

FACILITY ASSOCIATION

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

TO: ALL MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: Chief Executive Officer

BULLETIN NO.: F03-008

DATE: May 22, 2003

SUBJECT: March 2003 Participation Report – Residual Market

The March 2003 Participation Report for Facility Association Residual Market incorporates revisions to the provision for IBNR and Development as described below.

Based on an analysis as at 31 December 2002, **the estimated ultimate loss ratios for accident years 2002 and prior have increased in some jurisdictions as compared to the prior estimates, with corresponding increases to the expected loss ratios for accident year 2003.** These increases are offset in part by a reduction attributable to the presentation of the liabilities on a discounted basis as required by the Office of the Superintendent of Financial Institutions, and in accordance with accepted actuarial practice.

Until 2003, policy liabilities of insurers had to be recorded in their financial statements on an undiscounted basis, except the policy liabilities arising from Accident Benefits claims which were on a discounted basis. From 2003 onward, policy liabilities must be recorded on a discounted basis. The provisions for IBNR and Development in the March 2003 Participation Report are on the new statutory basis (i.e. discounted).

For all jurisdictions combined, the Dec/03 target provision for IBNR and Development is estimated to be \$382 million based on estimated earned premiums of \$680 million for calendar year 2003. The target provision includes a reduction of approximately \$8.7 million to reflect the time value of money and the addition of a provision for adverse deviations. The provision held at 28 February 2003 on the prior statutory basis (i.e. Accident Benefits discounted and other coverages undiscounted) was \$150 million. Pending further analysis of Residual Market experience, the provision for IBNR and Development is expected to increase by approximately \$23 million per month, subject to adjustments to reflect the volume of premiums earned in the calendar period. Table 1, attached, provides comparable figures by jurisdiction.

Bulletin No. F03-008
March 2003 Participation Report – Residual Market

The loss ratios underlying the premium deficiency reserve in the March 2003 Participation Report also reflect deterioration in the claims experience in some jurisdictions, as referred to above, offset in part by the estimated effect of discounting. The premium deficiency calculation assumes that member companies defer premium tax in respect of Residual Market premiums assumed from Facility Association. In jurisdictions where a positive premium deficiency reserve is reported by Facility Association, members should net the related deferred premium tax against the amount of the premium deficiency liability. In jurisdictions where a negative premium deficiency reserve is reported by Facility Association, members should add the related deferred premium tax to the amount of the asset represented by the negative premium deficiency reserve.

We suggest that a copy of this bulletin be provided to your appointed actuary.

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

Note: A copy of this bulletin has been attached to your March 2003 Accident Year Participation Report.

**Facility Association
Residual Market**

	Cal. Year 2003 Est. Earned Premium (1)	Dec/03 Target Provision For IBNR (2)	Provision For IBNR Held at Feb/03 (3)	Required Monthly Increment (4)	Est. Effect of Discounting Incl. In Target (5)
Newfoundland & Labrador	26.1	6.8	5.6	0.1	-0.3
New Brunswick	68.9	34.9	20.8	1.4	-0.5
Nova Scotia	62.9	20.0	11.9	0.8	-0.6
Prince Edward Island	10.7	3.3	2.2	0.1	0.1
Ontario	367.5	285.9	90.4	19.6	-7.9
Alberta	137.4	29.5	18.3	1.1	0.4
Yukon Territory	2.1	0.4	0.4	0.0	0.0
NWT & Nunavut	4.7	1.0	0.6	0.0	0.0
Total	680.3	382.0	150.1	23.2	-8.7

(Amounts in \$ millions)

Column (2) - The Dec/03 Target IBNR is on the new statutory basis (i.e. all coverages are discounted).

Column (3) - The IBNR held at Feb/03 is on the prior statutory basis (i.e. Accident Benefits discounted and other coverages undiscounted).