The overall provision for IBNR and Development for the Grid RSP at October 31, 2006 is \$149 million, compared to \$152 million held at September 30, 2006. The overall provision for IBNR and Development for the Non Grid RSP at October 31, 2006 is \$33 million, compared to \$30 million held at September 30, 2006.

The selected loss ratios and the related provisions for IBNR and Development exclude all loss adjustment expenses. They were derived on a discounted basis and therefore reflect the time value of money, and include an explicit provision for adverse deviations in accordance with accepted actuarial practice.

Bulletin No. F06-039

Alberta Risk Sharing Pools – October 2006 Operational Reports

ALBERTA RISK SHARING POOLS PROVISION FOR IBNR AND DEVELOPMENT						
Accident Year	Selected Loss Ratios	Held at 30/Sep/06	OCT. 2006 OPERATIONAL REPORTS			Target to 31/Dec/06
			As at 31/Oct/06	As at 30/Nov/06	As at 31/Dec/06	
Grid RSP						
2004	71.8%	12,587	11,876	11,876	11,876	11,876
2005	74.1%	61,530	59,939	59,939	59,939	59,939
2006	79.6%	<u>78,003</u>	<u>77,188</u>	<u>85,067</u>	<u>92,977</u>	<u>92,977</u>
Total		152,120	149,003	156,882	164,792	164,792
Non Grid						
2004	225.0%	175	90	90	90	90
2005	110.0%	6,592	6,737	6,737	6,737	6,737
2006	105.0%	<u>23,383</u>	<u>26,329</u>	<u>29,200</u>	<u>31,904</u>	<u>31,904</u>
Total		30,150	33,156	36,027	38,731	38,731

(Amounts in \$000's)

The Dec/06 target provisions of \$165 million for the Grid RSP and \$39 million for the Non Grid RSP, shown in the last column of the preceding table, are lower than the previous estimates due to the following:

- Consideration of the losses incurred to date in each of the Risk Sharing Pools, and
- An increase in the selected discount rate from 3.50% per annum to 3.70% per annum.

Premium Deficiency Reserve (DPAC)

The premium deficiency reserve is an amount which, when added to the unearned premium, is expected to make proper provision for the future costs expected to arise on the unexpired portion of in-force policies. In this context, future costs include losses and administrative expenses, where the losses are based on the selected loss ratios underlying the provisions for IBNR and Development.

ALBERTA RISK SHARING POOLS PREMIUM DEFICIENCY RESERVE (DPAC)				
	Expected Future Cost Ratios (% of UPR)	OCTOBER 2006 OPERATIONAL REPORT		
		As at 31/Oct/06	As at 30/Nov/06	As at 31/Dec/06
Grid RSP	79.8%	-29,927	-30,311	-30,311
Non Grid RSP	105.2%	2,060	2,060	1,998

(Amounts in \$000's)

Bulletin No. F06-039**Alberta Risk Sharing Pools – October 2006 Operational Reports**

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

For the Non Grid RSP, 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.

Discounting

For member reporting purposes, the provisions for IBNR and Development shown in the September 2006 Operational Reports reflect the time value of money based on a discount rate of 3.70% per annum, and include explicit provisions for adverse deviations, in accordance with the standards of practice of the Canadian Institute of Actuaries. The premium deficiency reserve (DPAC) was also estimated based on a discount rate of 3.70% per annum.

Additional information about the assumptions used for discounting purposes will be distributed to members under separate cover.

Measurement Uncertainty

The establishment of provisions for the unpaid and unreported claims is based on both known facts and the interpretation of current and anticipated circumstances. It is a complex and dynamic process influenced by a large variety of factors. These factors include the experience of the Alberta Risk Sharing Pools and the experience of the voluntary market in Alberta involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

The estimate of the Alberta Risk Sharing Pools’ provision for unpaid and unreported claims and other policy liabilities involves a particularly high degree of measurement uncertainty because the Pools have only recently been introduced and their reporting relationships with members are in a formative stage. Further, underwriting results are impacted by recently promulgated legislation. To date, there is limited claims experience available to indicate how legislative changes are impacting and will impact the Pools’ results of operations. It is impracticable to evaluate the extent of such measurement uncertainty.

Bulletin No. F06-039

Alberta Risk Sharing Pools – October 2006 Operational Reports

Should you require any further information, please call Norm Seeney, Vice President, Finance & Chief Financial Officer, Facility Association 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 October 2006 Alberta Risk Sharing Pool Operational Report