



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F16 – 010

DATE: FEBRUARY 26, 2016

SUBJECT: FARM – DECEMBER 2015 PARTICIPATION REPORT

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

Please be advised that the December 2015 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

New This Month

The Participation Report for December 2015 reflects the effect of a redistribution of Member Funds. This balance is shown on page 21: Members Combined Accident Year Share Results for all Jurisdictions. *Note: All balances due to/from Facility Association are to be settled on or before March 24, 2016.* Please see “Redistribution of Member Funds” below.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is \$25.6 million and the incurred loss ratio to the end of 12 months is 64.9%, as summarized in the table at the top of the next page.

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Amounts in \$000s	Dec 2015	Dec 2014	Year to date Dec 2015	Year to Date Dec 2014
Written Premiums	10,142	11,690	189,847	202,233
Earned Premiums	15,892	17,064	195,932	206,922
Incurred Losses	10,968	11,014	127,219	155,514
Underwriting Expenses and Others	2,608	3,115	43,099	45,792
Net Result from Operations	2,316	2,935	25,614	5,616
Ratios:				
Loss ratio % - Prior Accident Year	(4.8%)	(7.8%)	(10.0%)	2.3%
- Current Accident Years	73.8%	72.3%	74.9%	72.8%
<i>Total</i>	69.0%	64.5%	64.9%	75.1%
Underwriting & Admin Exp. %	16.5%	18.3%	22.1%	22.3%
Combined Operating Ratio	85.5%	82.8%	87.0%	97.4%

Rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2015 - All jurisdictions by month”. A comparable summary by jurisdiction is included in Exhibit 2. Detailed exhibits by jurisdiction are included in a separate folder on our website called [“Summary of Operations”](#).

Updated Projection to Year-end 2016

An Outlook has been prepared to provide members with an estimate of Facility Association Residual Market 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 Participation Report. This Outlook was posted on December 10, 2015 (please refer to Bulletin [F15-079](#)), and projected a Net Result from Operations for 2016 of \$12.4 million, and a combined operating ratio of 93.7%.

This month, the estimated calendar year Net Result from Operations to December 2016 is \$17.9 million (a \$5.5 million improvement relative to the Outlook) and the estimated combined operating ratio to December 2016 is 90.6% (a 3.1 point improvement relative to the Outlook). This improvement included a \$0.5 million unfavourable impact due to the \$7.4 million decrease in projected earned premium (at a combined ratio of 93.7%), more than offset by \$5.8 million favourable impact from the decrease in the combined ratio (from 93.7% to 90.6%, applied to this month’s \$187.2 million projected earned premium). The remaining \$0.2 million difference is due to other assumption updates.

Current month results

The Net Result from Operations in the month of December 2015 is \$2.3 million, down approximately \$0.6 million from the same month last year. This deterioration included a \$0.2 million unfavourable impact due to the \$1.2 million decrease in earned premium (at a

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combined ratio of 82.8%), with the remaining \$0.4 million unfavourable impact from the increase in the combined ratio (from 82.8% last year to 85.5% this year, applied to this month's \$15.9 million earned premium).

This month's results moved the year-to-date combined operating ratio from 87.2% at the end of 11 months to 87.0% at the end of 12 months. The 0.2 percentage point decrease is composed of a 0.1 percentage point decrease in the Current Accident Year loss ratio, coupled with a 0.5 percentage point decrease in the expense ratio, offset by a 0.4 percentage point increase in the Prior Accident Year loss ratio.

Variations from Projections

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

December 2015	Actual	Projection	Difference	Difference %
Written Premiums	10,142	10,651	(509)	(4.8%)
Earned Premiums	15,892	15,374	518	3.4%
Reported Losses				
Paid Losses	16,001	14,421	1,580	11.0%
Change in Outstanding Losses	1,969	(2,533)	4,502	177.7%
Total Reported Losses	17,970	11,888	6,082	51.2%
Change in IBNR *	(6,975)	(607)	(6,368)	
Change in Premium Deficiency (DPAC) *	247	204	43	
Change in Retro Claims Expense *	(27)	(707)	680	

(Amounts in \$000's)

Rounding differences may occur

* Detailed information is included in [FARM December 2015 Participation Report - Actuarial Highlights](#).

For the month of December 2015, reported indemnity amounts were \$6.6 million higher than projected (*allowed claims expenses are included in table above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows \$6.1 million*). The Current Accident Year had an \$2.5 million unfavourable variance in reported indemnity, and the Prior Accident Years had an unfavourable variance of \$4.1 million. Of the Prior Accident Years, 2012 had the largest variance in reported losses at \$3.1 million unfavourable. No other single Prior Accident Year had a reported indemnity 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 for the most recent accident years back to 1994 (for accident years 1993 and earlier, IBNR is held at \$0). This

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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 2015 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at September 30, 2015 for all jurisdictions and business segments. The actuarial valuation will be updated next as at December 31, 2015 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the March 2016 Participation Report.

Redistribution of Member Funds

Facility Association monitors the level of reserve-related funds attributable to each jurisdiction, business segment, and accident year. Throughout the year, adjustments are made to the fund levels to reflect claims payment activity and policy liability changes since the previous adjustment. Generally, these adjustments will result in payments being made to members in respect of the most recent accident periods, while payments from Members would be required for the older accident periods. Because Members' share ratios vary by jurisdiction, business segment and accident year, each such review is likely to result in payments to and from Members, even when the aggregate adjustment is \$0. This process is referred to below as "redistribution" of previously transferred amounts.

The redistribution of previously transferred funds is in effect transferring funds to Members in respect of policies written in the last 12 to 24 months, and transferring funds to Facility Association in respect of claims and expenses paid on policies written in prior periods. The aggregate effect of this redistribution is \$0 for Facility Association in total.

The amount due to or from Facility Association for your company as a result of this adjustment will depend on your company's share of the Residual Market in each jurisdiction, as well as differences in share ratios by business segment and accident year, as per the Participation Report attached.

The Participation Report for December 2015 reflects the effect of the redistribution of Member Funds. This balance is shown on page 21: Members Combined Accident Year Share Results for all Jurisdictions. *Note: All balances due to/from Facility Association are to be settled on or before March 24, 2016.*

The amounts to be settled with Facility Association at this time are the net amounts of the adjustment referred to above, an aggregate summary of which is shown in the table at the top of the next page.

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Amounts (\$000s) to be Transferred to / (from) Members

Summary by Jurisdiction	Private Passenger	Non Private Passenger	Total
Ontario	(6)	1,851	1,846
Alberta	(389)	2,146	1,757
Newfoundland & Labrador	(2,800)	(988)	(3,787)
New Brunswick	513	(363)	150
Nova Scotia	(439)	(354)	(792)
Prince Edward Island	211	101	311
Yukon	(68)	(259)	(326)
Northwest Territories	375	191	566
Nunavut	328	(52)	276
TOTAL	(2,274)	2,274	-

Management Comments

As shown in the table immediately below, the private passenger annualized vehicle counts decreased by 2.1% overall in December 2015 relative to December 2014. On a year-to-date basis, exposure counts are down by 6.6%, decreasing in all jurisdictions except New Brunswick, Nova Scotia and Prince Edward Island.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of December 2015				Calendar YTD as of December 2015			
	2015	2014	Chg	% Chg	2015	2014	Chg	% Chg
Ontario	118	160	(42)	(26.3%)	1,937	2,410	(473)	(19.6%)
Alberta	170	265	(95)	(35.8%)	3,111	4,250	(1,139)	(26.8%)
Newfoundland & Labrador	681	590	91	15.4%	10,693	11,559	(866)	(7.5%)
New Brunswick	524	423	101	23.9%	7,575	7,151	424	5.9%
Nova Scotia	177	245	(68)	(27.8%)	3,596	3,503	93	2.7%
Prince Edward Island	106	72	34	47.2%	1,644	1,536	108	7.0%
Yukon	19	16	3	18.8%	447	501	(54)	(10.8%)
Northwest Territories	149	196	(47)	(24.0%)	2,602	2,857	(255)	(8.9%)
Nunavut	3	22	(19)	(86.4%)	628	755	(127)	(16.8%)
All Jurisdictions	1,947	1,989	(42)	(2.1%)	32,233	34,522	(2,289)	(6.6%)

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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 link: [FARM December 2015 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2015
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 12 months ended December 31, 2015 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 12/2015
(thousands of dollars)

	January	February	March	April	May	June	July	August	September	October	November	December	CY2015 YTD	CY2016 12 Months Updated Projections	CY2014 12 Months Actual
UNDERWRITING REVENUE:															
PREMIUMS WRITTEN	\$15,841	\$11,370	\$14,071	\$17,124	\$22,159	\$21,730	\$17,720	16,041	16,085	15,916	11,648	10,142	\$189,847	\$186,309	\$202,233
CHANGE IN UNEARNED PREMIUMS	1,189	3,748	2,463	-1,318	-5,619	-5,397	-766	916	176	861	4,082	5,750	6,085	896	4,689
NET PREMIUMS EARNED	\$17,030	\$15,118	\$16,534	\$15,806	\$16,540	\$16,333	\$16,954	\$16,957	\$16,261	\$16,777	\$15,730	\$15,892	\$195,932	\$187,205	\$206,922
CLAIMS INCURRED															
PRIOR ACCIDENT YEARS															
UNDISCOUNTED	255	-879	-443	-128	-5,451	-54	-12	-6,871	-4	-1,783	4	2	-15,364	0	5,139
EFFECT OF DISCOUNTING	-278	-566	2,127	-815	2,379	-692	-471	-5,473	-299	1,042	-356	-769	-4,171	-6,758	-351
DISCOUNTED	-23	-1,445	1,684	-943	-3,072	-746	-483	-12,344	-303	-741	-352	-767	-19,535	-6,758	4,788
CURRENT ACCIDENT YEAR															
UNDISCOUNTED	11,581	10,468	10,958	10,775	12,720	11,458	11,837	13,597	11,597	11,278	11,166	11,272	138,707	127,055	143,901
EFFECT OF DISCOUNTING	717	581	654	451	1,255	644	765	475	570	910	562	463	8,047	7,456	6,825
DISCOUNTED	12,298	11,049	11,612	11,226	13,975	12,102	12,602	14,072	12,167	12,188	11,728	11,735	146,754	134,511	150,726
CLAIMS INCURRED	\$12,275	\$9,604	\$13,296	\$10,283	\$10,903	\$11,356	\$12,119	\$1,728	\$11,864	\$11,447	\$11,376	\$10,968	\$127,219	\$127,753	\$155,514
UNDERWRITING EXPENSES															
OPERATING & SERVICE FEES	1,669	1,170	1,434	1,749	2,611	2,257	1,838	1,639	1,640	1,610	1,181	1,040	19,838	18,982	20,936
AGENTS COMMISSIONS	1,256	622	1,193	1,425	1,827	1,783	1,522	1,374	1,360	1,390	1,001	905	15,658	15,625	17,070
DRIVER RECORD ABSTRACTS	173	267	302	340	237	346	373	304	221	258	203	163	3,187	2,576	3,169
BAD DEBTS	-19	-7	-8	-2	-7	-11	-6	-9	-8	-306	-4	-192	-579	0	-236
PREMIUM DEFICIENCY/(DPAC)															
UNDISCOUNTED	100	259	-18	-109	259	-326	-76	-168	40	-137	163	305	292	149	263
EFFECT OF DISCOUNTING	-24	-17	-234	-4	116	38	7	159	-40	-156	-17	-58	-230	22	-71
DISCOUNTED	76	242	-252	-113	375	-288	-69	-9	0	-293	146	247	62	171	192
UNDERWRITING EXPENSES	\$3,155	\$2,294	\$2,669	\$3,399	\$5,043	\$4,087	\$3,658	\$3,299	\$3,213	\$2,659	\$2,527	\$2,163	\$38,166	\$37,354	\$41,131
NET UNDERWRITING GAIN (LOSS)	\$1,600	\$3,220	\$569	\$2,124	\$594	\$890	\$1,177	\$11,930	\$1,184	\$2,671	\$1,827	\$2,761	\$30,547	\$22,098	\$10,277
ADMINISTRATIVE EXPENSES	406	372	496	418	412	532	373	407	410	347	453	459	5,085	4,464	4,923
PREMIUM FINANCE FEE	-9	-9	-9	-9	-9	-9	-9	-9	-9	-9	-9	-9	-108	0	-110
INVESTMENT INCOME	15	15	24	20	22	22	24	24	24	22	25	23	260	284	372
OPERATING RESULTS	\$1,200	\$2,854	\$88	\$1,717	\$195	\$371	\$819	\$11,538	\$789	\$2,337	\$1,390	\$2,316	\$25,614	\$17,918	\$5,616
RATIOS:															
Claims & Adj Expenses Incurred (Earned)															
Prior Accident Year	-0.1%	-9.6%	10.2%	-6.0%	-18.6%	-4.6%	-2.8%	-72.8%	-1.9%	-4.4%	-2.2%	-4.8%	-10.0%	-3.6%	2.3%
Current Accident Years	72.2%	73.1%	70.2%	71.0%	84.5%	74.1%	74.3%	83.0%	74.8%	72.6%	74.6%	73.8%	74.9%	71.9%	72.8%
All Accident Years Combined	72.1%	63.5%	80.4%	65.0%	65.9%	69.5%	71.5%	10.2%	72.9%	68.2%	72.4%	69.0%	64.9%	68.3%	75.1%
Underwriting & Admin Exp.(Earned)	20.9%	17.6%	19.1%	24.1%	33.0%	28.3%	23.8%	21.9%	22.3%	17.9%	18.9%	16.5%	22.1%	22.3%	22.3%
COMBINED OPERATING RATIO	93.0%	81.1%	99.5%	89.1%	98.9%	97.8%	95.3%	32.1%	95.2%	86.1%	91.3%	85.5%	87.0%	90.6%	97.4%

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2015
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 12 months ended December 31, 2015 (Discounted Basis)

Source: Monthly (Accident Year) Member Participation Report as at 12/2015

(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2016 12 Months Updated Projections	CY2014 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$67,507	\$43,845	\$16,529	\$4,693	\$20,653	\$28,011	\$2,101	\$4,965	\$1,543	\$189,847	\$186,309	\$202,233
CHANGE IN UNEARNED PREMIUMS	4,246	1,688	-69	-151	-250	370	57	140	54	6,085	896	4,689
NET PREMIUMS EARNED	\$71,753	\$45,533	\$16,460	\$4,542	\$20,403	\$28,381	\$2,158	\$5,105	\$1,597	\$195,932	\$187,205	\$206,922
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	1,557	-15,357	-2,046	-969	694	2,420	-70	-1,350	-243	-15,364	0	5,139
EFFECT OF DISCOUNTING	-694	-2,626	-335	-15	39	-345	-42	-86	-67	-4,171	-6,758	-351
DISCOUNTED	863	-17,983	-2,381	-984	733	2,075	-112	-1,436	-310	-19,535	-6,758	4,788
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	47,535	30,115	11,393	2,995	14,018	26,985	2,616	2,334	716	138,707	127,055	143,901
EFFECT OF DISCOUNTING	2,503	2,357	564	166	697	1,411	187	115	47	8,047	7,456	6,825
DISCOUNTED	50,038	32,472	11,957	3,161	14,715	28,396	2,803	2,449	763	146,754	134,511	150,726
CLAIMS INCURRED	\$50,901	\$14,489	\$9,576	\$2,177	\$15,448	\$30,471	\$2,691	\$1,013	\$453	\$127,219	\$127,753	\$155,514
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	6,786	4,808	1,663	471	2,076	3,147	218	523	146	19,838	18,982	20,936
AGENTS COMMISSIONS	5,861	2,396	1,461	447	1,986	2,660	196	506	145	15,658	15,625	17,070
DRIVER RECORD ABSTRACTS	899	208	726	208	542	480	25	79	20	3,187	2,576	3,169
BAD DEBTS	-44	-492	-16	0	5	-31	-6	160	-155	-579	0	-236
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	382	169	-3	-14	-35	-232	5	14	6	292	149	263
EFFECT OF DISCOUNTING	0	0	0	0	0	-230	0	0	0	-230	22	-71
DISCOUNTED	382	169	-3	-14	-35	-462	5	14	6	62	171	192
UNDERWRITING EXPENSES	\$13,884	\$7,089	\$3,831	\$1,112	\$4,574	\$5,794	\$438	\$1,282	\$162	\$38,166	\$37,354	\$41,131
NET UNDERWRITING GAIN (LOSS)	\$6,968	\$23,955	\$3,053	\$1,253	\$381	(\$7,884)	(\$971)	\$2,810	\$982	\$30,547	\$22,098	\$10,277
ADMINISTRATIVE EXPENSES	1,659	1,104	451	163	556	796	99	176	81	5,085	4,464	4,923
PREMIUM FINANCE FEE	-37	-37	-10	0	-11	-13	0	0	0	-108	0	-110
INVESTMENT INCOME	69	101	22	2	24	38	0	4	0	260	284	372
OPERATING RESULTS	\$5,341	\$22,915	\$2,614	\$1,092	(\$162)	(\$8,655)	(\$1,070)	\$2,638	\$901	\$25,614	\$17,918	\$5,616
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	1.2%	-39.5%	-14.5%	-21.7%	3.6%	7.3%	-5.2%	-28.1%	-19.4%	-10.0%	-3.6%	2.3%
Current Accident Years	69.7%	71.3%	72.6%	69.6%	72.1%	100.1%	129.9%	48.0%	47.8%	74.9%	71.9%	72.8%
All Accident Years Combined	70.9%	31.8%	58.1%	47.9%	75.7%	107.4%	124.7%	19.9%	28.4%	64.9%	68.3%	75.1%
Underwriting & Admin Exp.(Earned)	21.7%	18.0%	26.0%	28.1%	25.1%	23.2%	24.9%	28.6%	15.2%	22.1%	22.3%	22.3%
COMBINED OPERATING RATIO	92.6%	49.8%	84.1%	76.0%	100.8%	130.6%	149.6%	48.5%	43.6%	87.0%	90.6%	97.4%

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