

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F2021 – 003**

**DATE: JANUARY 28, 2021**

**SUBJECT: ONTARIO RISK SHARING POOL  
– DECEMBER 2020 OPERATIONAL REPORT**

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

Please be advised that the December 2020 Ontario Risk Sharing Pool Operational Report is available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

### **Key Points**

- (a) The **2020 year-end net operating surplus was \$41 million**, resulting in a COR of 90.2% on earned premium of \$421 million;
- (b) In comparison with the final Outlook for 2020, Ontario RSP's full year net operating result was \$303 million higher (i.e. better) and the combined ratio was 75.0 points lower than expected, favourably impacted by COVID-19 pandemic on Current Accident Year and 2020 Q2 valuation update on Prior Accident Years;
- (c) The **projected 2021 year-end net operating deficit is now \$279 million**, with a COR of 159.9% on earned premium of \$466 million (our Outlook for 2021 was \$259 million of net operating deficit with a COR of 153.9% on earned premium of \$480 million); and
- (d) As per the quarterly process for the RSPs, member pool usage has been updated to reflect recent member transfers.

### **Summary of Financial Results**

The calendar year-to-date Operating Result is \$41.3 million and the incurred loss ratio to the end of twelve months is 68.4% as summarized in the following table.

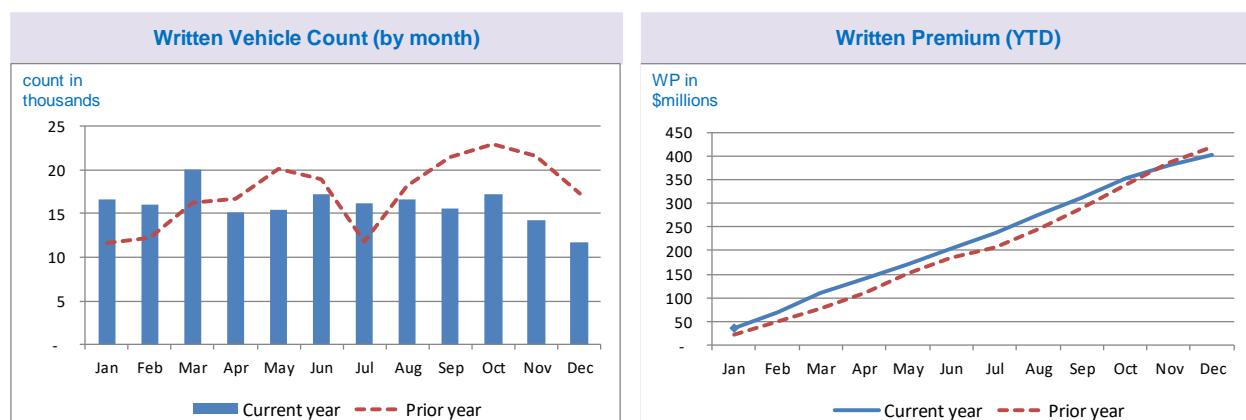
*ON RSP Summary of Financial Results (for month and year-to-date)*

Amounts in \$000s	December 2020	December 2019	Year to date Dec 2020	Year to Date Dec 2019
Premium Written	22,175	35,592	401,800	419,790
Premium Earned	32,217	35,669	420,634	359,754
Incurred Losses	29,214	45,464	287,587	388,318
Underwriting & Admin Expense	13,044	11,624	91,742	148,235
<b>Operating Result</b>	<b>(10,041)</b>	<b>(21,419)</b>	<b>41,305</b>	<b>(176,799)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(8.6%)	(4.5%)	(33.4%)	(26.4%)
- Current Accident Year	99.2%	131.9%	101.8%	134.3%
<i>Total</i>	<b>90.6%</b>	<b>127.4%</b>	<b>68.4%</b>	<b>107.9%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>40.5%</b>	<b>32.6%</b>	<b>21.8%</b>	<b>41.2%</b>
<b>Combined Operating Ratio</b>	<b>131.1%</b>	<b>160.0%</b>	<b>90.2%</b>	<b>149.1%</b>

*rounding differences may occur*

These results are discussed in some detail in the “Current Month Results” section. For additional numeric detail, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2020” attached to this bulletin.

2020 finished with written premium down \$18 million (4.3%) relative to 2019; however, earned premium was up \$61 million (16.9%) due to volume increase from earlier period, from September 2019 to March 2020. The fairly consistent written counts decrease started from April 2020 drove the below prior year level year-to-date written premium at December 2020, as shown in the following charts.



As a result of the decrease in written premium, unearned premium also decreased. Because RSP Ontario generally operates at a deficit, decreases in unearned premium result in decreases in premium deficiency, which will decrease the underwriting & administrative expense ratio relative to earned premium (as evident in the preceding financial results table).

The net operating result for 2020 had a significant improvement relative to 2019, up \$218 million (123.4%); and the 2020 combined operating ratio had dropped 58.9 percentage point relative to

2019. This improvement was primarily driven by the favorable Current Accident Year claims impact (loss ratio down 32.5 percentage points) in relation to COVID-19 pandemic, augmented by the favourable impact on the expenses (expense ratio down 19.4 percentage points) driven by the decrease in premium deficiency as mentioned above.

Compared with the Ontario RSP projections found in the Risk Sharing Pools' Final Outlook for 2020 ([F19-082](#) posted November 5, 2019), 2020 finished with written premium \$14 million (3.4%) lower than expected, and earned premium \$20 million (4.9%) higher than expected. The 2020 net operating surplus of \$41 million was \$303 million higher than expected and the combined ratio was 75 points lower than expected as shown in the following table. (We don't explicitly show in the table the differences between the current/final result for 2020 and the Outlook, but they can be derived by comparing the first column and the last column). Both Current Accident Year and Prior Accident Years performed better-than-expected (favourably impacted by the COVID-19 pandemic impact on Current Accident Year and 2020 Q2 valuation update on Prior Accident Years), and the decrease in written premium drove lower than expected unearned premium (by \$34 million), resulting in a favourable premium deficiency impact on the underwriting & administrative expense.

*ON RSP Summary of **Projected Year-end Financial Results** (current month's projection, prior month's projection, and Outlook posted last fall)*

<b>ON RSP 2020 Yr-end Projection</b> <b>Amounts in \$000s</b>	<b>Current</b> <b>(Dec 2020)</b>	Prior Mth (Nov 2020)	<b>Change</b>	Final 2020 Outlook*
Premium Written	401,800	411,370	(9,570)	416,066
Premium Earned	420,634	424,425	(3,791)	400,999
Incurred Losses	287,587	291,439	(3,852)	523,840
Underwriting & Admin Expense	91,668	96,088	(4,420)	138,522
<b>Net Result from Operations</b>	<b>41,379</b>	<b>36,898</b>	<b>4,481</b>	<b>(261,363)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(33.4%)	(33.0%)	(0.4%)	(5.9%)
- Current Accident Year	101.8%	101.7%	0.1%	136.6%
<i>Total</i>	<b>68.4%</b>	<b>68.7%</b>	<b>(0.3%)</b>	<b>130.7%</b>
<i>Underwriting &amp; Admin Expense</i>	<b>21.8%</b>	<b>22.6%</b>	<b>(0.8%)</b>	<b>34.5%</b>
<i>Combined Operating Ratio</i>	<b>90.2%</b>	<b>91.3%</b>	<b>(1.1%)</b>	<b>165.2%</b>

*rounding differences may occur*

\*as posted to FA's website Nov. 5, 2019

### Updated Projection to Year-end 2021

An Outlook had been prepared to provide Members with an estimate of Ontario RSP operating results for calendar year 2021 based on the actuarial valuation at June 30, 2020, and reflecting actual experience to date as detailed in the September 2020 Operational Report. This Outlook was posted on November 18, 2020 (please refer to Bulletin [F2020-082](#)), and projected a Net Result from Operations for 2021 of -\$259 million, and a combined operating ratio of 153.9%. Projections

for 2021 have been updated each month since, as per our usual practice (although until this month, the bulletins have focused on projections to the end of 2020 compared with the previous Outlook).

The projected calendar year Operating Result to December 2021 is now -\$279 million (a \$20 million deterioration relative to the Outlook) and the estimated combined operating ratio to December 2021 is 159.9% (a 6.0 point deterioration relative to the Outlook). The deterioration is composed of an estimated \$28 million unfavourable impact stemming from the overall increase in the combined ratio (from 153.9% to 159.9% applied to \$466 million in projected earned premium), offset by a \$8 million favourable impact associated with the \$14 million decrease in projected earned premium (at a combined ratio of 153.9%).

### Current Month Results

The Ontario Risk Sharing Pool produced a -\$10.0 million Operating Result in the month of December 2020, an \$11.4 million improvement compared with the same month last year. This improvement is composed of a \$2.1 million favorable impact associated with the \$3.5 million decrease in earned premium (at a combined ratio of 160.0%), and a \$9.3 million favourable impact stemming from the overall decrease in the combined ratio (from 160.0% to 131.1% applied to \$32.2 million in earned premium)

This month's results moved the year-to-date combined operating ratio from 86.8% at the end of eleven months to 90.2% at the end of twelve months. The 3.4 percentage point increase is composed of a 2.1 percentage increase in the Prior Accident year loss ratio, coupled with a 1.5 percentage point increase in the Expense Ratio, offset by a 0.2 percentage point decrease in Current Accident Year loss ratio.

### Variances from Projections

The following table provides a summary of key components of the operating results as compared to the estimates projected last month.

#### *ON RSP Summary of Actual vs Projected variances*

December 2020	Actual	Projection	Difference	Difference %
Written Premium	22,175	31,745	(9,570)	(30.1%)
Earned Premium	32,217	36,008	(3,791)	(10.5%)
Reported Losses				
Paid Losses	32,052	31,616	436	1.4%
Paid Expenses	1,635	3,308	(1,673)	(50.6%)
Change in Outstanding Losses	(4,564)	(1,480)	(3,084)	208.4%
<b>Total Reported Losses</b>	<b>29,123</b>	<b>33,444</b>	<b>(4,321)</b>	<b>(12.9%)</b>
Change in IBNR Provision*	91	(378)	469	
Change in Premium Deficiency (DPAC)*	6,191	7,826	(1,635)	

(Amounts in \$000's)

rounding differences may occur

Each month, management reviews the variance between reported premium activity and claims activity (actual reported claims payments and changes in case reserves) and the associated actuarial projections. The projection process involves many assumptions including claims reporting

patterns. Actual reporting patterns vary from month-to-month, sometimes considerably. Although variances from our projections are expected, management investigates variances beyond set thresholds and responds as appropriate.

For the month of December 2020, reported losses were \$4.3 million lower than projected. The Current Accident Year had an approximately \$8.0 million favourable variance in reported losses, while the Prior Accident Years had an approximately \$3.7 million unfavourable variance. Of all the Prior Accident Years, 2016 had the largest variance in reported losses at \$3.1 million unfavourable, followed by 2017 at \$2.5 million unfavourable, and 2018 at \$1.4 million favourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for some specific individual Accident Years for the month. Management investigated the claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

#### Booking IBNR

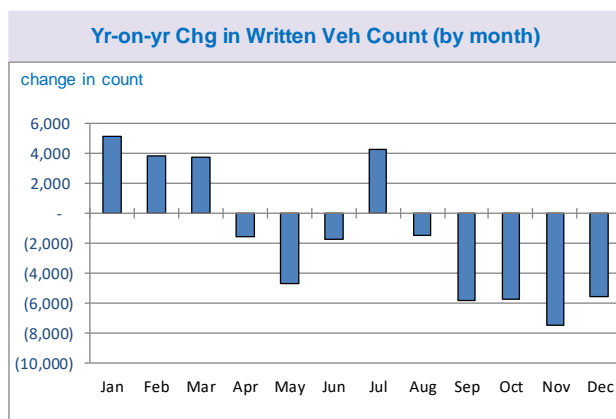
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium variances (as IBNR is based on loss ratios). This is consistent with management's investigation into reported claims variances concluding they were random and not necessarily indicative of a trend.

#### **Effect of Quarterly Valuation**

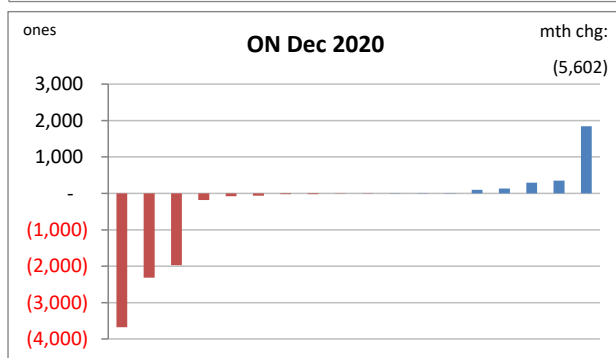
The December 2020 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2020). The actuarial valuation will be updated next as at December 31, 2020 and we anticipate that the results will be reflected in the March 2021 Operational Report.

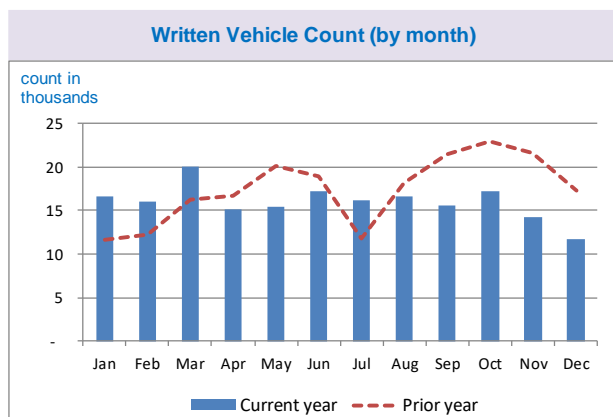
#### **Management Comments**

For the Ontario RSP, the transfer limit is 5.0% of exposures written in the prior year at the member company group level (that is, within a group under common management or ownership, a single member can transfer the entire transfer limit for the group). System programming prevents member groups from exceeding their transfer limits during a calendar year. However, member groups can transfer their entire limit for a given year at any time throughout the year including, for example, the last day of that year. Our current projection has the 2021 vehicle count up 19.1% from 2020, being 2.9% of the 2019 industry private passenger vehicle count (including farmers). There is the potential for the transferred vehicle count to change dramatically and quickly if member companies choose to take full advantage of their transfer limits.

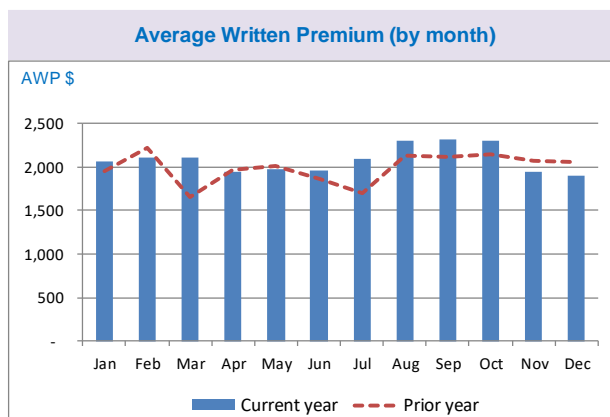


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with December reporting a decrease of 5,602 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 3,058 vehicles, indicating a variance of 2,544 vehicles from the actual transfers. This variance was mainly due to one member company groups transferring a lower number of vehicles to the RSP in December than projected.

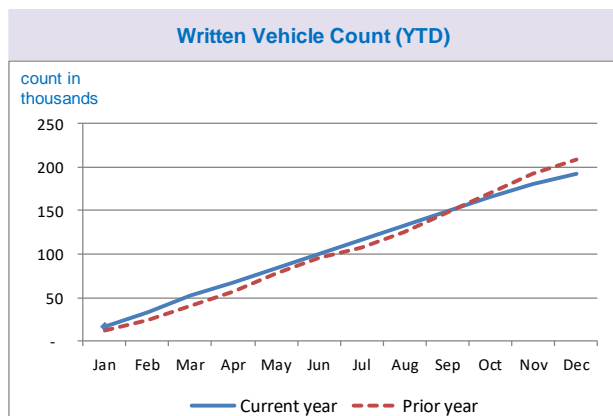




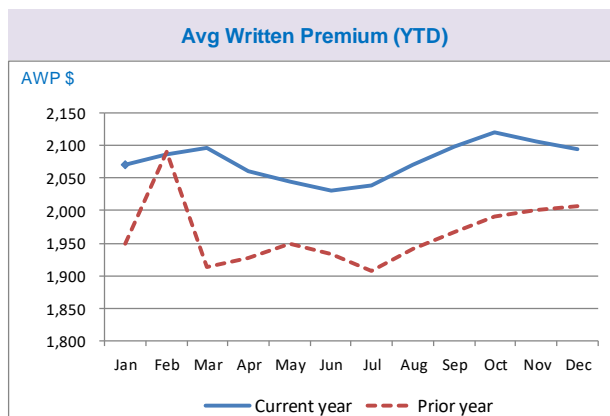
	Dec-20	Dec-19	Amt Chg	% Chg
W. Veh curr mth	11,647	17,249	(5,602)	-32.5%



	Dec-20	Dec-19	Amt Chg	% Chg
AWP curr mth	1,904	2,063	(159)	-7.7%

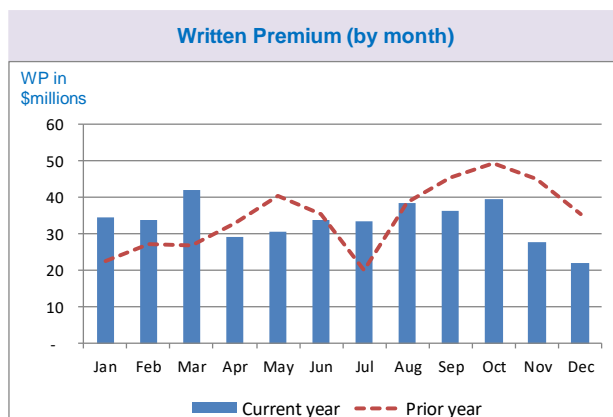


	Dec-20	Dec-19	Amt Chg	% Chg
W. Vehicles YTD	191,969	209,278	(17,309)	-8.3%

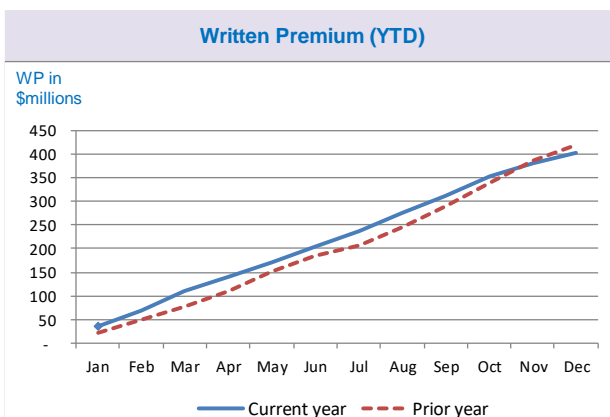


	Dec-20	Dec-19	Amt Chg	% Chg
Avg W. Prem YTD	2,093	2,006	87	4.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 37.7% for the month compared with the 10.8% decrease we projected last month, and was down 4.3% year-to-date (see the following charts).



	Dec-20	Dec-19	Amt Chg	% Chg
WP (\$000s) curr mth	22,175	35,592	(13,418)	-37.7%



	Dec-20	Dec-19	Amt Chg	% Chg
WP (\$000s) YTD	401,799	419,789	(17,990)	-4.3%

Should you require any further information, please call Aidan Chen, AVP Data & Analytics at (416) 863-1750 x 4804.

Saskia Matheson  
President & CEO

**Related links:**

[Ontario RSP December 2020 Operational Report – Actuarial Highlights](#)

\*For additional details on Actual vs Projected variances, IBNR, and valuation (if applicable)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2020**

Risk Sharing Pool - Ontario

Operating Results for the 12 Months Ended December 31, 2020 (Discounted basis)

 Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2020 YTD	CY2021 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Net Premiums Written	\$34,572	\$33,748	\$42,191	\$29,308	\$30,705	\$33,656	\$33,615	\$38,314	\$36,222	\$39,615	\$27,679	\$22,175	\$401,800	\$511,641	\$419,790
Decrease (Increase) in Unearned Premiums	1,929	923	(3,646)	\$8,114	\$6,486	(\$5)	\$1,030	(\$2,314)	(\$3,269)	(\$4,767)	\$4,311	\$10,042	\$18,834	(\$45,690)	(60,036)
<b>Net Premiums Earned</b>	<b>\$36,501</b>	<b>\$34,671</b>	<b>\$38,545</b>	<b>\$37,422</b>	<b>\$37,191</b>	<b>\$33,651</b>	<b>\$34,645</b>	<b>\$36,000</b>	<b>\$32,953</b>	<b>\$34,848</b>	<b>\$31,990</b>	<b>\$32,217</b>	<b>\$420,634</b>	<b>\$465,951</b>	<b>\$359,754</b>
<b>Claims Incurred:</b>															
Prior Accident Years:															
Undiscounted	\$102	(\$383)	(\$45,015)	(\$101)	(\$18,176)	(\$219)	(\$755)	(\$45,434)	(\$750)	(\$8,263)	(\$935)	(\$276)	(\$120,205)	\$0	(\$78,927)
Effect of Discounting	(2,874)	(2,208)	(7,525)	(1,594)	19,237	(2,230)	(1,911)	(12,399)	(2,134)	(2,327)	(1,900)	(2,485)	(20,350)	(30,774)	(16,000)
Discounted	(\$2,772)	(\$2,591)	(\$52,540)	(\$1,695)	\$1,061	(\$2,449)	(\$2,666)	(\$57,833)	(\$2,884)	(\$10,590)	(\$2,835)	(\$2,761)	(\$140,555)	(\$30,774)	(\$94,927)
Current Accident Year:															
Undiscounted	\$45,573	\$43,809	\$42,285	\$44,818	\$30,138	\$37,803	\$39,430	(\$6,828)	\$32,086	\$15,716	\$29,682	\$29,349	\$383,861	\$528,855	\$444,417
Effect of Discounting	5,911	4,511	2,979	4,538	8,154	4,625	4,835	(601)	3,394	254	3,055	2,626	44,281	70,824	38,828
Discounted	\$51,484	\$48,320	\$45,264	\$49,356	\$38,292	\$42,428	\$44,265	(\$7,429)	\$35,480	\$15,970	\$32,737	\$31,975	\$428,142	\$599,679	\$483,245
<b>Claims Incurred</b>	<b>\$48,712</b>	<b>\$45,729</b>	<b>(\$7,276)</b>	<b>\$47,661</b>	<b>\$39,353</b>	<b>\$39,979</b>	<b>\$41,599</b>	<b>(\$65,262)</b>	<b>\$32,596</b>	<b>\$5,380</b>	<b>\$29,902</b>	<b>\$29,214</b>	<b>\$287,587</b>	<b>\$568,905</b>	<b>\$388,318</b>
<b>Underwriting Expenses:</b>															
Expense Allowance	\$10,247	\$10,010	\$12,548	\$8,855	\$9,120	\$9,753	\$9,572	\$10,889	\$10,371	\$11,512	\$8,186	\$6,639	\$117,702	\$150,933	\$123,090
Change in UPDR/DPAC:															
Undiscounted	(447)	(108)	(12,094)	(1,349)	(15,938)	1,450	1,406	(23,196)	4,926	2,350	6,876	6,638	(29,486)	15,002	11,983
Effect of Discounting	(247)	(106)	(2,349)	(927)	3,374	176	47	(713)	1,057	1,668	339	(447)	1,872	8,010	11,538
Discounted	(694)	(214)	(14,443)	(2,276)	(12,564)	1,626	1,453	(23,909)	5,983	4,018	7,215	6,191	(27,614)	23,012	23,521
<b>Underwriting Expenses</b>	<b>\$9,553</b>	<b>\$9,796</b>	<b>(\$1,895)</b>	<b>\$6,579</b>	<b>(\$3,444)</b>	<b>\$11,379</b>	<b>\$11,025</b>	<b>(\$13,020)</b>	<b>\$16,354</b>	<b>\$15,530</b>	<b>\$15,401</b>	<b>\$12,830</b>	<b>\$90,088</b>	<b>\$173,945</b>	<b>\$146,611</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$21,764)</b>	<b>(\$20,854)</b>	<b>\$47,716</b>	<b>(\$16,818)</b>	<b>\$1,282</b>	<b>(\$17,707)</b>	<b>(\$17,979)</b>	<b>\$114,282</b>	<b>(\$15,997)</b>	<b>\$13,938</b>	<b>(\$13,313)</b>	<b>(\$9,827)</b>	<b>\$42,959</b>	<b>(\$276,899)</b>	<b>(\$175,175)</b>
<b>Administrative Expenses</b>	<b>\$111</b>	<b>\$166</b>	<b>\$112</b>	<b>\$127</b>	<b>\$113</b>	<b>\$123</b>	<b>\$134</b>	<b>\$113</b>	<b>\$128</b>	<b>\$214</b>	<b>\$99</b>	<b>\$214</b>	<b>\$1,654</b>	<b>\$2,150</b>	<b>\$1,624</b>
<b>Operating Result</b>	<b>(\$21,875)</b>	<b>(\$21,020)</b>	<b>\$47,604</b>	<b>(\$16,945)</b>	<b>\$1,169</b>	<b>(\$17,830)</b>	<b>(\$18,113)</b>	<b>\$114,169</b>	<b>(\$16,125)</b>	<b>\$13,724</b>	<b>(\$13,412)</b>	<b>(\$10,041)</b>	<b>\$41,305</b>	<b>(\$279,049)</b>	<b>(\$176,799)</b>
<b>Ratios:</b>															
<b>Claims &amp; Expenses Incurred (Earned)</b>															
Prior Accident Years	-7.6%	-7.5%	-136.3%	-4.5%	2.9%	-7.3%	-7.7%	-160.6%	-8.8%	-30.4%	-8.9%	-8.6%	-33.4%	-6.6%	-26.4%
Current Accident Year	141.0%	139.4%	117.4%	131.9%	103.0%	126.1%	127.8%	-20.6%	107.7%	45.8%	102.3%	99.2%	101.8%	128.7%	134.3%
All Accident Years Combined	133.4%	131.9%	-18.9%	127.4%	105.9%	118.8%	120.1%	-181.2%	98.9%	15.4%	93.4%	90.6%	68.4%	122.1%	107.9%
Underwriting & Administrative Expenses (Earned)	26.5%	28.7%	-4.6%	17.9%	-9.0%	34.2%	32.2%	-35.9%	50.0%	45.2%	48.5%	40.5%	21.8%	37.8%	41.2%
<b>Combined Operating Ratio</b>	<b>159.9%</b>	<b>160.6%</b>	<b>-23.5%</b>	<b>145.3%</b>	<b>96.9%</b>	<b>153.0%</b>	<b>152.3%</b>	<b>-217.1%</b>	<b>148.9%</b>	<b>60.6%</b>	<b>141.9%</b>	<b>131.1%</b>	<b>90.2%</b>	<b>159.9%</b>	<b>149.1%</b>

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facility Association premium dollars invested directly by members.

Rounding difference may apply