

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO: F2022-059

DATE: August 30, 2022

SUBJECT: Alberta Risk Sharing Pools – July 2022 Operational Report

A copy of this bulletin should be provided to your Chief Financial Officer and Appointed Actuary.

Please be advised that the July 2022 Alberta Risk Sharing Pools Operational Reports are available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Highlights

Alberta Grid

- (a) The ***Alberta Grid July 2022 premium written for the month*** was \$31.7 million, higher than prior year by \$9.0 million. The ***2022 year-to-date premium written*** was \$189.9 million higher than prior year by \$70.3 million;
- (b) The ***Alberta Grid 2022 July 2022 net operating deficit*** was \$5.3 million, and the ***2022 year-to-date operating results deficit*** was \$11.7 million; and
- (c) The ***Alberta Grid July 2022 combined operating ratio*** was 121.5%, higher than prior year by 12.1 percentage points. The ***2022 year-to-date combined operation ratio*** was 107.8%, higher than prior year by 24.4 percentage points.

Alberta Non-Grid

- (a) The ***Alberta Non-Grid July 2022 premium written for the month*** was \$17.4 million, higher than prior year by \$0.4 million. The ***2022 year-to-date premium written*** was \$87.9 million lower than prior year by \$5.2 million;
- (b) The ***Alberta Non-Grid 2022 July 2022 net operating deficit*** was \$6.1 million, and the ***2022 year-to-date operating results deficit*** was \$24.7 million; and
- (c) The ***Alberta Non-Grid July 2022 combined operating ratio*** was 144.0%, higher than prior year by 6.3 percentage points. The ***2022 year-to-date combined operation ratio*** was 126.8%, higher than prior year by 16.5 percentage points.

Alberta Grid RSP - Summary of Financial Results

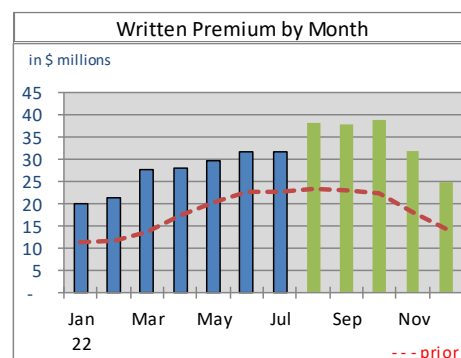
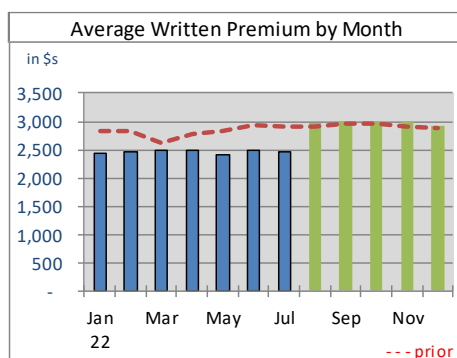
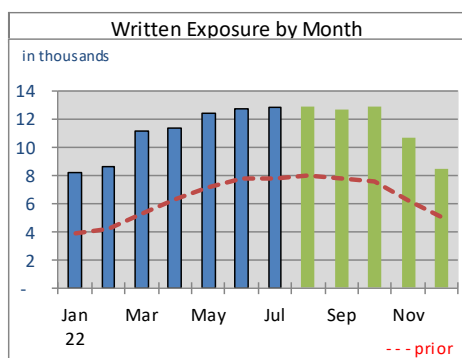
AB-G RSP Summary of Financial Results

AB Grid RSP 2022 Summary Amounts in \$000s	Actual (July 2022)	Projection (July 2022)	Prior Year (July 2021)	2022 year-to-date as at 7 months	2021 year-to-date as at 7 months	2022 year-end Projection	Outlook* Full year 2022	2021 year-end Actual
Premium Written	31,726	36,381	22,734	189,857	119,602	360,941	296,273	220,613
Premium Earned	24,525	27,200	17,304	149,192	109,988	285,059	262,801	200,881
Incurred Losses	20,392	22,971	12,316	106,505	63,284	221,071	211,834	101,044
Underwriting & Admin Expense	9,385	10,687	6,612	54,341	28,560	108,204	94,465	65,469
Expense allowance	9,454	10,842	6,888	56,569	36,238	107,551	88,293	66,844
Premium Deficiency / (DPAC)	(157)	(274)	(395)	(2,958)	(8,340)	(1,236)	4,278	(2,679)
Administrative Expenses	88	119	119	730	662	1,889	1,894	1,304
Net Result from Operations	(5,252)	(6,571)	(1,624)	(11,654)	18,144	(44,216)	(43,498)	34,368
Ratios:								
Loss ratio - Prior Accident Years	(2.3%)	(1.3%)	(5.1%)	(14.7%)	(20.3%)	(8.4%)	(2.9%)	(20.6%)
- Current Accident Year	85.5%	85.7%	76.2%	86.1%	77.8%	86.0%	83.5%	70.9%
Total	83.2%	84.4%	71.1%	71.4%	57.5%	77.6%	80.6%	50.3%
Underwriting & Admin Expense	38.3%	39.6%	38.2%	36.4%	26.0%	38.0%	35.9%	32.6%
Expense allowance	38.5%	39.9%	39.8%	37.9%	32.9%	37.7%	33.6%	33.3%
Premium Deficiency / (DPAC)	(0.6%)	(1.0%)	(2.3%)	(2.0%)	(7.6%)	(0.4%)	1.6%	(1.3%)
Administrative Expenses	0.4%	0.4%	0.7%	0.5%	0.6%	0.7%	0.7%	0.6%
Combined Operating Ratio	121.5%	124.0%	109.4%	107.8%	83.5%	115.6%	116.5%	82.9%

rounding differences may occur
*as posted to FA's website Dec. 24, 2021

Premium (Alberta Grid RSP)

The premium drivers compared to prior year and The Outlook to year-end are:



The vehicle count transfer July 2022 was 12,839 vehicles, which was higher than prior year as expected, due to grid rates changes but also the introduction of the DCPD, both implemented in January 2022. The transfer was higher than the Outlook as members review their ceding strategies.

Average premium in July 2022 showed a decrease compared to prior year (in line with grid rates changes). Premium written was above prior year driven by the increase in vehicle counts transferred to the pool.

Incurred Losses (Alberta Grid RSP)

Incurred losses in July 2022 were \$20.4 million, \$2.6 million lower than our projection and \$8.1 million higher compared with the same month from last year.

Loss ratio was at 83.2%, 1.2 percentage points lower than our projection, and 12.1 percentage points above prior year. Loss ratios are expected to increase compared to prior year as effects of pandemic fade.

Underwriting and Admin Expenses (Alberta Grid RSP)

Expenses for July 2022 include,

- Expense Allowance – this is based on written premium. The allowance ratio is approximately 30% of written premium and consistent across actual, prior year and outlook for both current month and year-to-date;
- Premium deficiency / (DPAC): DPAC at \$0.2 million for July 2022 compared to projected DPAC at \$0.3 million and prior year DPAC at \$0.4 million.
- Administrative Expense: \$0.1 million for July 2022, consistent with projection and prior year.

Projection to year-end 2022 (Alberta Grid RSP)

Compared with The Outlook released in December 2021, written premium is expected to increase as the economy is opening up and grid rate changes continue to make their way in the system and loss ratios return to pre-pandemic levels.

The year-end 2022 operating deficit is expected to be \$44.2 million with loss ratios below The Outlook. Expense allowance, driven mainly from written premium, is expected to be above The Outlook, resulting in combined ratios which are in line with The Outlook.

Alberta Non-Grid RSP - Summary of Financial Results

AB-N RSP Summary of Financial Results

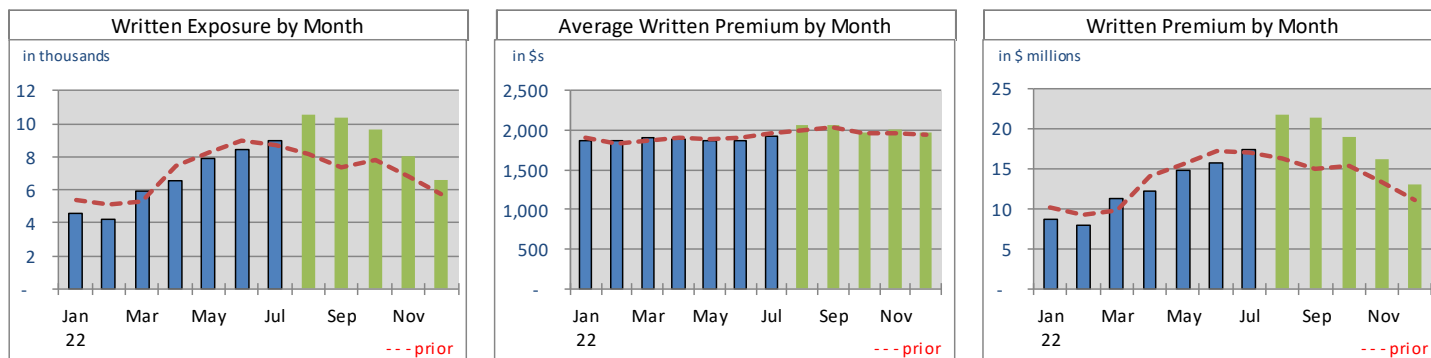
AB Non-Grid RSP 2022 Summary Amounts in \$000s	Actual (July 2022)	Projection (July 2022)	Prior Year (July 2021)	2022 year-to-date as at 7 months	2021 year-to-date as at 7 months	2022 year-end Projection	Outlook* Full year 2022	2021 year-end Actual
Premium Written	17,351	21,398	16,981	87,876	93,035	179,216	223,687	164,175
Premium Earned	13,836	15,179	12,255	92,382	74,501	164,268	198,176	139,520
Incurred Losses	13,977	15,365	11,047	90,734	57,543	163,560	200,502	95,850
Underwriting & Admin Expense	5,931	7,537	5,834	26,376	24,616	59,432	76,102	53,463
Expense allowance	5,172	6,376	5,145	26,186	28,186	53,405	66,658	49,743
Premium Deficiency / (DPAC)	669	951	569	(544)	(4,234)	4,357	7,251	2,409
Administrative Expenses	90	210	120	734	664	1,670	2,193	1,311
Net Result from Operations	(6,072)	(7,723)	(4,626)	(24,728)	(7,658)	(58,724)	(78,428)	(9,793)
Ratios:								
Loss ratio - Prior Accident Years	(0.3%)	(2.1%)	(3.6%)	(5.4%)	(18.9%)	(3.9%)	(2.6%)	(17.9%)
- Current Accident Year	101.4%	103.3%	93.7%	103.6%	96.1%	103.4%	103.8%	86.6%
Total	101.1%	101.2%	90.1%	98.2%	77.2%	99.5%	101.2%	68.7%
Underwriting & Admin Expense	42.9%	49.7%	47.6%	28.6%	33.0%	36.2%	38.4%	38.3%
Expense allowance	37.4%	42.0%	42.0%	28.3%	37.8%	32.5%	33.6%	35.7%
Premium Deficiency / (DPAC)	4.8%	6.3%	4.6%	(0.6%)	(5.7%)	2.7%	3.7%	1.7%
Administrative Expenses	0.7%	1.4%	1.0%	0.8%	0.9%	1.0%	1.1%	0.9%
Combined Operating Ratio	144.0%	150.9%	137.7%	126.8%	110.2%	135.7%	139.6%	107.0%

rounding differences may occur

*as posted to FA's website Dec. 24, 2021

Premium (Alberta Non-Grid RSP)

The premium drivers compared to prior year and The Outlook to year-end are:



The vehicle count transfer for July 2022 was 8,987 vehicles, which was higher than prior year but lower than projected. Transfer was lower than The Outlook for the month by 385.

Average premium in July showed a slight decrease compared with prior year. Premium written was slightly above prior year but below our projection.

Incurred Losses (Alberta Non-Grid RSP)

Incurred losses in July 2022 were \$14.0 million, \$1.4 million lower than projection from last month, while \$2.9 million higher compared with the same month from last year.

Loss ratio was at 101.1% which was in line with projected, and 11.0 percentage points above prior year.

Underwriting and Admin Expenses (Alberta Non-Grid RSP)

Expenses for July 2022 include,

- Expense Allowance – this is based on written premium. The allowance ratio is approximately 30% of written premium and consistent across actual, prior year and outlook for both current month and year-to-date;
- Premium Deficiency / (DPAC): Premium deficiency of \$0.7 million compared to projected premium deficiency of \$1.0 million and prior year premium deficiency of \$0.6 million.
- Administrative Expense: \$0.1 million for July 2022, fairly consistent with projection and prior year.

Projection to year-end 2022 (Alberta Non-Grid RSP)

Compared with The Outlook released in December 2021, written premium had reduced by \$44.5 million to \$179.2 million driven by updated premium projections received from members of the Alberta Non-Grid Risk Sharing Pool.

The year-end 2022 operating deficit is expected to be \$58.7 million, \$19.7 million above The Outlook, and the combined operating ratio is 135.7%, 3.9 percentage points below The Outlook.

Considering the significant growth seen in the Grid Pool since January 2022 as well as the dynamics between the two pools, we believe that it is important to share with our members some input provided by FA through its written submission and presentation at the recent AIRB Annual meeting:

(...) we are concerned with the **significant** growth of the grid-capped portion of the market, as well as with the correlated significant growth in the Grid Risk Sharing Pool (“Grid RSP”). The AIRB’s reduction of the Grid base premiums by 11.4%, reflecting the estimated impact of reforms implemented by the Government in 2020, was not mirrored by the industry in its expectations of impact to that portion of the market. This has resulted in a much larger number of risks being subject to the grid cap. Beginning in January 2022, we noted growth in the Grid RSP. Our review of industry wide data shows that by July of 2022, the percentage of vehicles subject to the Grid cap has been growing at an unprecedented pace and has reached an historical high of 9.20%. The market share of the Grid RSP has been increasing and reached an historical high of 3.79% in July 2022. The Non-Grid RSP is decreasing, but at a significantly slower pace. The net result is that the RSPs total market share is increasing at a steady pace.

Rolling 12 month BI/TPL Written Vehicles

(simulating an annual vehicle count up to the displayed entry month)

Entry Date	AB			RSP Grid		RSP Non-Grid		RSP Total	
	Grid Capped	Total PPxF	% of Grid	Rolling 12 MTH	Market Share	Rolling 12 MTH	Market Share	Rolling 12 MTH	Market Share
2019-11	193,645	2,801,423	6.91%	78,488	2.80%	70,961	2.53%	149,449	5.33%
2019-12	196,436	2,803,002	7.01%	79,436	2.83%	72,420	2.58%	151,857	5.42%
2020-01	201,502	2,803,200	7.19%	80,752	2.88%	73,119	2.61%	153,870	5.49%
2020-02	204,537	2,801,894	7.30%	80,169	2.86%	72,744	2.60%	152,913	5.46%
2020-03	206,674	2,803,900	7.37%	80,120	2.86%	72,187	2.57%	152,307	5.43%
2020-04	207,188	2,794,954	7.41%	80,379	2.88%	72,864	2.61%	153,243	5.48%
2020-05	204,090	2,770,134	7.37%	78,220	2.82%	74,259	2.68%	152,479	5.50%
2020-06	203,634	2,765,708	7.36%	76,357	2.76%	74,561	2.70%	150,918	5.46%
2020-07	204,726	2,778,687	7.37%	74,849	2.69%	74,275	2.67%	149,124	5.37%
2020-08	202,188	2,737,613	7.39%	74,340	2.72%	73,054	2.67%	147,395	5.38%
2020-09	200,853	2,739,129	7.33%	73,872	2.70%	72,574	2.65%	146,446	5.35%
2020-10	201,813	2,792,453	7.23%	72,397	2.59%	72,114	2.58%	144,511	5.18%
2020-11	201,685	2,788,319	7.23%	70,463	2.53%	71,506	2.56%	141,970	5.09%
2020-12	200,684	2,785,420	7.20%	68,432	2.46%	70,419	2.53%	138,851	4.98%
2021-01	197,423	2,786,002	7.09%	66,575	2.39%	69,345	2.49%	135,920	4.88%
2021-02	197,360	2,784,578	7.09%	66,605	2.39%	68,499	2.46%	135,104	4.85%
2021-03	197,459	2,785,123	7.09%	66,694	2.39%	68,188	2.45%	134,882	4.84%
2021-04	198,526	2,798,810	7.09%	66,679	2.38%	66,927	2.39%	133,606	4.77%
2021-05	201,034	2,816,226	7.14%	68,003	2.41%	66,968	2.38%	134,971	4.79%
2021-06	200,454	2,814,407	7.12%	69,542	2.47%	68,192	2.42%	137,733	4.89%
2021-07	200,039	2,814,358	7.11%	71,834	2.55%	72,011	2.56%	143,845	5.11%
2021-08	199,704	2,860,317	6.98%	72,845	2.55%	75,608	2.64%	148,454	5.19%
2021-09	198,631	2,864,182	6.93%	73,501	2.57%	78,708	2.75%	152,210	5.31%
2021-10	195,377	2,814,362	6.94%	74,244	2.64%	80,691	2.87%	154,935	5.51%
2021-11	193,114	2,816,343	6.86%	75,127	2.67%	82,336	2.92%	157,463	5.59%
2021-12	193,569	2,819,837	6.86%	76,424	2.71%	83,540	2.96%	159,963	5.67%
2022-01	194,421	2,821,881	6.89%	76,803	2.72%	84,817	3.01%	161,620	5.73%
2022-02	202,647	2,821,112	7.18%	81,013	2.87%	84,046	2.98%	165,059	5.85%
2022-03	211,677	2,823,273	7.50%	85,463	3.03%	83,193	2.95%	168,656	5.97%
2022-04	223,444	2,823,084	7.91%	91,362	3.24%	83,856	2.97%	175,218	6.21%
2022-05	235,923	2,823,247	8.36%	96,413	3.41%	82,958	2.94%	179,370	6.35%
2022-06	249,631	2,829,821	8.82%	101,590	3.59%	82,587	2.92%	184,177	6.51%
2022-07	258,727	2,811,673	9.20%	106,497	3.79%	82,038	2.92%	188,535	6.71%
Min 2018-2022			5.65%		2.27%		2.38%		4.77%
Max 2018-2022			9.20%		3.79%		3.01%		6.71%

The share of the total market now subject to the Grid cap is the highest it has been since the very early and tumultuous days of the Grid. Initially, we had ascribed some of this issue to the result of the transition in the market to DCPD pricing, and looked for it to be resolved as companies adjusted their pricing models. However, the persistence of the issue is concerning, especially as it is also accompanied by the significant growth in the size of the Grid RSP.

The adjustment made to the Grid cap was, we understand, based on the estimated benefit of the product reform, which was assumed to benefit loss costs for Grid capped risks at least as significantly as the industry in total. However, the continued growth of the Grid RSP points to an industry view that the product reform benefits are either not as great as the adjustment calculated, or do not apply equally to grid-capped risks. While every company approaches the RSPs differently, and one must take care in ascribing an overall industry view based on the average numbers, such a large increase in the Grid RSPs across multiple companies as we are experiencing is indicative of industry concern.

If the premium difference between the Grid base premium and the industry is not addressed, then we expect that the grid-capped market and consequently the Grid RSP will continue to increase. Based on the latest input from members, we are expecting the number of vehicles ceded to the Grid RSP to grow by almost 75% and the total RSPs by more than 40% in 2022.

While there is no preset optimal market share for residual risks, nor a threshold at which we can categorically say the residual market is too high, the growth to such a large extent in the RSP portion of the market is especially concerning. Growth in the FARM is of concern to the public, and to the industry, but FARM market share growth is at least balanced by the design of the mechanism to be cost neutral. The danger of a large market share in RSP is that the mechanism is designed to be subsidized. With over 9% of the industry grid capped, there is a very real possibility that the RSP's could approach 10%. At such a level, the cost of the RSPs to the industry becomes, in our view, an important strategic consideration for insurers because such market conditions works against the spirit of a healthy and competitive insurance market.

Should you require any further information, please call Philippe Gosselin, VP Actuarial and CRO at (416) 863-1750 x4968.

Saskia Matheson
President & CEO

Related Links:

Alberta Grid RSP:

[Alberta Grid RSP Summary of Operations - Calendar Year 2022](#)

* 07 month ended July 2022 (discounted basis)

Alberta Non-Grid RSP:

[Alberta Non-Grid RSP Summary of Operations - Calendar Year 2022](#)

*07 month ended July 2022 (discounted basis)