

## FARM IFRS 17 Compliant Member Statements Glossary

This glossary of terms provides report field definitions to support the mapping of existing Facility Association Residual Market reporting fields (based on historical IFRS 4 compliant Member Statements) to the revised IFRS 17 compliant Member Statement format.

### Operating Statement Items:

**Insurance Revenue:** Premium earned during the reporting period

**Insurance Service Expenses:** Sum of the following items:

**Claims Incurred:** Sum of the following items:

**Paid Claims:** Indemnity payments made during the reporting period, for claims occurring in the current accident year.

**Paid and Payable Claims Expenses:** Expenses paid and in transit related to claims service fees, retroactive claims service fee adjustments, and allowed claims expense during the reporting period, for claims occurring in the current accident year.

**Change in PV FCF:** Change in the present value of future cash flows during the reporting period (change in the discounted unpaid claims liabilities, excluding risk adjustment and excluding impact of change in discount rates), for claims occurring in the current accident year.

**Change in Risk Adjustment:** Change in the present value of the risk adjustment during the reporting period (excluding impact of change in discount rates), for claims occurring in the current accident year.

**Administration Expense:** Expenses incurred during the reporting period by Facility Association for administration of the risk sharing pool (such as staff, overhead etc.)

**Amortization of IACFs:** Amortized acquisition costs (i.e. written commissions and driver record abstracts net of deferred (unamortized) acquisition costs)

**Changes in the Loss Component:** Sum of the following items:

**Losses on Onerous Contracts:** Change in the loss component during the reporting period arising from Initial recognition and subsequent re-estimation of

the loss component (due to changes in premium or loss ratio projections, for example). Excludes the impact of change in discount rates.

**Reversal of losses on onerous contracts:** Change in the loss component during the reporting period arising from the portion of the opening LRC earned during the period. Excludes the impact of change in discount rates.

**Adjustments to liabilities for incurred claims:** Sum of the following items:

**Paid Claims:** Indemnity payments made during the reporting period, for claims occurring in prior accident years.

**Paid and Payable Claims Expenses:** Expenses paid and in transit related to claims service fees, retroactive claims service fee adjustments, and allowed claims expense during the reporting period, for claims occurring in prior accident years.

**Change in PV FCF:** Change in the present value of future cash flows during the reporting period (change in the discounted unpaid claims liabilities, excluding risk adjustment and excluding impact of change in discount rates), for claims occurring in prior accident years.

**Change in Risk Adjustment:** Change in the present value of the risk adjustment during the reporting period (excluding impact of change in discount rates), for claims occurring in prior accident years.

**Insurance Service Result (subtotal):** Insurance revenue minus insurance service expenses

**Net Finance Income/Expense from Insurance:** Represents the change in the present value of future cash flows from unpaid claims due to change in discount rate during the period. More specifically, this includes:

- The release of the effect of discounting due to the passage of time (also known as discount unwinding)
- The effect due to changes in discounting assumptions. This change is only reflected in implementation months (March, May, August, and October), when the yield curve is updated as part of the quarterly valuation

Finance income/expense is generated from PV FCF, risk adjustment and loss component.

**Operating Result (total):** Sum of Insurance Service Result and Net finance income/expense from insurance.

## Cash Flow Movements Items:

**Premium Received:** Estimates of premium received during the reporting period – actual received premium data is unavailable at this time. Most jurisdictions in FARM are required to pay premiums upfront (i.e. annually) – in these cases, the premium received is equivalent to premium written. However, private passenger vehicles in Ontario and Newfoundland have an option to pay premium on a monthly basis. Assumptions relating to this payment plan are used to derive premium received in these jurisdictions.

**Insurance Acquisition Cash Flows Paid:** Paid commissions and driver record abstracts.

**Claims Paid:** Indemnity paid during the reporting period.

**Insurance Service Expenses Paid:** Sum of the following:

**Paid Claims Expenses:** Expenses relating to claims service fees, retroactive claim service fee adjustments, and legal fees paid during the reporting period.

**Admin Expenses:** Expenses paid during the reporting period to Facility Association and its servicing carriers for administration of the residual market (such as staff, overhead, operating and service fees etc.)

## Summary of Distributions:

**Total distributed to member:** Sum of the following for the reporting period:

**Operating Results Distributed:** Profit to be credited/distributed to each member or loss to be charged/collected from each member in accordance with the member's appropriate participation ratio.

**Available Funds Distributed:** Funds distributed in excess of operating results distributed to each member in accordance with the member's appropriate participation ratio in accordance with accounting procedures approved by the Board.

**Funds held by FA/(Members):** This is the excess (or shortfall) of the operating result over the total distributed amounts to members, for the given reporting period (either current month, current fiscal year to date, or all years to date). Please note, a shortfall in this amount represents funds distributed by FA to members which are supporting FA's insurance contract liabilities and may be called back in the future as required.

## Balance Sheet Items:

**Liability for Remaining Coverage:** Sum of the following:

**Liability for Remaining Coverage (excl. LC):** This is also referred to as the “Premium Allocation Approach (PAA) LRC”. The components include:

**Unearned Premium Received:** This represents the life to date received premium less the life to date earned premium within the contract boundary.

**Unamortized Insurance Acquisition Cash Flows (IACFs):** This represents the deferred acquisition costs (including commissions and driver record abstracts) within the contract boundary.

**Loss Component:** The difference between the present value of the future cash flows relating to remaining coverage and the PAA LRC. In other words, the expected shortfall in revenue vs. present value of claims cost in the remaining coverage, within the contract boundary.

**Liability for Incurred Claims:** Sum of the following:

**PV FCF:** Present value of future cash flows. This is the discounted present value of unpaid claims, expected retroactive claims service fee adjustments and legal/professional claim adjustment expenses.

**Risk Adjustment:** An adjustment to the present value of future cash flows to reflect the compensation the entity requires for bearing the uncertainty associated with non-financial risks.

**Current Payable:** Includes fees already incurred which are payable for insurance acquisition costs (e.g. commissions and driver record abstracts), fees payable to servicing carriers, and other fees/liabilities payable such as operating fees, uncashed cheques etc.

## Memo Items:

**Discounted Future Losses with Risk Adj:** Present value of future claim payments and legal & professional fee claim expenses within the contract boundary, from both LIC and LRC, including the risk adjustment but not including any future cash flows related to the settlement of FARM retro claims expenses associated with prior accident years (which are included in the LIC).

**Undiscounted Loss Component:** Nominal estimate of the loss component (i.e. the expected shortfall in revenue vs. present value of claims cost in the remaining coverage, within the contract boundary).

**Undiscounted Future Losses:** Nominal value of future claim payments and legal & professional fee claim expenses within the contract boundary, from both LIC and LRC, but not including the risk adjustment and not including any future cash flows related to the settlement of FARM retro claims expenses associated with prior accident years (which are included in the LIC).

**Undiscounted IBNR:** Nominal estimate of incurred but not reported claims.

**Undiscounted Retro Claims Expense Provision:** Servicing Carriers for the FARM are compensated for the cost of claims management and adjudication in two different ways:

- **Claims Service Fee:** This fee is paid on a sliding scale based on the written premium and earned loss ratio of the accident year for each jurisdiction, and is retroactively adjusted 1, 3, 5, and 7 years after the beginning of the accident year. A provision is set aside for the retrospective adjustments which can be an asset depending on the loss ratio of the accident year.
- **Allowed Claims Expenses:** Certain legal and professional fees incurred by the servicing carrier are directly reimbursable by FA. An actuarial reserve is set aside for these expenses

The collective provision for the claims service fee retrospective adjustments and the allowed claims expenses is referred to as the “Retro Claims Expense Provision”.

**Net Premium Receivables:** Difference between written premium and received premium.

**Undiscounted Outstanding Losses:** Nominal value of case reserves.

**Undiscounted Risk Adjustment on Unpaid Claims:** Nominal value of the risk adjustment on nominal unpaid claims. Calculated by applying the risk adjustment factor (ratio of risk adjustment to PV FCF) to the undiscounted unpaid claims.

