

# FACILITY ASSOCIATION

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**TO: MEMBERS OF THE FACILITY ASSOCIATION**

**ATTENTION: CHIEF EXECUTIVE OFFICER  
 ONTARIO RISK SHARING POOL PROJECT MANAGER**

**BULLETIN NO.: F06 – 047**

**DATE: DECEMBER 18, 2006**

**SUBJECT: ONTARIO RISK SHARING POOL  
 - NOVEMBER 2006 OPERATIONAL REPORTS**

*A copy of this bulletin should be provided to your Chief Financial Officer and Appointed Actuary.*

Enclosed please find the November 2006 Operational Reports.

**IBNR Included in the November 2006 Operational Reports**

The assumptions underlying the provision for IBNR and Development included in the November 2006 Operational Reports are based on an actuarial analysis at September 30, 2006. As such, the provisions for IBNR and Development for the months of November and December 2006 are unchanged from the amounts shown in last month's report. Furthermore, the estimates for the month of January have been derived on a similar basis.

ONTARIO RISK SHARING POOL PROVISION FOR IBNR AND DEVELOPMENT						
Accident Year	Selected Loss Ratios Prior to Discounting	Held at 31/Oct/06	NOV. 2006 OPERATIONAL REPORTS			Target to 31/Dec/07
			As at 30/Nov/06	As at 31/Dec/06	As at 31/Jan/07	
Prior	-	13,420	13,210	13,002	12,890	9,338
2002	119.3%	8,080	7,813	7,546	7,520	4,935
2003	94.6%	12,145	11,754	11,363	11,721	8,001
2004	81.2%	22,625	21,806	20,987	19,442	13,519
2005	85.2%	34,589	33,690	32,792	32,194	25,615
2006	95.4%	50,605	54,316	58,027	55,273	31,508
2007	95.4%	-	-	-	4,836	58,027
Total		141,464	142,589	143,717	143,876	150,943

(Amounts in \$000's)

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The selected loss ratios and the related provisions for IBNR and Development exclude all loss adjustment expenses. The provisions for IBNR and Development were derived on a discounted basis and therefore reflect the time value of money, and include an explicit provision for adverse deviations in accordance with accepted actuarial practice.

**Premium Deficiency Reserve (DPAC)**

The premium deficiency reserve is an amount which, when added to the unearned premium, is expected to make proper provision for the future costs expected to arise on the unexpired portion of in-force policies. In this context, future costs include losses and administrative expenses, where the losses are based on the selected loss ratios underlying the provisions for IBNR and Development.

ONTARIO RISK SHARING POOL PREMIUM DEFICIENCY RESERVE (DPAC)				
	Expected Future Cost Ratios (% of UPR)	NOVEMBER 2006 OPERATIONAL REPORT		
		As at 30/Nov/06	As at 31/Dec/06	As at 31/Jan/07
<b>Ontario RSP</b>	92.8%	-6,271	-6,098	-5,953

(Amounts in \$000's)

For the Ontario RSP, the premium deficiency reserve amounts are negative, and therefore represent assets for deferred policy acquisition costs (“DPAC”). These amounts represent the portion of pool-related acquisition expenses, such as premium tax and commissions, which may be deferred by member companies.

Company-specific adjustments may be made to the premium deficiency reserve (DPAC) amounts reported in Facility Association’s Operational Reports, depending on a company’s aggregate deferrable expenses and expected future costs.

**Discounting**

For member reporting purposes, the provisions for IBNR and Development shown in the November 2006 Operational Reports reflect the time value of money based on a discount rate of 3.75% per annum, and include explicit provisions for adverse deviations, in accordance with the standards of practice of the Canadian Institute of Actuaries. The premium deficiency reserve (DPAC) was also estimated based on a discount rate of 3.75% per annum.

**Measurement Uncertainty**

The establishment of provisions for the unpaid and unreported claims is based on both known facts and the interpretation of current and anticipated circumstances. It is a complex and dynamic process influenced by a large variety of factors. These factors include the experience of the Ontario Risk Sharing Pool and the experience of the voluntary market in Ontario, involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns.

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The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

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.

*Note: A copy of this bulletin has been attached to the November 2006 Ontario Risk Sharing Pool Operational Report.*