

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

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Financial Services Regulatory Authority (FSRA)
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Note: Prepared under delegated authority

I. INTRODUCTION

Section 11.1 of the *Compulsory Automobile Insurance Act* (the *Act*) requires FSRA¹ to make an annual report to the Minister of Finance on the affairs of the Facility Association (the FA)² that the Minister tables before the Legislative Assembly.³

Section 7 of the *Act* requires the FA, among other things, to establish a Plan of Operation (Plan)⁴ for providing automobile insurance to owners, lessees and licensed drivers of motor vehicles who would otherwise be unable to obtain such insurance in Ontario. All insurance companies that are licensed to underwrite automobile insurance in Ontario are members of the FA and must comply with the Plan.

The Plan states its object “shall be to ensure the availability of automobile insurance for owners and licensed drivers of motor vehicles who may otherwise have difficulty obtaining such insurance”. This is referred to as the residual market. The Plan describes how it intends to meet that objective and includes provisions with respect to the establishment and operation of a Risk Sharing Pool (RSP) for members. Refer to Appendix A for additional background information on the RSP and the residual market operations.

FSRA undertakes an annual examination and financial and risk analyses of the FA to determine if the FA is meeting their objective and functioning in accordance with the *Act* and the Plan. FSRA is reporting on:

- Market share and availability as at June 30, 2022
- RSP volumes and trends as at June 30, 2022
- Financial results for the fiscal year ended October 31, 2021
- Findings of the 2022 examination
- Risk management practices and mitigation
- Rate, rule, and operational changes approved by FSRA since the last report

¹ Both the CEO of FSRA and FSRA may exercise regulatory authority under the *Act*. However, for the purposes of this report, reference will only be made to FSRA as the CEO may delegate his/her regulatory authority to FSRA staff, as permitted by s. 10(2.3) of the Financial Services Regulatory Authority of Ontario Act.

² *Compulsory Automobile Insurance Act*, R.S.O. 1990, c. C.25, s 11.1 The Chief Executive Officer shall make an annual report to the Minister of Finance on the affairs of the Association and the Minister shall then lay the report before the Assembly if it is in session or, if not, at the next session. 1993, c. 10, s. 52 (8); 1997, c. 28, s. 29; 2018, c. 8, Sched. 4, s. 3.

³ The 2019, 2020, and 2021 reports have not been tabled.

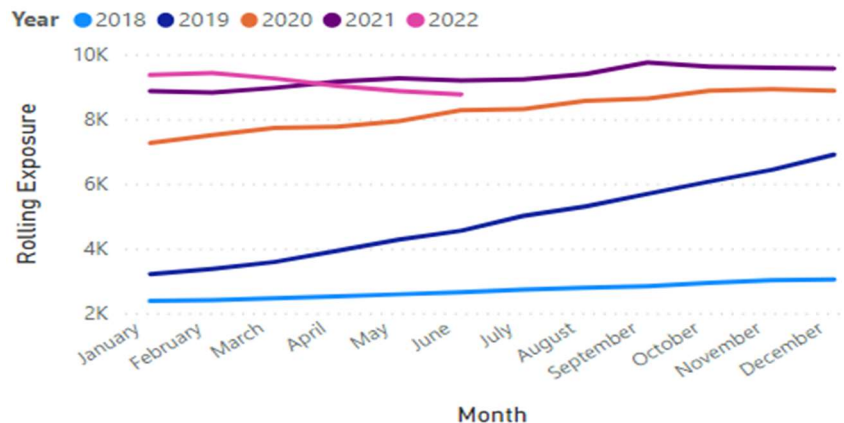
⁴ [FA Plan of Operation](#)

II. MARKET SHARE AND AVAILABILITY (ONTARIO RESIDUAL MARKET)

Private Passenger Vehicle (PPV)

As of June 30, 2022, there were 8,763 PPVs in the residual market. This is a decrease of 5% over the same period last year and a significant change from the increases in recent years (+11% in 2021, +82% in 2020, +72% in 2019). The PPV residual market currently accounts for 0.1% of the total written exposures in Ontario. This is below the 2003 market share peak of 3.9% or 225,000 vehicles.

Rolling Exposure by Month and Year



The FA received approval for a 12.1% rate increase effective June 1, 2022. This increase was necessary to allow the FA to earn a reasonable underwriting profit. The increase also makes the FA PPV rates less competitive when compared to insurers in the voluntary market that write similar, higher-risk business.

Non-PPV Categories

The following non-PPV categories had significant growth in recent years. The FA confirms these categories face a higher “market share and availability” risk.⁵

Motorcycle

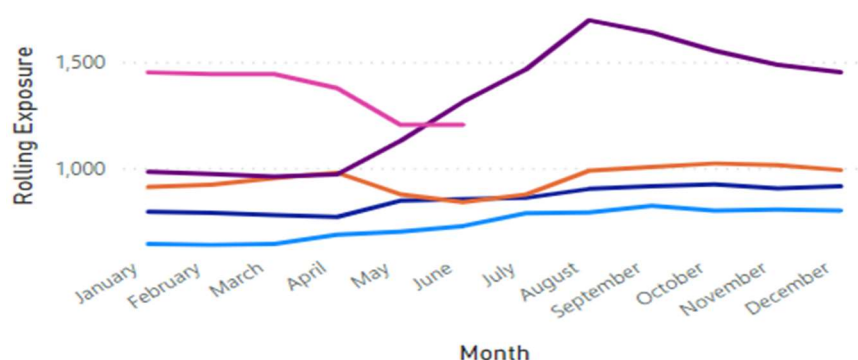
The number of motorcycles in the residual market has been steadily increasing since 2018 and peaked in 2021. Motorcycle sales in Ontario increased⁶ sharply in 2021 which led to a large increase in motorcycles insured through the residual market. As of June 30, 2022, there were 1,204 motorcycles in the residual market. This is an 8% decrease over the same period last year and a significant change from the 56% growth in 2021. The motorcycle residual market currently accounts for 0.5% of the total written exposures in Ontario.

⁵ The FA defines this risk as the inability to maintain a minimal residual market share. This may result in the FA insuring risks that are eligible for the voluntary market. The FA considers all jurisdictions when assessing risks therefore this risk is not necessarily driven by the Ontario auto insurance market.

⁶ For 2021, the Motorcycle & Moped Industry Council reported 17,521 motorcycle sales in Ontario. This is an increase of 12.6% compared to 2020 and 23.2% compared to 2019.

Rolling Exposure by Month and Year

Year ● 2018 ● 2019 ● 2020 ● 2021 ● 2022



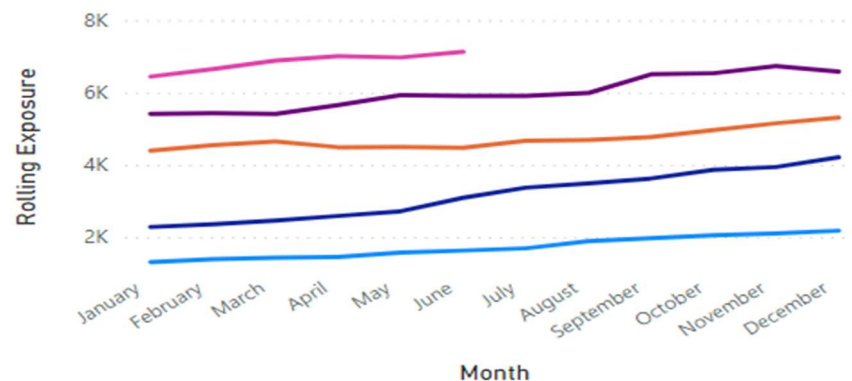
The FA expects the voluntary market will continue to absorb this business over time as motorcycle operators gain more experience. To further mitigate the risk, the FA implemented a 6% rate increase which allows the FA to earn a reasonable underwriting profit. The rate increase also keeps the FA's motorcycle rates less competitive when compared to insurers in the voluntary market.

Commercial Vehicles

The number of individually rated commercial vehicles in the residual market continues to increase. As at June 30, 2022, there were 7,127 individually rated commercial vehicles in the residual market. This is a 21% increase over the same period last year. The increase in delivery vehicles drove most of the growth, including the influx of vehicles used for meal deliveries and courier services because of the COVID-19 pandemic. The individually rated commercial vehicle residual market currently accounts for 2.4% of the total written exposures in Ontario.

Rolling Exposure by Month and Year

Year ● 2018 ● 2019 ● 2020 ● 2021 ● 2022



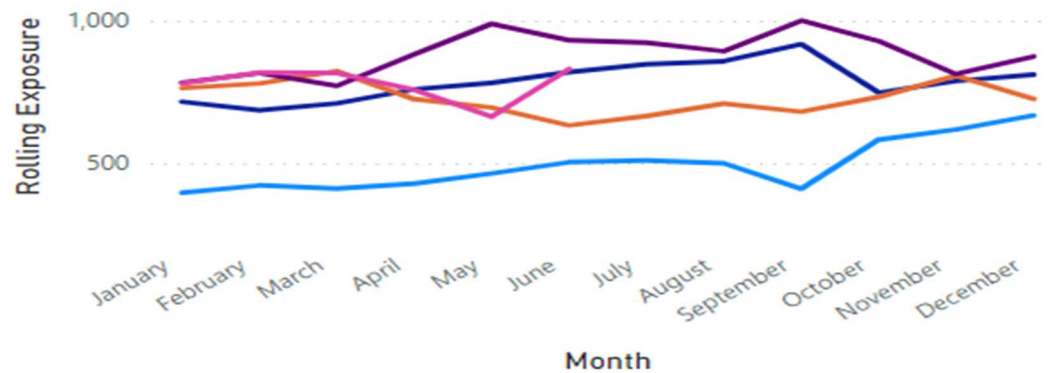
This category remains a concern and FSRA and the FA will continue to monitor the underwriting appetite of the voluntary market.

Interurban Vehicles

As of June 30, 2022, there were 831 interurban vehicles in the residual market, an 11% decrease over the same period last year.

Rolling Exposure by Month and Year

Year ● 2018 ● 2019 ● 2020 ● 2021 ● 2022



Decreases in the Ontario interurban exposure counts over the past few years have been linked to increases in other parts of the country. There is a concern that some Ontario operators may be using jurisdictions outside of Ontario as their home base to gain access to lower insurance rates. Since insurers share loss costs for the residual market by jurisdiction, this activity results in lower risk provinces and drivers paying higher premiums to cover the losses of those drivers operating in a higher cost jurisdiction.

In 2020, the FA made changes to clarify and strengthen the rating and underwriting rules to allow for more thorough underwriting of commercial vehicle risks. In 2022, the FA developed and received approval for a Canadian rating matrix that reflects the rates in the province or territory where the vehicle is driven, rather than where it is registered. FSRA expects these changes to lead to an increase in the number of interurban vehicles in the Ontario residual market as the pricing advantage of registering vehicles in other jurisdictions will be negated.

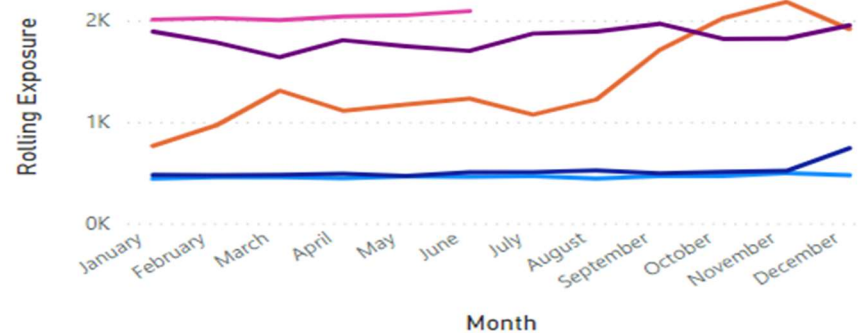
Taxis

Taxis continue to be a challenging line of business for the FA. Insurers in the voluntary market are choosing to restrict the amount of taxi business they accept or have exited the market entirely. In 2021, there were only four insurers in the voluntary market writing individually rated taxis. The FA is the top individually rated taxi writer in Ontario with a market share of over 80%.

There was a 23% increase in written exposures in the first half of 2022. This is on top of the 38% increase in 2021 and 144% increase in 2020. The FA expected an increase as many of the taxis that were idle during the COVID-19 pandemic have returned to service. However, the 2,092 individually rated taxis in the residual market as at June 30, 2022, is almost double when compared to pre-pandemic levels.

Rolling Exposure by Month and Year

Year ● 2018 ● 2019 ● 2020 ● 2021 ● 2022



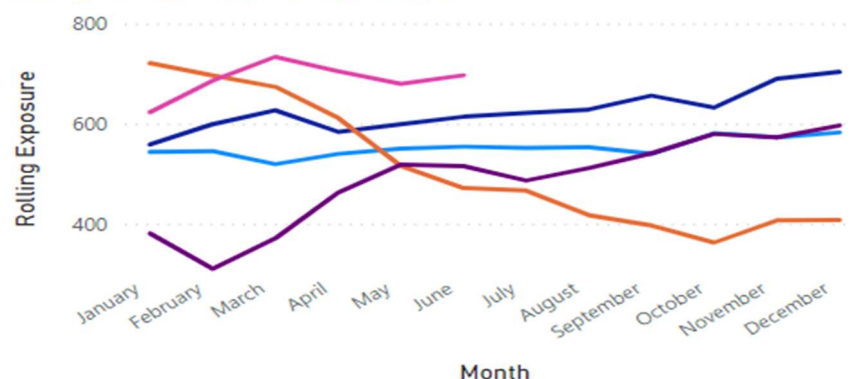
To help reverse this trend, the FA has introduced an optional, enrollment-based Video Telematics program. This program provides taxi operators with a discount of either 3% or 8%, depending on the services purchased. The FA expects that taxi operators with proven and documented improvements in driving behavior and loss experience will find insurance in the voluntary market. The FA did not design the program to improve policy retention. It will take a year to evaluate the success of the program as operators will need time to prove they are good risks before moving to the voluntary market. FSRA will work with the FA to monitor the results of the program.

Buses (Public and Private)

The number of buses in the residual market increased significantly through 2021 and into 2022. As of June 30, 2022, there were 697 buses in the residual market which is a 35% increase over the same period last year and a 48% increase over 2020. Most of the increase is a result of buses returning to service after being parked early in the COVID-19 pandemic.

Rolling Exposure by Month and Year

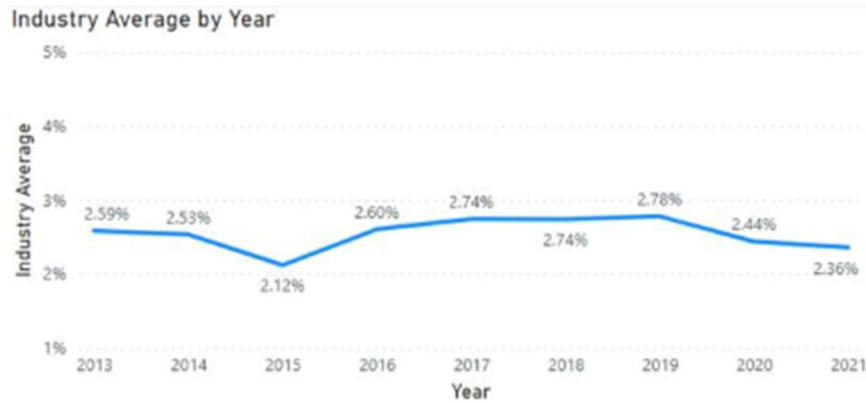
Year ● 2018 ● 2019 ● 2020 ● 2021 ● 2022



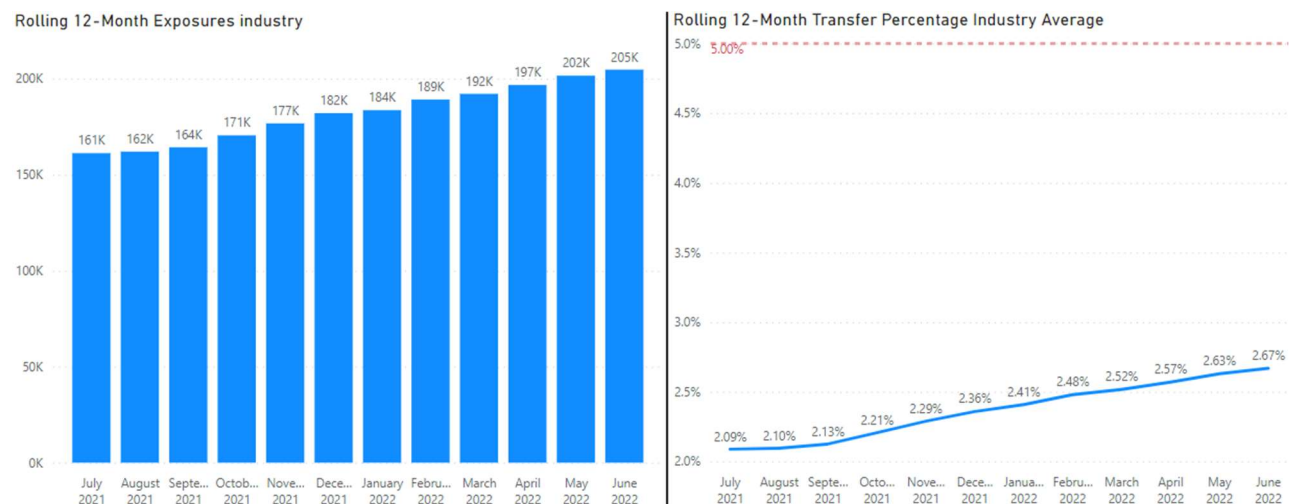
Although these are large increases, the total number of buses in the residual market is inline with pre-pandemic levels. It appears the recent growth is a return to normal volumes, but FSRA will continue to monitor this line of business.

III. RSP VOLUMES AND TRENDS (ONTARIO)

Cessions to the RSP have been stable over the last five years and have remained close to 50% of the maximum allowable cession limit of 5%.



As of January 1, 2022, Ontario insurers no longer retain 15% of the risk (premium and claims) and risks ceded to the RSP are transferred at 100%. The FA made this change as part of a nation-wide RSP harmonization initiative. RSP usage is tied to the members' ceding rules, not the retention limit. Although there has been an increase in the number of exposures ceded to the RSP since January 2022, it is not due to the change in the retention rule. Rather, the increase in cessions is more likely a result of the removal of COVID-19 restrictions which has led to an increase in traffic volumes and the expectation of lower underwriting profits across the industry.



IV. FINANCIAL RESULTS

The *Act* defines the FA as an unincorporated non-profit association of insurers. This means that while there may be profits or losses in any given year, the FA is not operating for the financial gain of its members. FSRA relied on the work of the external auditor to assess the quality of FA's financial statements.

The auditor presented an unqualified audit opinion for both the residual market and the Ontario RSP audited financial statements for the year ended October 31, 2021, and reported that it did not identify any material weaknesses in internal controls. The FA published audited financial statements for residual markets (including the Uninsured Automobile Funds) across Canada, as well as the Ontario RSP.

Residual Market

Residual Market⁷	2021	2020	2019	2018	2017
Profits/Losses (Canada)	\$54M	\$34M	\$10M	\$33M	\$18M
Profits/Losses (Ontario)	-\$2M	\$10M	\$15M	\$22M	\$13M
Total Assets	\$1.03B	\$775M	\$674M	\$513M	\$494M

Increases in "Cash and cash equivalents" and "Funds held by members" drove asset growth in 2021. Cash increases were related to the timing of the FA's review of liquidity requirements. The FA distributed the cash shortly after the year-end and they are now closer to historical levels. The increase to funds held by members was mainly a result of a \$109M provision for unpaid claims.

The \$2M loss for the Ontario residual market was due to an IBNR⁸ adjustment for latent statutory accident benefits claims to reflect the potential emergence of claims arising from accident years 1994 to 1996.⁹

⁷ Does not include income and expenses that are directly earned or incurred by the member companies of the FA. Member companies pay premium taxes and health levies directly to the provinces based on direct written premiums. Investment income earned on the FA's funds held by member companies is also not reflected in the FA's financial statements.

⁸ IBNR stands for "Incurred But Not Reported". It is money held in reserve by an insurer to compensate claimants who have incurred a valid claim but have not yet reported it to the insurer.

⁹ At its annual general meeting in February 2020, the FA raised the issue of historical statutory accident benefit claims and the potential for significant interest payments associated with these claims. Claimants are entitled to interest on overdue benefits from the time they were legally entitled to the benefit, until the date the claim is paid. For statutory accident benefit claims, interest on overdue amounts is set out in the SABS regulation. Prior to 2010, the amount was 2% per month, compounded monthly, (approximately equal to 26% annual rate) which results in substantial amounts if there is a lengthy delay. FSRA conducted a self-assessment survey among the insurers subject to FSRA's prudential regulation and did not identify an insolvency risk resulting from these claims.

RSP

RSP (Ontario)¹⁰	2021	2020	2019	2018	2017
Profits/Losses	-\$47M	\$60M	-\$126M	-\$194M	-\$164M
Total Assets	\$1.3B	\$1.3B	\$1.5B	\$1.5B	\$2.0B

The FA expects the Ontario RSP to incur losses as the exposures placed in the RSP are considered underpriced relative to the risk they present. The profits in 2020 were an anomaly due to sudden changes in consumer driving habits because of the COVID-19 pandemic.

The audited financial statements for the residual market and the Ontario RSP are attached to this report.

V. MARKET CONDUCT EXAMINATION

Market Conduct completed their annual examination of the FA. For this year's examination, Market Conduct focused on Ontario operations with the following areas selected for review:

1. Compliance Audits
2. Annual Attestation to FSRA
3. Internal Auditor
4. Cybersecurity Risk
5. Third-Party Risk
6. FARM Distribution Channels
7. FARM Renewals

The examination did not reveal any serious deficiencies in the FA's procedures or practices. There are, however, some aspects of the FA's operations that will require additional review and follow-up:

1. *Service standards*: The FA is not meeting their service standards for the processing of applications and endorsements. The backlog is due to staffing challenges and increased volumes. A plan is in place to improve the results and there has been progress in reducing the number of outstanding items.
2. *Barriers to new entrants*: There is currently one Servicing Carrier for the FA (Nordic Insurance). The agreement has a 3-year term and a minimum 24-month termination notice period for a total of 5 years. Although this agreement mitigates the short-term risk, the FA will continue to review and reduce the barriers to entry for new Servicing Carriers. Among the top barriers identified is the cost of developing a separate IT system to handle the FA related business. The FA is exploring ways to create their own system that would be accessible by all Servicing Carriers.
3. *PPV renewals*: There is a concern that clean risks are entering the residual

¹⁰ Only the financial results of the risks transferred to the RSP and the cost of managing it by the FA are included. The financial statements do not include expenses incurred or revenue earned directly by members in respect of their participation in the RSP.

market and that the FA is retaining these risks at renewal. Although the FA includes a review of renewal policies in its compliance audits, it is unclear why these risks remain with the FA. FSRA will work with the FA to gather more data for this group of customers. FSRA will also continue to self-assess the underwriting rules it approves for the voluntary market, including its impact on entry into the PPV residual market.

VI. RISK MANAGEMENT

FSRA expects all insurers, including the FA, to have a well-defined Operational Risk Management (ORM) Framework in place.¹¹ The term “ORM Framework” refers to the policies, procedures and any related documents that outline how the insurer manages the operational risk in its auto insurance rating and underwriting activities. Managing operational risk in an insurer’s processes under an ORM Framework follows a consistent cycle and includes risk identification; risk assessment; risk prioritization and mitigation; and risk monitoring and reporting.

The FA has developed an Enterprise Risk Management (ERM) program. As part of the ERM program, the FA’s management team prepares an ERM Status Report and provides it to the audit and risk committee at each of its quarterly meetings. Once approved by the committee, the Board or Directors reviews and approves the ERM Status Report.

The ERM Status Report provides the audit and risk committee and the Board of Directors with commentary on how the FA is meeting its strategic objectives as well as information on the status of the individual risks. The ERM Status Report identifies and prioritizes the top risks to the FA and this prioritized list of risks forms the basis of risk assessment, mitigation, monitoring, and reporting. The FA meets with FSRA quarterly to review the ERM Status Report and discuss any additional operational matters related to the findings.

The FA continues to develop and refine its ERM program to be more dynamic and to align with the organization’s objectives. The most recently approved ERM Status Report includes the FA’s Risk Appetite Statement with five key pillars:

1. Market share and availability
2. People
3. Financial performance and management
4. Stakeholder satisfaction and reputation
5. Operational

The FA assesses each of the five pillars against a pre-defined tolerance level of minor, moderate, major, severe, or catastrophic. As of June 2022, the only pillar that was not within the tolerance was “Market share and availability”. The FA rated this

¹¹ [FSRA operational risk management framework in rating and underwriting of automobile insurance guidance](#)

pillar as “severe” against a tolerance level of “major”.¹² The FA defines this risk as the inability to maintain a minimal residual market share. This results in the FA insuring risks that are eligible for the voluntary market.

Non-PPV risks, specifically Motorcycle, Commercial, Interurban, Taxi, and Buses, drove the increased risk in “Market share and availability”. The Board of Directors reviewed and approved the FA’s mitigation plan for these categories.¹³ The FA will monitor and adjust the plan as required to ensure it remains effective.

VII. APPROVED RATE AND RULE CHANGES

FSRA must approve all non-fleet residual market rates that are written on Ontario Automobile Policy 1 or Ontario Policy Form 2. The FA has received approval for the following rate filings since the last report:

Category	Overall Rate Change	Approval Date	Renewal Effective Date	Notable Changes
Off-Road	+8.0%	Jan 6, 2022	May 1, 2022	All three filings included a substantial rate change along with changes to conviction surcharges and definitions to align with the industry.
Motorcycle	+6.0%	Jan 13, 2022	May 1, 2022	
Private Passenger Vehicle	+12.1%	Jan 25, 2022	Jun 1, 2022	
Commercial (Interurban)	0%	May 30, 2022	Oct 1, 2022	Introduction of a rating matrix that reflects the rates in the province or territory where the vehicle is driven, rather than where it is registered.
Public Vehicle (Taxis and Limousines)	-3.1%	Jul 20, 2022	Dec 1, 2022	Introduction of a Video Telematics Discount with a discount of 3% (monitoring only) or 8% (monitoring plus coaching).

Note: On April 13, 2022, the FA Board approved full delegation of rate filing authority to the President & CEO. Previously, all rate filings required Board approval before submission to the regulator.

The FA reviews indications for Ontario auto annually in the fall. The FA presents any potential rate and rule changes for 2023 to the Rates and Rules Advisory Committee before submission to FSRA for approval.

¹² The FA considers all jurisdictions when prioritizing risks therefore risks identified in the ERM Status Report may not be driven by the Ontario auto insurance market.

¹³ The “Market Share and Availability (Ontario Residual Market)” section of this report includes the mitigation plan for each category.

VIII. PLAN OF OPERATION AND PROCEDURE MANUAL CHANGES

Any change to the FA's Plan of Operation, procedure manuals, or guides, requires prior approval by FSRA. The FA has received approval for the following changes since the last report:

Publication	Notable Changes	Approval Date
RSP Procedures Manual	Updates to reflect Plan of Operation changes related to RSP harmonization ¹⁴ as well as changes to the Automobile Statistical Plan.	Sep 10, 2021
Ontario RSP Eligibility Manual	Updates to reflect Plan of Operation changes related to RSP harmonization.	Sep 10, 2021
RSP and FARM Claims Guide	Changes to insurer examination expenses and updates to the duties and responsibilities of the Claims Committee.	Sep 10, 2021
Accounting and Statistical Manual	Editorial changes and updates to reflect Plan of Operation changes related to RSP harmonization.	Sep 17, 2021
RSP and FARM Claims Guide	Procedural changes related to large loss reporting.	Sep 1, 2022

IX. CONCLUSION

FSRA is satisfied that the FA is conducting its affairs in accordance with the *Act* and the FA Plan of Operation, including making automobile insurance available to those who would otherwise be unable to obtain such insurance in Ontario. Although FSRA did not identify any serious operational or procedural deficiencies, there are some follow-up items for 2022-2023:

- Review PPV actuarial results and the FA's competitive market position now that rate increases are effective
- Review commercial availability with a focus on delivery vehicles
- Review interurban trucking volume changes resulting from introduction of rating matrix
- Monitor and report on results of the taxi UBI program
- Expand the inventory of reports provided by the FA to include more meaningful and timely data (e.g., data to support the high number of clean PPV risks in the residual market)
- Review the FA's progress on service standards to evaluate whether customers are well served

¹⁴ Effective January 1, 2022, RSP systems were harmonized across all jurisdictions. For Ontario, insurers no longer retain 15% of the risk (premium and claims) and any risk ceded to the RSP is transferred at 100%.

Enclosures:

1. Audited Financial Statements of Facility Association Residual Market Segment and Uninsured Automobile Funds - October 31, 2021
2. Audited Financial Statements of Facility Association Ontario Risk Sharing Pool - October 31, 2021

APPENDIX A – BACKGROUND

The FA 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 FA.

The FA's purpose is to guarantee that automobile insurance will be available to individuals who might otherwise be unable to obtain insurance in the voluntary market. This is referred to as the residual market. Insurers that are designated Servicing Carriers issue automobile insurance policies to individuals. The Servicing Carriers have contracted with the FA 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 FA also administers the Risk Sharing Pool (RSP). The RSP is an optional mechanism for individual insurers to transfer higher risk private passenger vehicles that do not qualify for the residual market. Insurers use the RSP to manage private passenger vehicles that are underpriced relative to the risk borne by the insurer. The Ontario RSP started in 1993 followed by Alberta (2004), New Brunswick (2005), Nova Scotia (2007), and Newfoundland and Labrador (2020).

An insurer's use of the RSP is invisible to the consumer as the insurer issuing the policy also manages the claims. Each insurer group may cede up to 5% of the vehicles it insures based on its own risk tolerance and ceding rules. Individual insurer's use of the RSP varies, even within the same insurer group. Since the 5% limit is on a group level, individual insurers may have ceding percentages that exceed 5%. Insurers share the loss experience of the RSP based on their Ontario private passenger vehicle market share and the insurer's usage of the RSP, each weighted at 50%. Insurers are compelled to assume losses based on the market share component of the sharing formula, even if an insurer does not utilize the RSP.

The FA's board of directors (board) is comprised of sixteen members, as follows:

- ten representatives of insurers
- three representatives of insurance brokers
- two members who are independent of the insurance industry
- the President & CEO of the FA

Appendix B provides information of the Board Membership.

APPENDIX B - BOARD OF DIRECTORS

	Name	Company / Position	Appointed to Board	Notes
1	Christopher Cooney	TD Bank Group <i>Vice President, Insurance Data and Analytics Enterprise Data and Analytics</i>	September 2016	Chair
2	Karen Dyberg	Dyberg Insurance Inc. <i>Principal</i>	February 2016	Deputy Chair IBAC - AB & Territories
3	Michel Dionne	Aviva Canada Inc. <i>Chief Risk Officer</i>	February 2019	
4	George Hardy	Co-operators General Insurance Co. <i>VP, National Underwriting, Personal Lines</i>	March 2012	Immediate Past Chair
5	Natalie Higgins	Intact Insurance Company <i>Senior Vice President, Atlantic Canada</i>	March 2022	
6	Christian Jobidon	DGIG <i>Assurance de dommages</i>	August 2021	
7	Amanda Ketelaars	Mitchell & Whale Insurance Brokers Ltd. <i>Vice President, Operations</i>	March 2021	IBAC Ontario
8	Michael Lin	Travelers Canada <i>CIO Technology</i>	March 2022	
9	Jay Kimball	GTI Broker Group <i>Vice President</i>	February 2019	IBAC Atlantic
10	Rhonda Lawson	LMC Consulting <i>Partner & Managing Director</i>	February 2018	Independent
11	Penny-Lynn McPherson	<i>Lawyer</i>	February 2019	Independent
12	Tracey Riley	The Wawanesa Mutual Insurance Company <i>SVP, Chief Digital Office</i>	March 2022	
13	Jean Roy	Zurich Canada <i>Head of Underwriting Canada</i>	August 2019	
14	Ajay Tellis	Peace Hills Insurance Bureau of Canada <i>CFO</i>	March 2022	
15	Sharon Turnbull	Farm Mutual Reinsurance <i>AVP, Integrated Analytic Services</i>	April 2020	
16	Saskia Matheson	Facility Association <i>President & Chief Executive Officer</i>	February 2019	By virtue of the office