

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F16 – 032**

**DATE: MAY 27, 2016**

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

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

Please be advised that the April 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 \$7.8 million and the incurred loss ratio to the end of 4 months is 66.1%, as summarized in the table below.

<b>Amounts in \$000s</b>	<b>April 2016</b>	April 2015	<b>Year to date Apr 2016</b>	Year to Date Apr 2015
Written Premiums	24,521	23,238	77,821	81,272
Earned Premiums	19,877	22,492	79,394	90,737
Incurred Losses	24,031	28,446	52,495	86,438
Underwriting Expenses and Others	9,149	7,753	19,063	23,153
<b>Net Result from Operations</b>	<b>(13,303)</b>	<b>(13,707)</b>	<b>7,836</b>	<b>(18,854)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Year</b>	<b>(9.6%)</b>	<b>(11.4%)</b>	<b>(65.9%)</b>	<b>(43.6%)</b>
- Current Accident Years	130.5%	137.8%	132.0%	138.9%
<i>Total</i>	<b>120.9%</b>	<b>126.4%</b>	<b>66.1%</b>	<b>95.3%</b>
<b>Underwriting &amp; Admin Exp.%</b>	<b>46.0%</b>	<b>34.5%</b>	<b>24.0%</b>	<b>25.5%</b>
<b>Combined Operating Ratio</b>	<b>166.9%</b>	<b>160.9%</b>	<b>90.1%</b>	<b>120.8%</b>

*Rounding differences may apply.*

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*

The projected calendar year Net Result from Operations to December 2016 is -\$125.2 million and the estimated combined operating ratio to December 2016 is 148.0%. This updated projection to the end of the year has deteriorated by \$1.4 million from the projection provided last month (-\$123.8 million and 147.6%). This deterioration is composed of a \$0.6 million unfavourable impact associated with the \$1.2 million increase in projected earned premium (at a combined ratio of 147.6%), and a \$1.0 million deterioration stemming from the overall increase in the combined ratio (from 147.6% to 148.0% applied to \$261.1 million in projected earned premium), offset by the remaining \$0.2 million difference due to other assumption updates.

*Current Month Results*

The Ontario Risk Sharing Pool produced a -\$13.3 million Net Result from Operations in the month of April 2016, a \$0.4 million improvement compared with the same month last year. This improvement is composed of a \$1.6 million favourable impact associated with the \$2.6 million decrease in earned premium (at a combined ratio of 160.9%), partially offset by \$1.2 million deterioration stemming from the overall increase in the combined ratio (from 160.9% to 166.9% applied to \$19.9 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 64.5% at the end of 3 months to 90.1% at the end of 4 months. The 25.6 percentage point increase is composed of an 18.8 percentage point increase in the Prior Accident Year loss ratio, and a 7.3 percentage point increase in the expense ratio, offset by a 0.5 percentage point decrease in the Current Accident Year loss ratio.

*Variances from Projections*

The table at the top of the next page provides a summary of key components of the operating results as compared to the estimates projected last month.

April 2016	Actual	Projection	Difference	Difference %
Written Premiums	24,521	24,055	466	1.9%
Earned Premiums	19,877	20,356	(479)	(2.4%)
Reported Losses				
Paid Losses	18,572	21,704	(3,132)	(14.4%)
Loss Expenses Paid	1,763	1,952	(189)	(9.7%)
Change in Outstanding Losses	3,131	258	2,873	>999.9%
<b>Total Reported Losses</b>	<b>23,466</b>	<b>23,914</b>	<b>(448)</b>	<b>(1.9%)</b>
Change in IBNR *	565	275	290	
Change in Premium Deficiency (DPAC) *	1,833	1,507	326	

(Amounts in \$000's)

Rounding differences may occur.

\* Detailed information is included in [Ontario RSP April 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 April 2016, reported losses were \$0.4 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 \$0.2 million unfavourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$5.4 million favourable, followed by Accident Year 2013 at \$5.1 million unfavourable, Accident Year 2010 at \$1.2 million favourable and Accident Year 2014 at \$1.1 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

### Booking IBNR

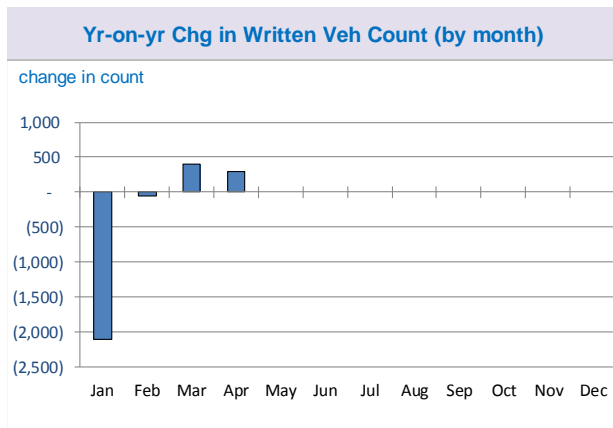
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

### Effect of Quarterly Valuation

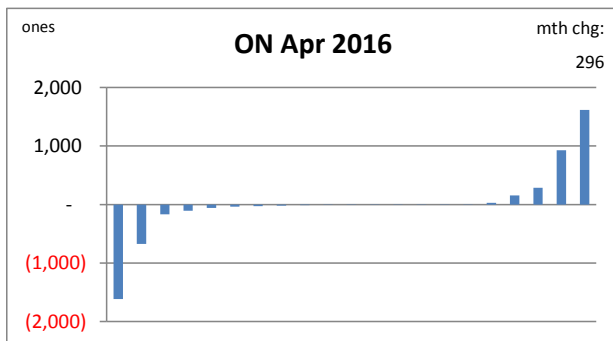
The April 2016 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at December 31, 2015). The actuarial valuation will be updated next as at March 31, 2016 and we anticipate that the results will be reflected in the May 2016 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 22.2% from 2015, being 2.4% of the 2014 industry private passenger vehicle count including farmers (as we don't have an industry count yet for 2015, we continue to use the 2014 count as a proxy). 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.



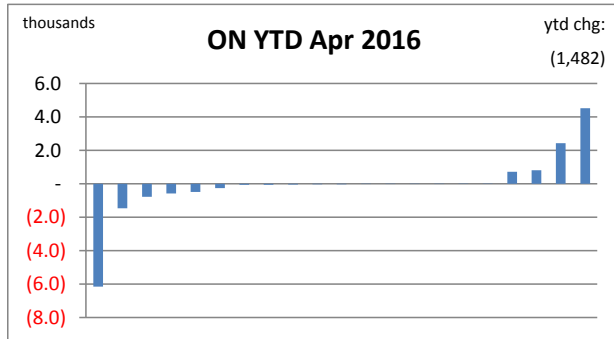
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with April reporting an increase of 296 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 1,135 vehicles, indicating a variance of 839 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in April 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. Fourteen member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 7 transferred more<sup>1</sup>. Of the 14 member company groups transferring fewer vehicles, 1 member

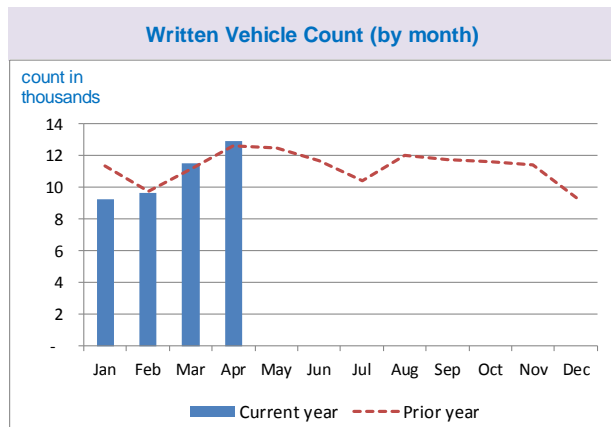
<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2015 or 2016. Groups that have not transferred vehicles in these two periods are ignored.

company group accounted for 59% of the total transfer decrease for the “decliner” members. Of the 7 member company groups transferring more vehicles, 1 member company group accounted for 54% of the total transfer increases for the “grower” members.

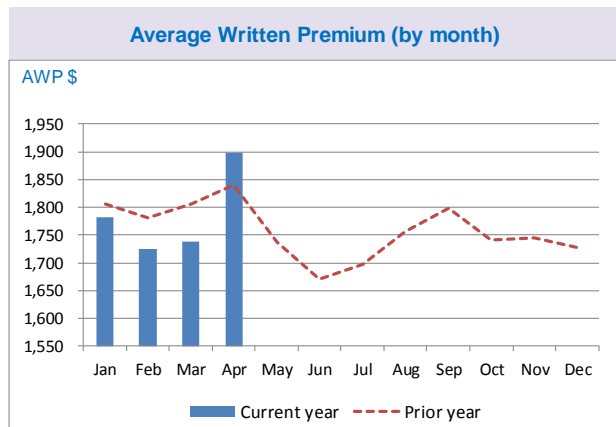


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change.

April’s year-on-year change in vehicle count transfers to the pool represents a 2.3% increase from April 2015, but counts were down 3.3% year-to-date. Average written premium was up 3.1% in April 2016 compared with the same month in 2015, but down 0.9% year-to-date (see charts immediately below and at the top of the next page).



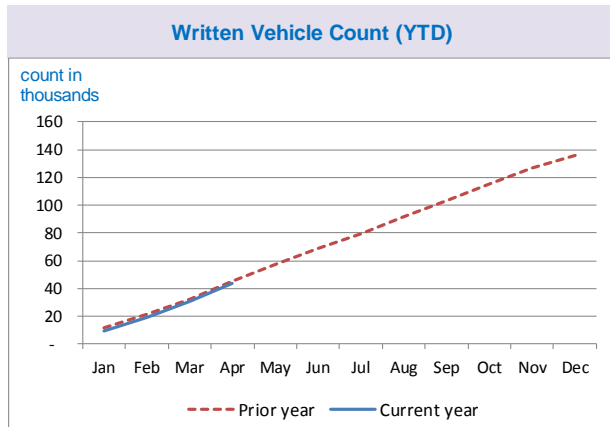
	Apr-16	Apr-15	Amt Chg	% Chg
W. Veh curr mth	12,919	12,623	296	2.3%



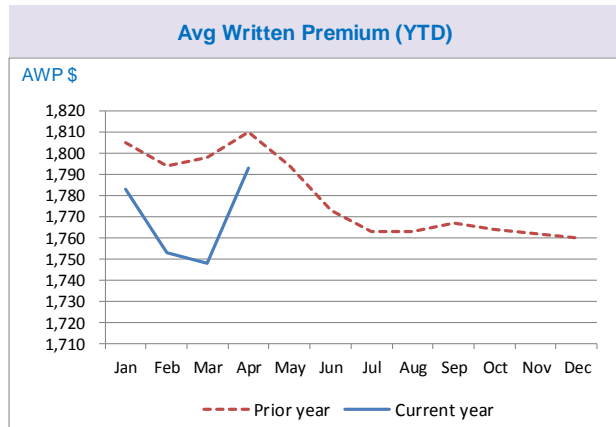
	Apr-16	Apr-15	Amt Chg	% Chg
AWP curr mth	1,898	1,841	57	3.1%

**Bulletin F16-032**

**Ontario Risk Sharing Pool – April 2016 Operational Report**

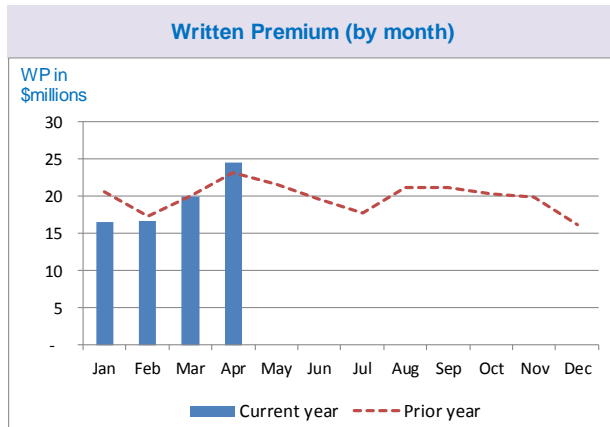


	Apr-16	Apr-15	Amt Chg	% Chg
W. Vehicles YTD	43,414	44,896	(1,482)	-3.3%

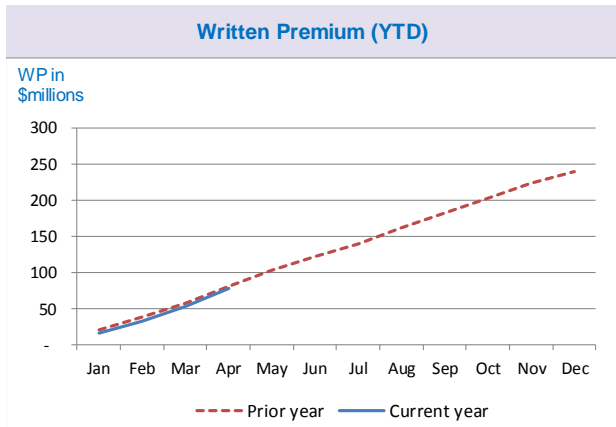


	Apr-16	Apr-15	Amt Chg	% Chg
Avg W. Prem YTD	1,793	1,810	(17)	-0.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 5.5% for the month compared with the 3.5% increase we projected last month, but was down 4.2% year-to-date (see charts immediately below).



	Apr-16	Apr-15	Amt Chg	% Chg
WP (\$000s) curr mth	24,521	23,238	1,283	5.5%



	Apr-16	Apr-15	Amt Chg	% Chg
WP (\$000s) YTD	77,821	81,272	(3,451)	-4.2%

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 April 2016 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2016**

Risk Sharing Pool - Ontario

Operating Results for the 4 Months ended April 30, 2016 (Discounted basis)

 Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Net Premiums Written	\$16,543	\$16,711	\$20,046	\$24,521	\$77,821	\$308,210	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$262	(\$4,644)	\$1,573	(\$47,128)	\$23,561
<b>Net Premiums Earned</b>	<b>\$20,266</b>	<b>\$18,943</b>	<b>\$20,308</b>	<b>\$19,877</b>	<b>\$79,394</b>	<b>\$261,082</b>	<b>\$262,568</b>
<b>Claims Incurred:</b>							
Prior Accident Years:							
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$43,010)	(\$43,011)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	(9,313)	(24,606)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$52,323)	(\$67,617)	(\$188,898)
Current Accident Year:							
Undiscounted	\$24,544	\$22,944	\$22,431	\$23,307	\$93,226	\$305,802	\$307,691
Effect of Discounting	3,598	2,733	2,632	2,629	11,592	35,862	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$104,818	\$341,664	\$342,646
<b>Claims Incurred</b>	<b>\$24,764</b>	<b>\$23,495</b>	<b>(\$19,795)</b>	<b>\$24,031</b>	<b>\$52,495</b>	<b>\$274,047</b>	<b>\$153,748</b>
<b>Underwriting Expenses:</b>							
Expense Allowance	\$4,926	\$4,981	\$5,959	\$7,212	\$23,078	\$92,194	\$70,525
Change in UPDR/DPAC:							
Undiscounted	(745)	(376)	(4,056)	1,084	(4,093)	10,657	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	(376)	7,910	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	(4,469)	18,567	(\$10,560)
<b>Underwriting Expenses</b>	<b>\$3,611</b>	<b>\$4,269</b>	<b>\$1,684</b>	<b>\$9,045</b>	<b>\$18,609</b>	<b>\$110,761</b>	<b>\$59,965</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$8,109)</b>	<b>(\$8,821)</b>	<b>\$38,419</b>	<b>(\$13,199)</b>	<b>\$8,290</b>	<b>(\$123,726)</b>	<b>\$48,855</b>
<b>Administrative Expenses</b>	<b>\$80</b>	<b>\$128</b>	<b>\$142</b>	<b>\$104</b>	<b>\$454</b>	<b>\$1,504</b>	<b>\$1,309</b>
<b>Net Result from Operations</b>	<b>(\$8,189)</b>	<b>(\$8,949)</b>	<b>\$38,277</b>	<b>(\$13,303)</b>	<b>\$7,836</b>	<b>(\$125,230)</b>	<b>\$47,546</b>
<b>Ratios:</b>							
<b>Claims &amp; Expenses Incurred (Earned)</b>							
Prior Accident Years	-16.7%	-11.5%	-220.9%	-9.6%	-65.9%	-25.9%	-71.9%
Current Accident Year	138.9%	135.5%	123.4%	130.5%	132.0%	130.9%	130.5%
All Accident Years Combined	122.2%	124.0%	-97.5%	120.9%	66.1%	105.0%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	9.0%	46.0%	24.0%	43.0%	23.3%
<b>Combined Operating Ratio</b>	<b>140.4%</b>	<b>147.2%</b>	<b>-88.5%</b>	<b>166.9%</b>	<b>90.1%</b>	<b>148.0%</b>	<b>81.9%</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