

FACILITY ASSOCIATION

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TO: ALL MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: Chief Executive Officer

BULLETIN NO.: F05-004 REVISED

DATE: January 21, 2005

SUBJECT: Facility Association Residual Market –
Discounted Claims Liabilities
(REVISED—changes in bold type)

The claims liabilities of Facility Association Residual Market at 31 October 2004 have been valued on a discounted basis, and include a provision for adverse deviations, in accordance with accepted actuarial practice. The discounted provision for IBNR and Development was reported to members in the October 2004 Participation Report and in the Residual Market 2004 Year End Report.

The IBNR and Development for the Residual Market was also valued on an undiscounted basis. On an aggregate basis, the estimates so derived **are lower than** the estimates derived on a discounted basis by \$42.6 million, or about 3.2% of the total unpaid claims at 31 October 2004. Members will receive a Special Year End Report in which the provision for IBNR and Development is shown on an undiscounted basis.

The provision for Retro Claims Expense represents the portion of the claims liabilities pertaining to loss adjustment expenses. The estimated provision on a discounted basis is not expected to differ significantly from the estimated provision on an undiscounted basis. The undiscounted estimated was reported in the October 2004 Participation Report and in both Year End Reports.

Following is a brief description of the key assumptions used for discounting purposes.

The total outstanding losses, including a provision for IBNR and Development, were discounted at a rate of 3.55% per annum, based on recent and expected yields arising from Facility Association's investment portfolio, and consideration of the current investment portfolio. Facility Association's portfolio is not segregated by jurisdiction or

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by claim type. The discount rate used in the prior valuation was 4.25% per annum based on the then current investment portfolio.

Accepted actuarial practice requires that the discounted liabilities include an explicit provision for adverse deviations (PFAD), which consists of three elements: Claims Development PFAD, Reinsurance Recovery PFAD, and Interest Rate PFAD. The margins used to derive each of these provisions are summarized in Exhibit 1. Also shown are the margins applied in the prior valuation.

Exhibit 2 shows the resulting provision for IBNR and Development on a discounted basis, in accordance with accepted actuarial practice, as well as on an undiscounted basis. The provisions are shown as at 31 October 2004 and as projected to 31 December 2004.

A copy of this bulletin should be provided to your appointed actuary.

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

Attach.

EXHIBIT 1

FACILITY ASSOCIATION RESIDUAL MARKET 31 OCTOBER 2004

Valuation of Policy Liabilities on a Discounted Basis

Selected Margins

Reinsurance

Facility Association Residual Market has no reinsurance. Accordingly, the selected margin is 0%.

Interest Rate

An interest rate margin of 75 basis points was selected, resulting in a discount rate of 2.80% per annum net of the margin.

Claims Development

The selected margins for the claims development variable are as follows:

All Jurisdictions other than Ontario			
Coverage	Accident Years	Margin At 31/Oct/04	Prior Margin
Liability	All years	10.0%	10.0%
Accident Benefits	All years	7.5%	7.5%
Other Coverages	All Years	5.0%	5.0%

Ontario			
Coverage	Accident Years	Margin At 31/Oct/04	Prior Margin
Liability	1989 & Prior	7.5%	7.5%
	1990 – 1995	10.0%	10.0%
	1996 - 2001	12.5%	12.5%
	2002	12.5%	15.0%
	2003	15.0%	15.0%
	2004	15.0%	-
Accident Benefits	1989 & Prior	7.5%	7.5%
	1990 – 1993	10.0%	10.0%
	1994 – 2001	12.5%	12.5%
	2002	12.5%	15.0%
	2003	15.0%	15.0%
	2004	15.0%	-
Other Coverages	1979 – 2002	5.0%	5.0%
	2003	10.0%	10.0%
	2004	10.0%	-

EXHIBIT 2

**FACILITY ASSOCIATION RESIDUAL MARKET
31 OCTOBER 2004**

Estimated Provision for IBNR and Development - Effect of Discounting
(Amounts in \$000's)

HELD AT 31 OCTOBER 2004							
Jurisdiction	IBNR - Discounted Basis			IBNR - Undiscounted Basis			Effect of Discounting [7]=[3]-[6]
	Private Passenger [1]	Non Private Passenger [2]	Total [3]=[1]+[2]	Private Passenger [4]	Non Private Passenger [5]	Total [6]=[4]+[5]	
Nfld & Labrador	5,747	2,283	8,030	5,043	1,945	6,988	1,042
New Brunswick	18,092	10,709	28,801	16,849	9,813	26,662	2,139
Nova Scotia	19,173	5,672	24,845	17,730	5,268	22,998	1,847
Prince Edward Is	2,700	578	3,278	2,363	521	2,884	394
Ontario	437,880	54,652	492,532	412,266	49,889	462,155	30,377
Alberta	35,980	12,357	48,337	31,259	10,597	41,856	6,481
Yukon Territory	475	45	520	365	36	401	119
Northwest Territo	906	67	973	702	61	763	210
Nunavut	110	14	124	88	13	100	24
Total	521,063	86,377	607,440	486,665	78,143	564,807	42,633

PROJECTED TO 31 DECEMBER 2004							
Jurisdiction	IBNR - Discounted Basis			IBNR - Undiscounted Basis			Effect of Discounting [14]=[10]-[13]
	Private Passenger [8]	Non Private Passenger [9]	Total [10]=[8]+[9]	Private Passenger [11]	Non Private Passenger [12]	Total [13]=[11]+[12]	
Nfld & Labrador	4,755	1,827	6,582	4,030	1,480	5,510	1,072
New Brunswick	9,254	6,711	15,965	8,093	5,872	13,965	2,000
Nova Scotia	12,490	4,181	16,671	11,057	3,779	14,836	1,835
Prince Edward Is	2,533	459	2,992	2,194	408	2,602	390
Ontario	313,452	45,939	359,391	289,526	41,286	330,812	28,579
Alberta	34,614	9,828	44,442	29,730	8,075	37,805	6,637
Yukon Territory	495	53	548	388	46	434	114
Northwest Territo	711	41	752	521	36	557	195
Nunavut	88	8	96	67	7	74	22
Total	378,392	69,047	447,439	345,606	60,989	406,595	40,844