

FACILITY ASSOCIATION

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

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
ONTARIO RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F05 – 062

DATE: DECEMBER 21, 2005

SUBJECT: ONTARIO RISK SHARING POOL
- OCTOBER 2005 YEAR END REPORTS

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

Discounted & Undiscounted Claims Liabilities

For member reporting purposes, the claims liabilities of Facility Association Ontario Risk Sharing Pool (“Ontario RSP”) at 31 October 2005 have been valued on a discounted basis. In this context, “discounted basis” refers to an estimate reflecting the effect of the time value of money, and including explicit provisions for adverse deviations, in accordance with the standards of practice of the Canadian Institute of Actuaries (“CIA”).

The claims liabilities of the Ontario RSP were also calculated on an undiscounted basis, i.e. prior to the effect of discounting, and not including any explicit provision for adverse deviations, as detailed in Exhibit 1, and summarized below:

ONTARIO RISK SHARING POOL PROVISION FOR IBNR AND DEVELOPMENT			
As at (Month)	Discounted Basis (1)	Undiscounted Basis (2)	Effect of Discounting = (1) – (2)
Oct 2005	159,903	150,043	+9,860
Nov 2005	164,054	153,964	+10,090
Dec 2005	168,205	157,925	+10,280

(Amounts in \$000's)

The discounted provision for IBNR and Development in column (1) above was reported to members in the Ontario RSP October 2005 Operational Report, which included projections for the months of November 2005 and December 2005 as shown above.

In addition to the Operational Report, members are also being provided with two Year End Reports. The first Year End Report provides the claims liabilities on a discounted basis, consistent with the Operational Report, except as follows:

- The liabilities are shown as at December 31, 2005, based on the 2-month projections in the Operational Report, and
- The liabilities are shown by annual statement line of business (Third Party Liability, Accident Benefits, Other Auto).

The second or “Special” Year End Report is in the same format as the first, but the provision for IBNR and Development is shown on an undiscounted basis, as per column (2) in the table shown earlier. This report may be used by members to quantify the effect of discounting underlying their own shares of the Ontario RSP. It may also be used by members to incorporate alternative discounting assumptions, as discussed below, under the heading “Interest Rate Sensitivity”.

Discounting Assumptions

The emergence factors used for discounting purposes were selected by major coverage (Third Party Liability, Accident Benefits and Other Coverages) on the basis of Ontario RSP experience as at 30 September 2005. The factors are available to members upon request.

Ontario RSP results are shared among member companies on a cash basis, with amounts paid to or assessed from members each month. The investments supporting the policy liabilities are therefore held by individual member companies, who invest them, as they deem appropriate. It was assumed that the yield anticipated from the investment of these amounts by members would not differ significantly from a risk free rate of return. A portfolio yield was estimated for the Ontario RSP based on a portfolio of Government of Canada bonds, for which the dates and amounts of maturities were matched to the expected payout of the Ontario RSP’s liabilities at 31 December 2005. The yield to maturity resulting from this portfolio is estimated to be 3.15% per annum, after consideration of investment expenses.

The selected discount rate of 3.15% per annum is considered appropriate for discounting Ontario RSP claims liabilities for the purposes of reporting to member companies. For the purposes of Facility Association’s financial statements, the effect of discounting the claims liabilities will be recalculated to reflect a yield rate appropriate for the investments held by Facility Association.

Accepted actuarial practice in Canada 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 2.

Interest Rate Sensitivity

As described above, the portfolio yield rate from which the discount rate was selected is consistent with a risk-free rate of return. Based on discussions with members of Facility Association's Actuarial Committee, it is anticipated that a member's share of Ontario RSP liabilities discounted at the selected rate of 3.15% per annum generally would not differ materially from an estimate derived on the basis of the yield anticipated on the member's own investment portfolio.

To assist member's in assessing the interest rate sensitivity of the estimated claims liabilities, we have derived estimates of the claims liabilities on the basis of several alternative discount rates. As shown in Exhibit 3, a discount rate adjustment of -50 basis points changes the aggregate claims liabilities by about +\$5.1 million or +1.3%. Similarly, a discount rate adjustment of +50 basis points changes the aggregate claims liabilities by about -\$5.0 million or -1.3%. Within a narrow range of discount rates, the effect of discount rate adjustments is approximately proportional to the size of the increase or decrease in the discount rate.

As indicated above, emergence factors will be provided upon request, should any members wish to use that information in conjunction with the Special (undiscounted) Year End Report to derive a discounted estimate using alternative discount rate assumptions, perhaps beyond the range shown in Exhibit 3.

Should you require any further information, please call Norm Seeney, Vice President, Finance & Chief Financial Officer, Facility Association at (416) 644-4914.

David J. Simpson, M.B.A., FCIP
President & CEO

Attach.

Please forward a copy of this bulletin to your Chief Financial Officer.

Note: A copy of this bulletin has been attached to the October 2005 Ontario Risk Sharing Pool Year End Reports

EXHIBIT 1

FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL

Provision for IBNR and Development
(Amounts in \$000's)

31 OCTOBER 2005						
Accident Year	Case Reserves [1]	IBNR on a Discounted Basis [2]	Total Outstanding [3]=[1]+[2]	Discount Factor [4]	Outstanding Prior to Effect of Discounting [5]=[3]/[4]	IBNR Prior to Effect of Discounting [6]=[5]-[1]
1993	2,704	297	3,001	1.000	3,001	297
1994	5,927	774	6,701	1.085	6,176	249
1995	7,216	1,032	8,248	1.076	7,665	449
1996	9,912	1,353	11,265	1.067	10,558	646
1997	3,190	1,335	4,525	1.058	4,277	1,087
1998	5,062	1,598	6,660	1.045	6,373	1,311
1999	12,689	2,373	15,062	1.040	14,483	1,794
2000	11,400	3,495	14,895	1.038	14,350	2,950
2001	16,446	6,183	22,629	1.030	21,970	5,524
2002	25,104	11,180	36,284	1.024	35,434	10,330
2003	33,183	22,934	56,117	1.006	55,782	22,599
2004	43,352	44,242	87,594	1.021	85,792	42,440
2005	30,967	63,107	94,074	1.030	91,334	60,367
Total	207,152	159,903	367,055		357,195	150,043

30 NOVEMBER 2005						
Accident Year	Projected Case Reserves [1]	IBNR on a Discounted Basis [2]	Total Projected Outstanding [3]=[1]+[2]	Discount Factor [4]	Outstanding Prior to Effect of Discounting [5]=[3]/[4]	IBNR Prior to Effect of Discounting [6]=[5]-[1]
1993	2,704	297	3,001	1.000	3,001	297
1994	5,930	900	6,830	1.085	6,295	365
1995	7,416	1,163	8,579	1.076	7,973	557
1996	9,915	1,498	11,413	1.067	10,696	781
1997	3,079	1,360	4,439	1.058	4,196	1,117
1998	4,977	1,651	6,628	1.045	6,343	1,366
1999	12,612	2,490	15,102	1.040	14,521	1,909
2000	10,966	3,548	14,514	1.038	13,983	3,017
2001	16,136	6,220	22,356	1.030	21,705	5,569
2002	24,834	11,067	35,901	1.024	35,060	10,226
2003	33,039	22,594	55,633	1.006	55,301	22,262
2004	42,067	43,982	86,049	1.021	84,279	42,212
2005	35,639	67,284	102,923	1.030	99,925	64,286
Total	209,314	164,054	373,368		363,278	153,964

31 DECEMBER 2005						
Accident Year	Projected Case Reserves [1]	IBNR on a Discounted Basis [2]	Total Projected Outstanding [3]=[1]+[2]	Discount Factor [4]	Outstanding Prior to Effect of Discounting [5]=[3]/[4]	IBNR Prior to Effect of Discounting [6]=[5]-[1]
1993	2,704	297	3,001	1.000	3,001	297
1994	5,930	1,026	6,956	1.085	6,411	481
1995	7,220	1,294	8,514	1.076	7,913	693
1996	9,757	1,643	11,400	1.067	10,684	927
1997	2,859	1,385	4,244	1.058	4,011	1,152
1998	4,807	1,704	6,511	1.045	6,231	1,424
1999	12,456	2,607	15,063	1.040	14,484	2,028
2000	10,531	3,601	14,132	1.038	13,615	3,084
2001	15,721	6,257	21,978	1.030	21,338	5,617
2002	24,426	10,954	35,380	1.024	34,551	10,125
2003	32,895	22,254	55,149	1.006	54,820	21,925
2004	41,102	43,722	84,824	1.021	83,079	41,977
2005	40,656	71,461	112,117	1.030	108,851	68,195
Total	211,064	168,205	379,269		368,989	157,925

EXHIBIT 2

**FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL
31 OCTOBER 2005**

Valuation of Policy Liabilities on a Discounted Basis

Selected Margins

Reinsurance Recovery Margin

Facility Association Ontario Risk Sharing Pool has no reinsurance. Accordingly, the selected margin is 0%.

Investment Return Rate Margin

A discount rate of 3.15% per annum was selected prior to consideration of a margin. An investment return rate margin of 50 basis points was selected, resulting in a discount rate of 2.65% per annum net of the margin.

Claims Development Margins

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

CLAIMS DEVELOPMENT MARGINS		
Coverage	Accident Years	Margin
Liability	1993 to 2003	10.0%
	2004 to 2005	12.5%
Accident Benefits	1993 to 2003	10.0%
	2004 to 2005	12.5%
Other Coverages	1993 to 2003	5.0%
	2004 to 2005	7.5%

EXHIBIT 3

FACILITY ASSOCIATION
ONTARIO RISK SHARING POOL

Interest Rate Sensitivity
Based on Total Outstanding Losses Projected to 31/Dec/05
(Amounts in \$000's)

	Selected - 50 bps [a]	Selected Rate [b]	Selected +50 bps [c]	Selected +100 bps [d]	Selected +150 bps [e]
[1] Discount Rate Excluding Margin	2.65%	3.15%	3.65%	4.15%	4.65%
[2] Investment Return Rate Margin	50 bps	50 bps	50 bps	50 bps	50 bps
[3] Discount Rate Net of Margin = [1] - [2]	2.15%	2.65%	3.15%	3.65%	4.15%
[4] Outstanding at Dec/05 - Undiscounted	368,989	368,989	368,989	368,989	368,989
[5] Outstanding at Dec/05 - Discounted	384,384	379,269	374,229	369,342	364,624
[6] Estimated Effect of Discounting = [5] - [4]	15,395	10,280	5,240	353	-4,365
[7] Relative to Selected Discount Rate = [6] - [6b]	5,115	0	-5,040	-9,927	-14,645
[8] Difference in [7] as a % of [5b]	1.3%	0.0%	-1.3%	-2.6%	-3.9%