

FACILITY ASSOCIATION

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TO: ALL MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: Chief Executive Officer

BULLETIN NO.: F04-068

DATE: December 24, 2004

SUBJECT: October 2004 (Accident Year) Participation Report

Enclosed please find the October 2004 Participation Report, a one page Summary of Operations presented on a fiscal year-to-date basis, and a Summary of Operations presented on a calendar year basis.

Please note that the Summaries of Operations enclosed are based on participation report data and therefore will be different than financial statements for fiscal 2004 (when published). The major source of this difference is the adjustment in the participation reports to agent/broker commission amounts as detailed in Bulletin F04-037.

The October 2004 Participation Report for Facility Association Residual Market reflects the results of the most recent analysis of Facility Association's claims experience. As a result of this analysis, the estimated December 31st target provision for IBNR and Development has been reduced in virtually all jurisdictions. During 2004, we have observed unusually low emergence on accident years 2003 and prior, as well as lower-than-expected levels of reported losses in accident year 2004. Similar patterns have been observed in industry experience. No attempt has been made to adjust future development to allow for potential changes in development patterns arising from recently-implemented product changes, nor has any explicit adjustment been made to offset the lower-than-expected emergence in calendar year 2004. Although the estimates for accident year 2004 in particular have been tempered through consideration of the experience of prior accident years, it should be recognized that future claims experience may deviate from these estimates by material amounts.

The ultimate loss estimates underlying the IBNR analysis are used as the basis for estimating the provision for Retro Claims Expense, thus leading to a further reduction in the estimated policy liabilities. Finally, the premium liabilities also reflect a lower level of expected future costs. In most jurisdictions this has resulted in negative premium deficiency reserve, which may be treated by members as a deferrable expense. A simple way to estimate the future costs arising from a member's share of Facility Association unearned premiums is to add the premium

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deficiency reserve to the unearned premiums. If the premium deficiency reserve is a negative amount, this results in an estimate of future costs that is lower than the unearned premium.

Following is a summary of the provisions included in the October 2004 Participation Report.

All Jurisdictions			
	Provision for IBNR and Development	Provision for Retro Claims Expense	Premium Deficiency Reserve
September 2004 Report Held at Sep. 2004	687.4	100.3	21.2
October 2004 Report Held at Oct. 2004	607.4	97.5	-33.1
Projected to Nov. 2004	527.4	77.6	-31.1
Projected to Dec. 2004	447.4	57.8	-28.9

(Amounts in \$millions)

If you have any questions on these reports, please direct them to Georgette Chan, Vice President, Finance & Operations at 416-863-1750.

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

Note: A copy of this bulletin has been attached to your October 2004 Participation Report. Copies of this and other member bulletins may be found in the "Publications" area of www.facilityassociation.com.

SUMMARY OF OPERATIONS - FISCAL YEAR 2004

FACILITY ASSOCIATION RESIDUAL MARKET

Operating Results for the year ended October 31, 2004

Source: Monthly (Accident Year) Member Participation Report as at 10/2004

(thousands of dollars)

	ALBERTA	ONTARIO	N.S.	P.E.I.	N.B.	NFLD. & LABR.	YUKON	N.W.T.	NUNAVUT	TOTAL
UNDERWRITING REVENUE:										
PREMIUMS WRITTEN	\$260,586	\$555,836	\$74,824	\$11,722	\$43,094	\$30,769	3,168	6,339	919	\$987,257
CHANGE IN UNEARNED PREMIUMS	(9,935)	89,802	(659)	(121)	7,941	(109)	(195)	(325)	(95)	86,304
NET PREMIUMS EARNED	\$250,651	\$645,638	\$74,165	\$11,601	\$51,035	\$30,660	\$2,973	\$6,014	\$824	\$1,073,561
UNDERWRITING EXPENSES:										
CLAIMS INCURRED	\$137,369	\$495,843	\$32,515	\$4,756	\$18,166	\$15,841	\$1,605	\$4,367	\$153	\$710,615
CLAIMS ADJUSTING EXPENSE	26,749	128,537	9,131	1,068	4,378	3,497	184	327	83	173,954
OPERATING AND SERVICE FEES	26,542	60,228	7,596	1,183	4,322	3,081	203	342	89	103,586
COMMISSIONS	26,410	36,051	7,595	1,179	4,008	3,104	193	345	85	78,970
MOTOR VEHICLE REPORTS	2,194	4,227	2,345	207	434	386	12	10	0	9,815
COLLECTION FEES AND BAD DEBTS	36	6,766	(4)	0	0	0	0	0	0	6,798
TOTAL UNDERWRITING EXPENSES	\$219,300	\$731,652	\$59,178	\$8,393	\$31,308	\$25,909	\$2,197	\$5,391	\$410	\$1,083,738
NET UNDERWRITING GAIN (LOSS)	\$31,351	(\$86,014)	\$14,987	\$3,208	\$19,727	\$4,751	\$776	\$623	\$414	(\$10,177)
ADMINISTRATIVE EXPENSES *	\$2,760	(\$30,402)	\$285	\$93	\$2,670	\$97	\$57	\$61	\$54	(\$24,325)
PREMIUM FINANCE FEE	(\$24)	\$142	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$118
INVESTMENT INCOME	\$10,679	\$34,092	\$4,664	\$751	\$4,698	\$2,272	\$167	\$380	\$35	\$57,738
OPERATING RESULTS - Participation Report	\$39,246	(\$21,378)	\$19,366	\$3,866	\$21,755	\$6,926	\$886	\$942	\$395	\$72,004
CHANGE IN UEP DEFICIENCY - MEMO	(\$852)	(\$163,912)	(\$7,361)	(\$1)	(\$3,558)	(\$2,900)	(\$11)	\$201	\$31	(\$178,363)
NET RESULT FROM OPERATION	\$40,098	\$142,534	\$26,727	\$3,867	\$25,313	\$9,826	\$897	\$741	\$364	\$250,367
RATIOS:										
Claims Incurred & Related Exp.(Earned)	65.5%	96.7%	56.2%	50.2%	44.2%	63.1%	60.2%	78.1%	28.6%	82.4%
Underwriting & Administrative Exp.(Earned)	23.1%	11.9%	24.0%	22.9%	22.4%	21.7%	15.6%	12.6%	27.7%	16.3%
COMBINED OPERATING RATIO Oct. 2004	88.6%	108.6%	80.2%	73.1%	66.6%	84.8%	75.8%	90.7%	56.3%	98.7%
COMBINED OPERATING RATIO Oct. 2003	100.9%	195.1%	126.8%	95.1%	111.0%	131.1%	69.6%	94.9%	51.0%	156.0%

* Includes adjustments made in Nov. 2003 & June 2004 for Commissions for 2003 & prior:- Alberta \$1,908,480; Ontario Nov. 2003 \$(5,000,000) June 2004 \$(27,353,017); New Brunswick \$ 2,473,018; Newfoundland \$ (136,848).

SUMMARY OF OPERATIONS - CALENDAR YEAR 2004

FACILITY ASSOCIATION RESIDUAL MARKET

Operating Results for the 10 months ended October 31, 2004

Source: Monthly (Accident Year) Member Participation Report as at 10/2004

(thousands of dollars)

	ALBERTA	ONTARIO	N.S.	P.E.I.	N.B.	NFLD. & LABR.	YUKON	N.W.T.	NUNAVUT	TOTAL
UNDERWRITING REVENUE:										
PREMIUMS WRITTEN	\$204,805	\$415,916	\$69,849	\$10,311	\$35,342	\$26,753	\$2,696	\$5,395	\$815	\$771,882
CHANGE IN UNEARNED PREMIUMS	3,716	111,988	(7,670)	(629)	4,250	(1,161)	(196)	(363)	(122)	109,813
NET PREMIUMS EARNED	\$208,521	\$527,904	\$62,179	\$9,682	\$39,592	\$25,592	\$2,500	\$5,032	\$693	\$881,695
UNDERWRITING EXPENSES:										
CLAIMS INCURRED	\$110,314	\$323,472	\$23,632	\$2,398	\$11,744	\$11,371	\$916	\$4,091	\$130	\$488,068
CLAIMS ADJUSTING EXPENSE	21,909	89,994	5,066	805	2,108	2,065	182	276	66	122,471
OPERATING AND SERVICE FEES	20,862	44,992	7,099	1,042	3,550	2,695	180	305	79	80,804
COMMISSIONS	20,660	27,653	7,084	1,038	3,251	2,716	173	308	74	62,957
MOTOR VEHICLE REPORTS	1,818	3,141	2,033	172	360	292	11	10	0	7,837
COLLECTION FEES AND BAD DEBTS	30	6,771	(3)	0	0	0	0	0	0	6,798
TOTAL UNDERWRITING EXPENSES	\$175,593	\$496,023	\$44,911	\$5,455	\$21,013	\$19,139	\$1,462	\$4,990	\$349	\$768,935
NET UNDERWRITING GAIN (LOSS)	\$32,928	\$31,881	\$17,268	\$4,227	\$18,579	\$6,453	\$1,038	\$42	\$344	\$112,760
ADMINISTRATIVE EXPENSES	\$2,628	(\$25,820)	\$269	\$85	\$2,642	\$69	\$52	\$57	\$49	(\$19,969)
PREMIUM FINANCE FEE	(\$224)	\$113	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$111)
INVESTMENT INCOME	\$8,207	\$25,890	\$3,472	\$568	\$3,480	\$1,705	\$128	\$290	\$28	\$43,768
OPERATING RESULTS - Participation Report	\$38,283	\$83,704	\$20,471	\$4,710	\$19,417	\$8,089	\$1,114	\$275	\$323	\$176,386
CHANGE IN UEP DEFICIENCY - MEMO	\$217	(\$167,853)	(\$6,822)	(\$59)	(\$3,512)	(\$2,856)	(\$17)	\$190	\$28	(\$180,684)
NET RESULT FROM OPERATION	\$38,066	\$251,557	\$27,293	\$4,769	\$22,929	\$10,945	\$1,131	\$85	\$295	\$357,070
RATIOS:										
Claims Incurred & Related Exp.(Earned)	63.4%	78.3%	46.2%	33.1%	35.0%	52.5%	43.9%	86.8%	28.3%	69.2%
Underwriting & Administrative Exp.(Earned)	22.1%	10.7%	26.5%	24.1%	24.8%	22.6%	16.6%	13.5%	29.1%	15.7%
COMBINED OPERATING RATIO Oct. 2004	85.5%	89.0%	72.7%	57.2%	59.8%	75.1%	60.5%	100.3%	57.4%	84.9%
COMBINED OPERATING RATIO Oct. 2003	100.0%	193.6%	122.6%	85.5%	103.6%	134.7%	63.4%	65.3%	48.9%	155.1%
Underwriting & Administrative Exp.(Written)	22.5%	13.6%	23.6%	22.7%	27.7%	21.6%	15.4%	12.6%	24.8%	17.9%

Note: Amounts shown above do not reflect costs incurred directly by member companies (e.g. premium taxes, health levies, cost of capital) as a result of their compulsory participation in Facility Association.