

**REPORT OF THE  
CHIEF EXECUTIVE OFFICER  
ON THE FACILITY ASSOCIATION**

**Mark White  
Chief Executive Officer  
Financial Services Regulatory Authority (FSRA)  
September 30, 2019**

## **I. INTRODUCTION**

Section 11.1 of the *Compulsory Automobile Insurance Act*, R.S.O. 1990, Chapter C.25 (the *Act*), requires the Chief Executive Officer to make an annual report to the Minister of Finance on the affairs of the Facility Association (the Association). The Minister is required to lay this report before the Legislative Assembly. FSRA is reporting on the affairs of the Association for the year ended October 31, 2018, and other significant events to date.

The Association presented its annual report at the annual general meeting that was held in February 2019. Following the receipt of this report, FSRA examiners conducted an on-site review of the Association in July 2019. They carried out the tests and inquiries necessary to determine whether the Association is satisfying its responsibilities under the *Act*.

FSRA's review relied on the work of the external auditor of the Association with respect to the quality of the financial statements. The Association also has independent actuaries who report on provisions for unpaid claims.

The Association commenced operations in Ontario in 1979 as an insurance industry organization with legal status under the *Act*. All insurance companies that are licensed to underwrite automobile insurance in Ontario are compelled by statute to be members of the Association.

The Association, in accordance with a Plan of Operation that is defined in its Articles of Association, guarantees that automobile insurance will be available to individuals who might otherwise be unable to obtain insurance. This is referred to as the residual market. Automobile insurance policies are issued to individuals who are unable to obtain insurance in the regular market through insurers that are designated Servicing Carriers. These insurers have contracted with the Association to collect premiums, administer policies, and pay claims on its behalf. The residual market operates in the following provinces and territories: Ontario, Alberta, Nova Scotia, Prince Edward Island, New Brunswick, Newfoundland and Labrador, Yukon, Northwest Territories, and Nunavut.

The Association has also administered the Risk Sharing Pool (RSP) in Ontario since 1993. RSPs commenced operation in Alberta in 2004, in New Brunswick in 2005, and in Nova Scotia in 2007. RSPs are a reinsurance mechanism that provide a means for individual insurers to transfer exposures that are deemed to be of higher risk but do not qualify for the residual market.

The RSP is only for private passenger automobiles. The experience of the RSP is shared across insurers based on their market share of the Ontario private passenger business and the usage of the RSP, each weighted at 50%.

The Association is an unincorporated non-profit association under the *Act*. This means that while there may be profits or losses in any given year, the Association is not operating for the financial gain of its members. A Board of Directors that is comprised of sixteen members oversees the affairs of the Association. The Board consists of ten insurance company employees, three insurance brokers (approved by the Insurance Brokers Association of Canada), two independent directors, and the President and Chief Executive Officer of the Association. Appendix A provides information of the Board Membership.

The Ontario automobile insurance risk classification system and rates used by the Association require the approval of FSRA's Chief Executive Officer (or delegate)<sup>1</sup>. The Articles of Association and Plan of Operation are also subject to the approval of FSRA's Chief Executive Officer (or delegate).

## II. BUSINESS VOLUME

FSRA reviews the business volume of the residual market and the RSP on a monthly basis. As of June 2019, the number of private passenger vehicles that were insured in Ontario's residual market increased by 70.0% in comparison to prior year number. The volume has been increasing steadily since the lows recorded in 2016 and the number of vehicles insured in the residual market is now at the same level as the fourth quarter of 2012. Although there is significant growth, the number of vehicles insured in the residual market it is still well below the 2003 peak of 225,000.

Year	Number of Vehicles (Rolling 12 Month)	Percentage Change from Previous Year
June 2015	2,094	-22.2%
June 2016	1,883	-10.1%
June 2017	2,114	12.2%
June 2018	2,687	27.1%
June 2019	4,567	70.0%

As of June 2019, cessions to the Ontario RSP remained comparable to the prior year number. The use of the RSP remains unchanged at approximately 50% of the maximum allowable cession limit of 5%.

Year	Number of Vehicles Ceded (Rolling 12 Month)	Percentage of Vehicles Ceded (Rolling 12 Month, Maximum 5%)
June 2015	147,397	2.09%
June 2016	142,320	1.97%
June 2017	216,669	2.87%
June 2018	187,813	2.47%
June 2019	187,743	2.41%

<sup>1</sup> The FSRA CEO has lawfully delegated the reporting responsibility to the FSRA EVP, Auto/Insurance Products

### **III. FINANCIAL RESULTS**

The auditor presented an unqualified audit opinion for both the Facility Association residual market and the Ontario Risk Sharing Pool (RSP) audited financial statements and reported that it did not identify any material weaknesses in internal controls. The audited financial statements for residual markets (including the Uninsured Automobile Funds) across Canada, as well as the Ontario RSP, were submitted by the Association.

In 2018, the Association recorded a profit of \$33 million for residual markets across Canada, as compared to \$18 million in 2017. For Ontario alone, the Association recorded a profit of \$23 million as compared to \$13 million in 2017.

As of October 31, 2018 total assets were \$513 million compared to \$494 million as at October 31, 2017.

These profits and losses do not reflect income and expenses that are directly earned or incurred by the member companies of the Association. Member companies pay premium taxes and health levies directly to the provinces based on direct written premiums. Investment income earned on the Association's funds held by member companies is also not reflected in the Association's financial statements.

In 2018, the Ontario RSP had a loss of \$194 million, as compared to a loss of \$164 million in 2017. With the exception of 2015, the Ontario RSP incurred operating deficits in each of the last ten years. The financial statements for the RSP include only the financial results of the risks transferred to the RSP and the cost of managing it by the Association. The financial statements do not include expenses incurred or revenue earned directly by members in respect of their participation.

As with all insurance companies, any changes in the estimates for claims liabilities are recorded in the year the estimates are revised. It should be noted that estimating claims liabilities is an inherently uncertain process. Since 1990, this practice has been further complicated by multiple changes to the automobile insurance product.

Revisions to estimated claims liabilities for accidents that occurred in prior years can have a significant impact on the calculation of the current year's profits or losses. Therefore, one should not assume that a profit or loss in any particular year is solely due to events that occurred in that year.

Attached are copies of the audited financial statements for the residual market and the Ontario RSP.

#### **IV. RATE APPROVALS**

Rate changes for all categories of automobile insurance for the Ontario residual market require prior approval from the Chief Executive Officer (or delegate). The following rate approvals have been granted to the Association since the last report:

Category	Approved Rate Change	Date of Approval	Renewal Effective Date
Commercial Vehicles (CLEAR Update only)	0.0%	November 8, 2018	March 1, 2019
Motorcycle	7.0%	January 31, 2019	June 1, 2019

#### **V. PLAN OF OPERATION AND RULES**

The Association's Plan of Operation and rules are subject to prior approval by the Chief Executive Officer (or delegate). There were three changes approved since the last report.

On September 26, 2018, the Association received approval for amendments to its Plan of Operation and RSP Eligibility Manual. The amendments focused primarily on changes in the definition of private passenger vehicles to allow private passenger vehicles used in Transportation Network Companies (TNC) activities to be ceded to the RSP. There were commensurate changes to the wording of the Association's RSP Eligibility Manual that allow for the administration of this practice.

On May 21, 2019, it received approval for further changes to its Plan of Operation. The amendments expanded and clarified the definition of Underwriting Information Plan (UIP) data and removed certain requirements for members that were no longer necessary. The UIP facilitates proper identification and rating of eligible risks.

On June 28, 2019, FSRA approved changes to the RSP Procedures Manual. The changes were either editorial in nature or related to the Automobile Statistical Plan changes.

## **KEY ACTIVITIES**

A number of activities are being undertaken to enhance the effectiveness of the Association's operations. These activities include:

- Reviewing the Enterprise Risk Management (ERM) framework and processes. The Association is reviewing the number of risk indicators in the ERM model. The new model will prioritize the risks to be more focused and strategic with an emphasis on how best to incorporate the three lines of defense in risk management, i.e. (i) operational management, (ii) risk management and compliance, and (iii) internal audit.
- Reviewing the objectives and eligibility criteria of the RSPs. In 2018 the Association established an RSP Working Group, comprised of a cross-section of industry representatives, to review the objectives and eligibility criteria of the RSPs. The working group proposed two changes aimed at harmonizing the RSPs across all jurisdictions. One is to revise the sharing formula of 50% market share and 50% RSP use to one where it is based on 100% private passenger market share. The second proposal is to eliminate the 15% retention rule to one where there is no retention requirement. The Association acknowledged that the first one could be contentious among the membership, particularly for those members that make little or no use of the RSP. A vote by the membership is anticipated in early 2020.
- Working with the Ontario Trucking Association (OTA) to reduce abuse. On May 8, 2019, the OTA made a presentation to various insurance industry stakeholders on the use of the residual market in the Ontario trucking industry. In particular, the OTA described reported abuses of the residual market, which can lead to under-priced business as well as the potential compromise of road safety. The OTA made several recommendations on how to curtail such abuses, including suggested changes on vetting, monitoring and enforcing its applications. In response, the Association established an Advisory Working Group that will assist in reviewing the Association's underwriting rules and develop an audit strategy specific to this line of business.

## **VI. CONCLUSION**

FSRA is satisfied that the Association is making automobile insurance available to those who cannot obtain coverage in Ontario's regular automobile insurance market. FSRA continues to monitor the Association and its activities, and provides feedback to enhance its effectiveness.

Enclosures:

1. Audited Financial Statements of Facility Association Residual Market Segment and Uninsured Automobile Funds - October 31, 2018
2. Audited Financial Statements of Facility Association Ontario Risk Sharing Pool - October 31, 2018

## Appendix A – Board of Directors

	<b>Name</b>	<b>Company / Position</b>	<b>Date Appointed</b>	<b>Notes</b>
1	George Hardy	<b>Co-operators General Insurance Co.</b> <i>VP, National Underwriting, Personal Lines</i>	March 2012	Chair
2	Christopher Cooney	<b>TD Insurance</b> <i>Vice President, Pricing</i>	September 2016	Deputy Chair
3	Dawn Anderson	<b>RSA Insurance</b> <i>Atlantic Portfolio Manager</i>	February 2019	
4	Patrick Barbeau	<b>Intact Insurance Company</b> <i>Senior Vice President, Personal Lines</i>	February 2014	Immediate Past Chair
5	Andrew Cartmell	<b>SGI Canada Insurance Services Ltd.</b> <i>President &amp; Chief Executive Officer</i>	April 2010 (2001-2006)	
6	Laura Doddington	<b>Desjardins General Insurance Group</b> <i>Vice President, Distribution Strategies</i>	August 2018	
7	Karen Dyberg	<b>Dyberg Insurance Inc.</b> <i>Principal</i>	February 2016	IBAC - AB & Territories
8	Bob Hillman	<b>AMA Insurance</b> <i>Vice President, Finance</i>	February 2014	
9	Jay Kimball	<b>GoToInsure Saint John Inc.</b> <i>Vice President</i>	February 2019	IBAC Atlantic
10	Rhonda Lawson	<b>LMC Consulting</b> <i>Partner &amp; Managing Director</i>	February 2018	Independent
11	Cara Low	<b>Wawanesa Insurance</b> <i>Appointed Actuary and VP Corporate Actuarial</i>	May 11, 2016	
12	Aaron Perdue	<b>Millennium Insurance Corporation</b> <i>Chief Executive Officer</i>	February 2016	
13	Ryan Wallace	<b>Cambrian Thunder Bay Insurance</b> <i>Account Manager</i>	February 2019	IBAC Ontario
14	Penny-Lynn McPherson	<i>Lawyer</i>	February 2019	Independent
15	Michel Dionne	<b>Aviva Canada Inc.</b> <i>Chief Risk Officer</i>	February 2019	
16	Saskia Matheson	<b>Facility Association</b> <i>President &amp; Chief Executive Officer</i>	February 11, 2019	By virtue of the office