



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F16 – 005**

**DATE: JANUARY 28, 2016**

**SUBJECT: ONTARIO RISK SHARING POOL  
– DECEMBER 2015 OPERATIONAL REPORT**

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

Please be advised that the December 2015 Ontario Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

### **New This Month**

#### *Member Share Update*

An update of the "Member's Usage" of the Ontario Risk Sharing Pool ("RSP") was performed since the release of the November 2015 Operational Report, bringing members' sharing current to the fourth quarter 2015. The usage update is reflected in the December 2015 Operational Report.

### **Summary of Financial Results**

The calendar year-to-date Net Result from Operations is \$47.5 million and the incurred loss ratio to the end of 12 months is 58.6%, as summarized in the table at the top of the next page.

	December 2015	December 2014	Year to date December 2015	Year to Date December 2014
Written Premiums	\$16,171	\$20,064	\$239,007	\$278,587
Earned Premiums	\$20,502	\$23,556	\$262,568	\$270,458
Incurred Losses	\$24,097	\$29,463	\$153,748	\$258,517
Underwriting Expenses and Others	\$4,176	\$5,228	\$61,274	\$77,907
<b>Net Result from Operations</b>	<b>(\$7,771)</b>	<b>(\$11,135)</b>	<b>\$47,546</b>	<b>(\$65,966)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Years</b>	<b>(9.9%)</b>	<b>(9.0%)</b>	<b>(71.9%)</b>	<b>(40.5%)</b>
- Current Accident Year	127.4%	134.1%	130.5%	136.1%
	117.5%	125.1%	58.6%	95.6%
<b>Underwriting &amp; Admin Exp. %</b>	20.4%	22.2%	23.3%	28.8%
<b>Combined Operating Ratio</b>	<b>137.9%</b>	<b>147.3%</b>	<b>81.9%</b>	<b>124.4%</b>

(Amounts in \$000's)

Rounding differences may occur.

These results are discussed in some detail in the “Current Month Results” section below. For additional numeric detail, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2015” attached to this bulletin.

#### Updated Projection to Year-end 2016

An Outlook had been prepared to provide Members with an estimate of Ontario RSP operating results for calendar year 2016 based on the actuarial valuation at June 30, 2015, and reflecting actual experience to date as detailed in the August 2015 Operational Report. This Outlook was posted on September 30, 2015 (please refer to Bulletin [F15-072](#)), and projected a Net Result from Operations for 2016 of -\$186.7 million, and a combined operating ratio of 169.8%.

This month, the projected calendar year Net Result from Operations to December 2016 is now -\$161.5 million (a \$25.2 million improvement relative to the Outlook) and the estimated combined operating ratio to December 2016 is 162.0% (a 7.8 point improvement relative to the Outlook). The improvement is due to a \$6.4 million decrease in projected written premium, reducing the projected earned premium (by \$7.2 million to \$260.6 million) and increasing the ending unearned premium balance (by \$0.8 million). The reduction in earned premium (at a combined ratio of 162.0%) accounts for approximately \$4.5 million of the \$25.2 million improvement, with another \$24.8 million due to the reduction in the combined operating ratio (7.8% reduction applied to \$260.6 million in earned premium), driven by changes implemented with the September 30, 2015 actuarial valuation. The remaining \$0.4 million difference is due to other assumption updates.

#### Current Month Results

The Ontario Risk Sharing Pool produced a -\$7.8 million Net Result from Operations in the month of December 2015, a \$3.4 million improvement compared with the same month last year. This improvement is composed of an approximately \$1.5 million favourable impact associated

with the \$3.1 million decrease in earned premium (at a combined ratio of 147.3%), with the remaining \$1.9 million improvement stemming from the overall decrease in the combined ratio (from 147.3% to 137.9% applied to \$20.5 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 77.2% at the end of 11 months to 81.9% at the end of 12 months. The 4.7 percentage point increase is composed of a 5.3 percentage point increase in the Prior Accident Year loss ratio, offset by a 0.3 percentage point decrease in the Current Accident Year loss ratio and a 0.3 percentage point decrease in the expense ratio.

### Variances from Projections

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

<b>December 2015</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference%</b>
Written Premiums	\$16,171	\$17,631	(\$1,460)	(8.3%)
Earned Premiums	\$20,502	\$20,662	(\$160)	(0.8%)
<b>Reported Losses</b>				
Paid Losses	\$24,829	\$24,484	\$345	1.4%
Loss Expenses Paid	\$2,140	\$3,082	(\$942)	(30.6%)
Increase (decrease) in Outstanding Losses	(\$7,951)	(\$2,633)	(\$5,318)	(202.0%)
<b>Total Reported Losses</b>	<b>\$19,018</b>	<b>\$24,933</b>	<b>(\$5,915)</b>	<b>(23.7%)</b>
Increase (decrease) in IBNR *	\$5,079	(\$936)	\$6,015	
Increase (decrease) in Premium Deficiency *	(\$724)	(\$250)	(\$474)	

(Amounts in \$000's)

Rounding differences may occur.

\* Detailed information is included in [Ontario RSP December 2015 Operational Report - Actuarial Highlights](#).

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 above set thresholds and responds as appropriate. For this month, the variances were within the threshold given the monthly reporting volatility.

For the month of December 2015, reported losses were \$5.9 million lower than projected. Management investigated reported claims activity and is satisfied that the variance is appropriately accounted for in our current booking process. The Current Accident Year had an approximately \$1.2 million favourable variance in reported losses, and the Prior Accident Years had a \$4.7 million favourable variance. Of the Prior Accident Years, 2012 had the largest variance in reported losses at \$3.6 million favourable, followed by Accident Year 2013 at

\$2.8 million unfavourable, Accident Year 2014 at \$2.7 million favourable and Accident Year 2011 at \$1.1 million favourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

Booking IBNR

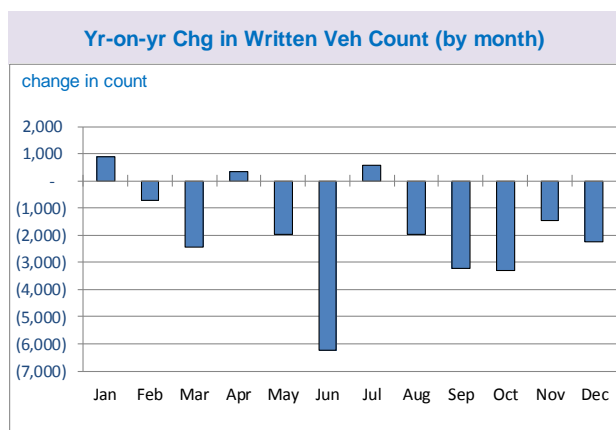
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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. IBNR is discussed in more detail in the [Ontario RSP December 2015 Operational Report – Actuarial Highlights](#).

**Effect of Quarterly Valuation**

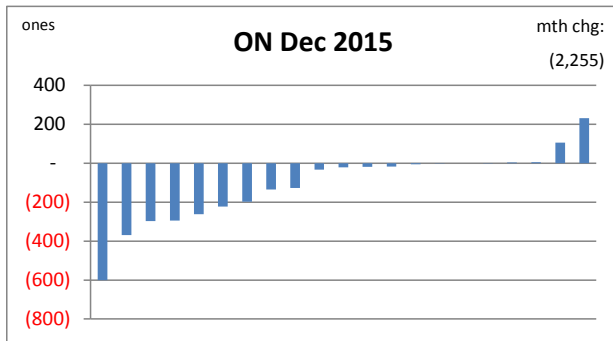
The December 2015 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2015). The actuarial valuation will be updated next as at December 31, 2015 and we anticipate that the results will be reflected in the March 2016 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 2016 vehicle count up 15.6% from 2015, being 2.2% of the 2014 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.

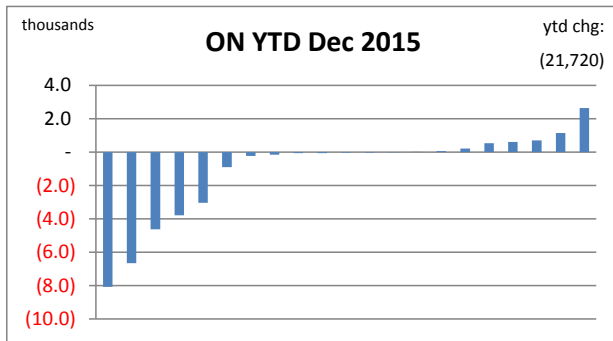


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with December reporting a decrease of 2,255 written vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 1,622 written vehicles, indicating a variance of 633 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in December than projected.



The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Fifteen member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 5 transferred more<sup>1</sup> and 1 remained the same. Of the 15 member company groups transferring

fewer vehicles, 1 member company group accounted for 23% of the total transfer decrease for the “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 67% of the total transfer increases for the “grower” members.

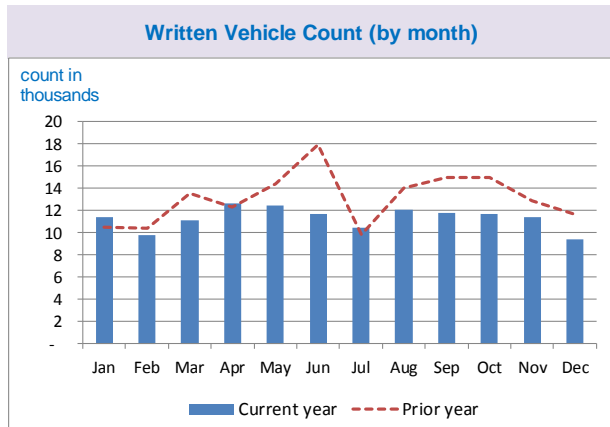


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. 2015 ended with more members decreasing their transfers (13) than those increasing (8). Further, while only

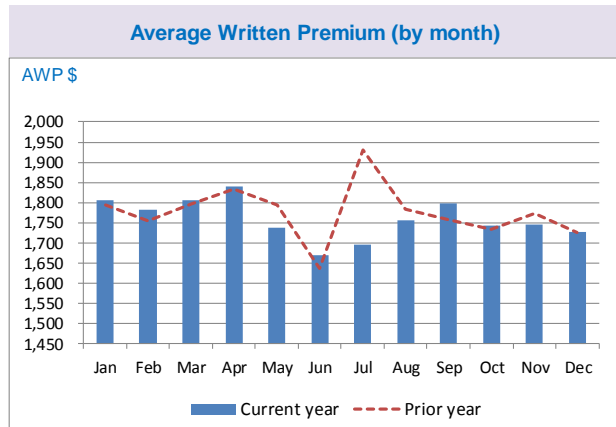
1 member increased their transfers by more than 2,000 vehicles, 5 members decreased their transfers by more than 2,000 vehicles (by comparison, we project that the FARM will write fewer than 2,000 non-fleet private passenger vehicles in Ontario in total during 2015, a decrease of approximately 500 vehicles, or 20%). Of the 21 members using the ON RSP during 2015, 12 transferred more than 2,000 vehicles (and on average transferring approximately 11,000).

December’s year-on-year change in vehicle count transfers to the pool represents a 19.4% decrease from December 2014, and counts were down 13.8% year-to-date. Average written premium had no change in December compared with the same month in 2014, but down 0.5% year-to-date (see charts at the top of the next page).

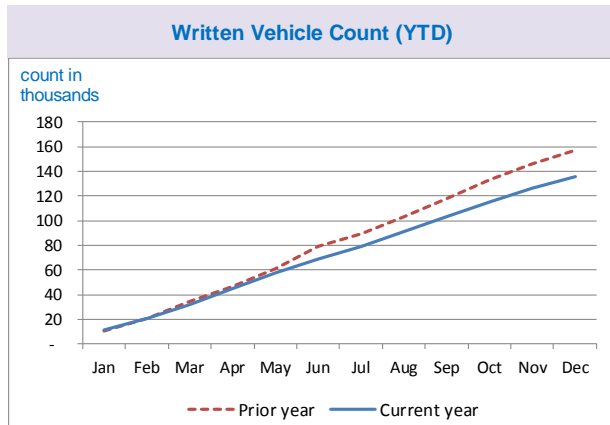
<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2014 or 2015. Groups that have not transferred vehicles in these two periods are ignored.



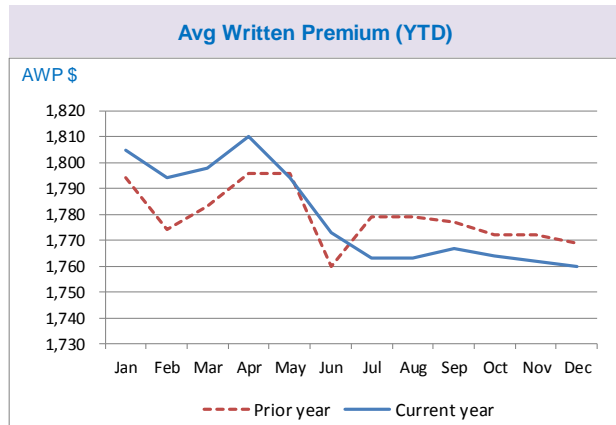
	Dec-15	Dec-14	Amt Chg	% Chg
W. Veh curr mth	9,364	11,619	(2,255)	-19.4%



	Dec-15	Dec-14	Amt Chg	% Chg
AWP curr mth	1,727	1,727	-	0.0%



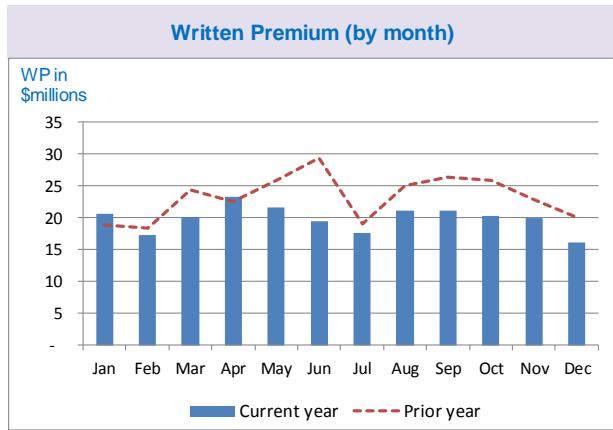
	Dec-15	Dec-14	Amt Chg	% Chg
W. Vehicles YTD	135,802	157,521	(21,720)	-13.8%



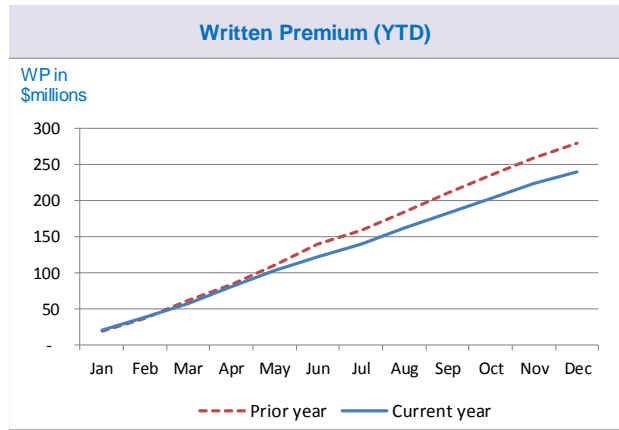
	Dec-15	Dec-14	Amt Chg	% Chg
Avg W. Prem YTD	1,760	1,769	(9)	-0.5%

Total transfers for the full year at 135,802 were 25,374 (15.7%) lower than the 161,176 transfers projected for the 2015 Outlook (see Bulletin [F14-068](#)), reflecting individual member variations in transfers relative to the projections provided and used in the Outlook projection process. The total transfers for the year can be compared with the fewer than 2,000 non-fleet private passenger vehicles we project will be written in the FARM for Ontario in 2015.

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 19.4% for the month compared with the 12.1% decrease we projected last month, and was down 14.2% year-to-date (see charts at the top of the next page).



	Dec-15	Dec-14	Amt Chg	% Chg
WP (\$000s) curr mth	16,171	20,064	(3,893)	-19.4%



	Dec-15	Dec-14	Amt Chg	% Chg
WP (\$000s) YTD	239,007	278,587	(39,580)	-14.2%

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

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

**Related links:**

[Ontario RSP December 2015 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2015**

Risk Sharing Pool - Ontario

Operating Results for 12 Months ended December 31, 2015 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2015 YTD	CY2016 12 MONTHS Updated Projection	CY2014 12 MONTHS Actual
Net Premiums Written	\$20,570	\$17,369	\$20,095	\$23,238	\$21,679	\$19,556	\$17,705	\$21,178	\$21,202	\$20,295	\$19,949	\$16,171	\$239,007	\$282,487	\$278,587
Decrease (Increase) in Unearned Premiums	\$3,004	\$3,978	\$3,229	(\$746)	\$1,234	\$2,387	\$4,517	\$694	(\$118)	\$884	\$167	\$4,331	\$23,561	(\$21,900)	(\$8,129)
<b>Net Premiums Earned</b>	<b>\$23,574</b>	<b>\$21,347</b>	<b>\$23,324</b>	<b>\$22,492</b>	<b>\$22,913</b>	<b>\$21,943</b>	<b>\$22,222</b>	<b>\$21,872</b>	<b>\$21,084</b>	<b>\$21,179</b>	<b>\$20,116</b>	<b>\$20,502</b>	<b>\$262,568</b>	<b>\$260,587</b>	<b>\$270,458</b>
<b>Claims Incurred:</b>															
Prior Accident Years:															
Undiscounted	(\$342)	(\$192)	(\$38,696)	(\$237)	(\$44,336)	(\$70)	(\$27)	(\$41,205)	(\$14)	(\$21,062)	(\$16)	(\$7)	(\$146,204)	\$0	(\$90,990)
Effect of Discounting	(2,940)	(1,683)	6,805	(2,317)	815	(2,369)	(2,357)	(35,366)	(1,348)	2,140	(2,050)	(2,024)	(42,694)	(22,431)	(18,609)
Discounted	(\$3,282)	(\$1,875)	(\$31,891)	(\$2,554)	(\$43,521)	(\$2,439)	(\$2,384)	(\$76,571)	(\$1,362)	(\$18,922)	(\$2,066)	(\$2,031)	(\$188,898)	(\$22,431)	(\$109,599)
Current Accident Year:															
Undiscounted	\$29,390	\$26,489	\$28,873	\$27,816	\$30,953	\$27,610	\$27,919	\$22,069	\$25,843	\$13,263	\$23,513	\$23,953	\$307,691	\$314,267	\$333,585
Effect of Discounting	3,738	2,870	3,680	3,184	5,082	3,317	3,406	253	2,711	2,252	2,287	2,175	34,955	36,291	34,531
Discounted	\$33,128	\$29,359	\$32,553	\$31,000	\$36,035	\$30,927	\$31,325	\$22,322	\$28,554	\$15,515	\$25,800	\$26,128	\$342,646	\$350,558	\$368,116
<b>Claims Incurred</b>	<b>\$29,846</b>	<b>\$27,484</b>	<b>\$662</b>	<b>\$28,446</b>	<b>(\$7,486)</b>	<b>\$28,488</b>	<b>\$28,941</b>	<b>(\$54,249)</b>	<b>\$27,192</b>	<b>(\$3,407)</b>	<b>\$23,734</b>	<b>\$24,097</b>	<b>\$153,748</b>	<b>\$328,127</b>	<b>\$258,517</b>
<b>Underwriting Expenses:</b>															
Expense Allowance	\$6,121	\$5,122	\$5,966	\$6,898	\$6,346	\$5,740	\$5,176	\$6,246	\$6,252	\$5,979	\$5,897	\$4,782	\$70,525	\$84,749	\$86,972
Change in UPDR/DPAC:															
Undiscounted	(681)	(869)	(452)	546	2,795	(286)	(805)	(3,226)	619	(6,799)	640	(149)	(8,667)	4,563	(9,838)
Effect of Discounting	(425)	(559)	901	158	2,277	(362)	(722)	(2,175)	92	(564)	61	(575)	(1,893)	3,391	(456)
Discounted	(1,106)	(1,428)	449	704	5,072	(648)	(1,527)	(5,401)	711	(7,363)	701	(724)	(10,560)	7,954	(\$10,294)
<b>Underwriting Expenses</b>	<b>\$5,015</b>	<b>\$3,694</b>	<b>\$6,415</b>	<b>\$7,602</b>	<b>\$11,418</b>	<b>\$5,092</b>	<b>\$3,649</b>	<b>\$845</b>	<b>\$6,963</b>	<b>(\$1,384)</b>	<b>\$6,598</b>	<b>\$4,058</b>	<b>\$59,965</b>	<b>\$92,703</b>	<b>\$76,678</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$11,287)</b>	<b>(\$9,831)</b>	<b>\$16,247</b>	<b>(\$13,556)</b>	<b>\$18,981</b>	<b>(\$11,637)</b>	<b>(\$10,368)</b>	<b>\$75,276</b>	<b>(\$13,071)</b>	<b>\$25,970</b>	<b>(\$10,216)</b>	<b>(\$7,653)</b>	<b>\$48,855</b>	<b>(\$160,243)</b>	<b>(\$64,737)</b>
<b>Administrative Expenses</b>	<b>\$92</b>	<b>\$90</b>	<b>\$94</b>	<b>\$151</b>	<b>\$111</b>	<b>\$124</b>	<b>\$115</b>	<b>\$119</b>	<b>\$88</b>	<b>\$113</b>	<b>\$94</b>	<b>\$118</b>	<b>\$1,309</b>	<b>\$1,300</b>	<b>\$1,229</b>
<b>Net Result from Operations</b>	<b>(\$11,379)</b>	<b>(\$9,921)</b>	<b>\$16,153</b>	<b>(\$13,707)</b>	<b>\$18,870</b>	<b>(\$11,761)</b>	<b>(\$10,483)</b>	<b>\$75,157</b>	<b>(\$13,159)</b>	<b>\$25,857</b>	<b>(\$10,310)</b>	<b>(\$7,771)</b>	<b>\$47,546</b>	<b>(\$161,543)</b>	<b>(\$65,966)</b>
<b>Ratios:</b>															
<b>Claims &amp; Expenses Incurred (Earned)</b>															
Prior Accident Years	-13.9%	-8.8%	-136.7%	-11.4%	-189.9%	-11.1%	-10.7%	-350.1%	-6.5%	-89.3%	-10.3%	-9.9%	-71.9%	-8.6%	-40.5%
Current Accident Year	140.5%	137.5%	139.6%	137.8%	157.3%	140.9%	141.0%	102.1%	135.4%	73.3%	128.3%	127.4%	130.5%	134.5%	136.1%
All Accident Years Combined	126.6%	128.7%	2.9%	126.4%	-32.6%	129.8%	130.3%	-248.0%	128.9%	-16.0%	118.0%	117.5%	58.6%	125.9%	95.6%
Underwriting & Administrative Expenses (Earned)	21.7%	17.7%	27.9%	34.5%	50.3%	23.8%	16.9%	4.4%	33.4%	-6.0%	33.3%	20.4%	23.3%	36.1%	28.8%
<b>Combined Operating Ratio</b>	<b>148.3%</b>	<b>146.4%</b>	<b>30.8%</b>	<b>160.9%</b>	<b>17.7%</b>	<b>153.6%</b>	<b>147.2%</b>	<b>-243.6%</b>	<b>162.3%</b>	<b>-22.0%</b>	<b>151.3%</b>	<b>137.9%</b>	<b>81.9%</b>	<b>162.0%</b>	<b>124.4%</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