

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 011

DATE: FEBRUARY 26, 2016

**SUBJECT: ONTARIO RISK SHARING POOL
– JANUARY 2016 OPERATIONAL REPORT**

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

Please be advised that the January 2016 Ontario Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$8.2 million and the incurred loss ratio to the end of 1 month is 122.2%, as summarized in the table below.

Amounts in \$000s	January 2016	January 2015	Year to date Jan 2016	Year to Date Jan 2015
Written Premiums	16,543	20,570	16,543	20,570
Earned Premiums	20,266	23,574	20,266	23,574
Incurred Losses	24,764	29,846	24,764	29,846
Underwriting Expenses and Others	3,691	5,107	3,691	5,107
Net Result from Operations	(8,189)	(11,379)	(8,189)	(11,379)
Ratios:				
Loss ratio % - Prior Accident Year	(16.7%)	(13.9%)	(16.7%)	(13.9%)
- Current Accident Years	138.9%	140.5%	138.9%	140.5%
<i>Total</i>	122.2%	126.6%	122.2%	126.6%
Underwriting & Admin Exp. %	18.2%	21.7%	18.2%	21.7%
Combined Operating Ratio	140.4%	148.3%	140.4%	148.3%

Rounding differences may apply.

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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 2016” attached to this bulletin.

Updated Projection to Year-end 2016

This month, the updated calendar year Net Result from Operations to December 2016 is now -\$166.0 million and the estimated combined operating ratio to December 2016 is 164.5%. The updated projection to the end of the year has deteriorated by \$4.5 million from the projection provided last month (-\$161.5 million and 162.0%). This deterioration is composed of a \$2.0 million favourable impact associated with the \$3.2 million decrease in projected earned premium (at a combined ratio of 162.0%), with the remaining approximately \$6.5 million deterioration stemming from the overall increase in the combined ratio (from 162.0% to 164.5% applied to \$257.4 million in projected earned premium).

Current Month Results

The Ontario Risk Sharing Pool produced a -\$8.2 million Net Result from Operations in the month of January 2016, a \$3.2 million improvement compared with the same month last year. This improvement is composed of a \$1.6 million favourable impact associated with the \$3.3 million decrease in earned premium (at a combined ratio of 148.3%), with the remaining \$1.6 million improvement stemming from the overall decrease in the combined ratio (from 148.3% to 140.4% applied to \$20.3 million in earned premium).

Variances from Projections

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

January 2016	Actual	Projection	Difference	Difference %
Written Premiums	16,543	20,019	(3,476)	(17.4%)
Earned Premiums	20,266	20,898	(632)	(3.0%)
Reported Losses				
Paid Losses	23,226	18,956	4,270	22.5%
Loss Expenses Paid	2,042	2,286	(244)	(10.7%)
Change in Outstanding Losses	(2,515)	(1,961)	(554)	(28.3%)
Total Reported Losses	22,753	19,281	3,472	18.0%
Change in IBNR *	2,011	6,753	(4,742)	
Change in Premium Deficiency (DPAC) *	(1,315)	(317)	(998)	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Ontario RSP January 2016 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 January 2016, reported losses were \$3.5 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 a \$0.6 million favourable variance in reported losses, while the Prior Accident Years had a \$4.1 million unfavourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$4.0 million unfavourable, followed by Accident Year 2010 at \$1.1 million favourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

Booking IBNR

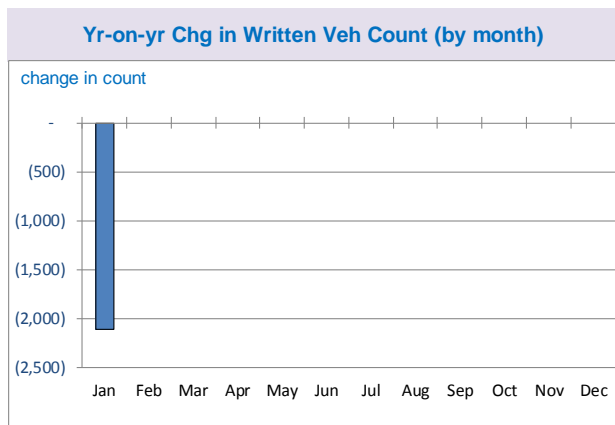
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 January 2016 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

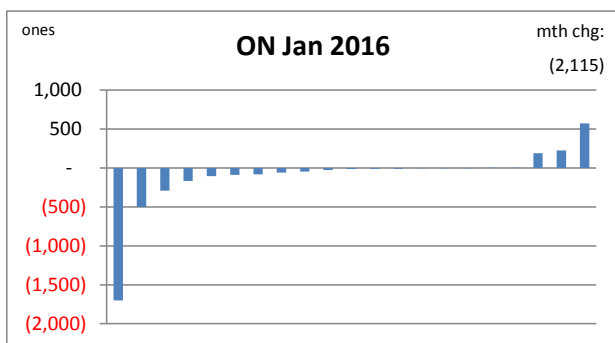
The January 2016 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2015). The actuarial valuation will be updated next as at December 31, 2015 and we anticipate that the results will be reflected in the 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 down 3.1% from 2015, being 1.9% 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 January reporting a decrease of 2,115 written vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 354 written vehicles, indicating a variance of 1,761 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in January than projected.

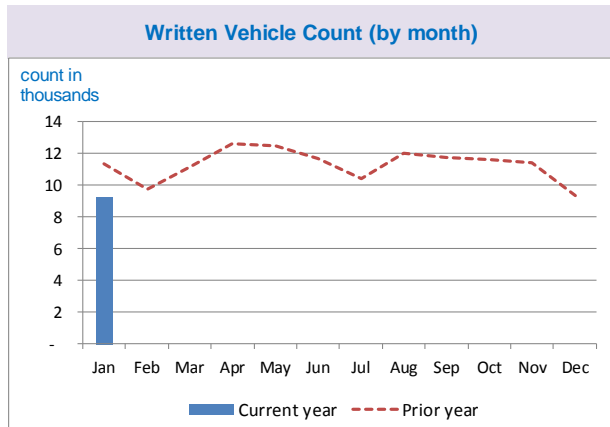


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Sixteen member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 5 transferred more¹. Of the 16 member company groups transferring fewer vehicles, 1 member company group accounted for 55% of the total transfer decrease for the “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 58% of the total transfer increases for the “grower” members.

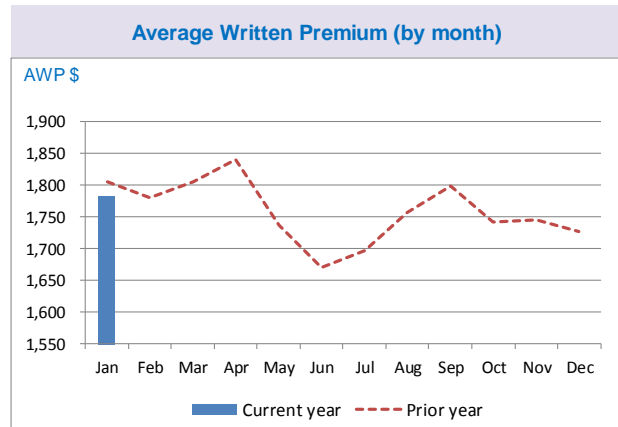
January’s year-on-year change in vehicle count transfers to the pool represents an 18.6% decrease from January 2015. Average written premium was down 1.2% in January compared with the same month in 2015 (see charts on the next page).

¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2015 or 2016. Groups that have not transferred vehicles in these two periods are ignored.

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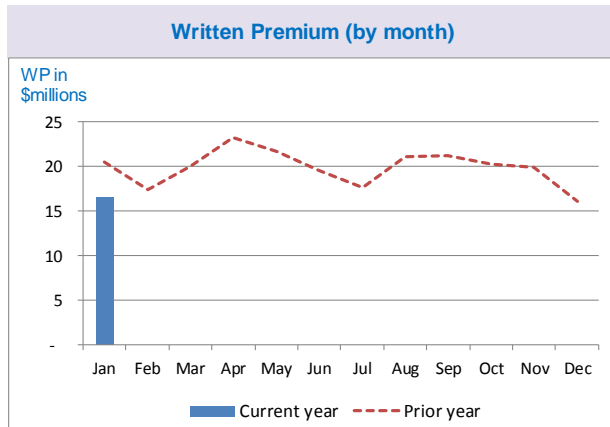


	Jan-16	Jan-15	Amt Chg	% Chg
W. Veh curr mth	9,278	11,393	(2,115)	-18.6%

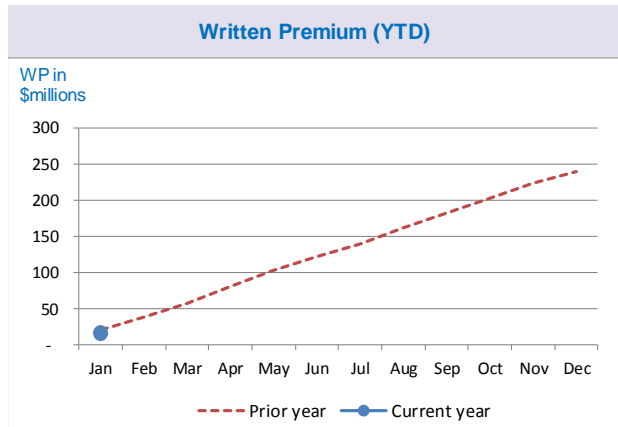


	Jan-16	Jan-15	Amt Chg	% Chg
AWP curr mth	1,783	1,805	(22)	-1.2%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 19.6% for the month compared with the 2.7% decrease we projected last month (see charts below).



	Jan-16	Jan-15	Amt Chg	% Chg
WP (\$000s) curr mth	16,543	20,570	(4,027)	-19.6%



	Jan-16	Jan-15	Amt Chg	% Chg
WP (\$000s) YTD	16,543	20,570	(4,027)	-19.6%

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 January 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Ontario

Operating Results for 1 Month ended January 31, 2016 (Discounted basis)

EXHIBIT 1

Source: Monthly Operational Report

(thousands of dollars)

	January	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Net Premiums Written	\$16,543	\$16,543	\$279,011	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$3,723	(\$21,638)	\$23,561
Net Premiums Earned	\$20,266	\$20,266	\$257,373	\$262,568
Claims Incurred:				
Prior Accident Years:				
Undiscounted	(\$98)	(\$98)	(\$98)	(\$146,204)
Effect of Discounting	(3,280)	(3,280)	(24,068)	(42,694)
Discounted	(\$3,378)	(\$3,378)	(\$24,166)	(\$188,898)
Current Accident Year:				
Undiscounted	\$24,544	\$24,544	\$310,494	\$307,691
Effect of Discounting	3,598	3,598	35,855	34,955
Discounted	\$28,142	\$28,142	\$346,349	\$342,646
Claims Incurred	\$24,764	\$24,764	\$322,183	\$153,748
Underwriting Expenses:				
Expense Allowance	\$4,926	\$4,926	\$83,669	\$70,525
Change in UPDR/DPAC:				
Undiscounted	(745)	(745)	11,922	(8,667)
Effect of Discounting	(570)	(570)	4,302	(1,893)
Discounted	(1,315)	(1,315)	16,224	(\$10,560)
Underwriting Expenses	\$3,611	\$3,611	\$99,893	\$59,965
Net Underwriting Gain (Loss)	(\$8,109)	(\$8,109)	(\$164,703)	\$48,855
Administrative Expenses	\$80	\$80	\$1,304	\$1,309
Net Result from Operations	(\$8,189)	(\$8,189)	(\$166,007)	\$47,546
Ratios:				
Claims & Expenses Incurred (Earned)				
Prior Accident Years	-16.7%	-16.7%	-9.4%	-71.9%
Current Accident Year	138.9%	138.9%	134.6%	130.5%
All Accident Years Combined	122.2%	122.2%	125.2%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	18.2%	39.3%	23.3%
Combined Operating Ratio	140.4%	140.4%	164.5%	81.9%

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