

**TO:** MEMBERS OF THE FACILITY ASSOCIATION

**ATTENTION:** CHIEF EXECUTIVE OFFICER

**BULLETIN NO.:** F16 – 038

**DATE:** JUNE 24, 2016

**SUBJECT:** FARM – APRIL 2016 PARTICIPATION REPORT

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

Please be advised that the April 2016 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

### Summary of Financial Results

The calendar year-to-date Net Result from Operations is \$8.0 million and the incurred loss ratio to the end of 4 months is 64.5%, as summarized in the table immediately below.

Amounts in \$000s	Apr 2016	Apr 2015	Year to date Apr 2016	Year to Date Apr 2015
Written Premiums	16,323	17,124	50,421	58,406
Earned Premiums	14,380	15,806	58,750	64,488
Incurred Losses	9,787	10,283	37,915	45,458
Underwriting Expenses and Others	3,619	3,806	12,835	13,171
<b>Net Result from Operations</b>	<b>974</b>	<b>1,717</b>	<b>8,000</b>	<b>5,859</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Year</b>	<b>(4.1%)</b>	<b>(6.0%)</b>	<b>(8.4%)</b>	<b>(1.1%)</b>
- Current Accident Years	72.2%	71.0%	72.9%	71.6%
<i>Total</i>	<b>68.1%</b>	<b>65.0%</b>	<b>64.5%</b>	<b>70.5%</b>
<b>Underwriting &amp; Admin Exp.%</b>	<b>25.2%</b>	<b>24.1%</b>	<b>21.9%</b>	<b>20.5%</b>
<b>Combined Operating Ratio</b>	<b>93.3%</b>	<b>89.1%</b>	<b>86.4%</b>	<b>91.0%</b>

*Rounding differences may occur*

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2016 - 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”](#).

**Bulletin F16-038**  
**FARM – April 2016 Participation Report**

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*Updated Projection to Year-end 2016*

This month, the estimated calendar year Net Result from Operations to December 2016 is \$19.5 million and the estimated combined operating ratio to December 2016 is 89.4%. The updated projection to the end of calendar year 2016 has deteriorated by \$1.1 million as compared to the projection provided last month (\$20.7 million and 88.8%). This deterioration mainly stems from the overall increase in the combined ratio (from 88.8% to 89.4% applied to \$181.7 million in projected earned premium). Projected written and earned premium have both decreased, but at differing levels (written premium down \$0.6 million or 0.3%; earned premium down \$1.2 million or 0.7%).

Expense projections generally move with changes in written premium, but expense projections are made at the jurisdiction and business segment level, which can result in expense projection movements in total not directly following movements in written premium projection. This occurred this month with our updated projections. In particular, the projected driver record abstract expense increased, rather than decrease with written premium, as did (to a lesser extent) Servicing Carrier fees. Each of these projection issues create disconnects between changes in expense projection and changes in the earned premium projection.

The current accident year incurred claims moves with earned premium but again at the jurisdiction and business segment level (although current accident year incurred claims in total moved in line with the change in earned premium).

The prior accident year incurred claims are independent of both written and earned premium projections and reflect release of actuarial present value adjustments with projected claims payments, creating a disconnect between changes in this projection and changes in earned premium projection.

As a result of projection “disconnections” with earned premium projections, the operating result dropped 5.5% even though earned premium decreased only 0.3%.

*Current month results*

The Net Result from Operations in the month of April 2016 is \$1.0 million, down \$0.7 million from the same month last year. This deterioration included an approximately \$0.1 million unfavourable impact due to the \$1.4 million decrease in earned premium (at a combined ratio of 89.1%), with the remaining \$0.6 million unfavourable impact stemming from the increase in the combined ratio (from 89.1% last year to 93.3% this year, applied to this month’s \$14.4 million earned premium).

This month’s results moved the year-to-date combined operating ratio from 84.2% at the end of 3 months to 86.4% at the end of 4 months. The 2.2 percentage point increase is composed of a 1.4 percentage point increase in the Prior Accident Year loss ratio, and a 1.1 percentage point increase in the expense ratio, offset by a 0.3 percentage point decrease in the Current Accident Year loss ratio.

**Bulletin F16-038**  
**FARM – April 2016 Participation Report**

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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.

<b>April 2016</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premiums	16,323	16,945	(622)	(3.7%)
Earned Premiums	14,380	15,262	(882)	(5.8%)
<b>Reported Losses</b>				
Paid Losses	11,349	13,468	(2,119)	(15.7%)
Change in Outstanding Losses	(1,997)	(1,477)	(520)	(35.2%)
<b>Total Reported Losses</b>	<b>9,352</b>	<b>11,991</b>	<b>(2,639)</b>	<b>(22.0%)</b>
Change in IBNR *	679	(1,132)	1,811	
Change in Premium Deficiency (DPAC) *	(143)	(163)	20	
Change in Retro Claims Expense *	(244)	(699)	455	

(Amounts in \$000's)

Rounding differences may occur

\* Detailed information is included in [FARM April 2016 Participation Report - Actuarial Highlights](#).

For the month of April 2016, reported indemnity amounts were \$2.1 million lower 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 \$2.6 million*). The Current Accident Year had a \$0.1 million favourable variance in reported indemnity, and the Prior Accident Years had a favourable variance of \$2.0 million. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$1.2 million favourable. 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 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 April 2016 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at December 31, 2015 for all jurisdictions and business segments. The actuarial valuation will be updated next as at March 31, 2016 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the May 2016 Participation Report.

**Bulletin F16-038**  
**FARM – April 2016 Participation Report**

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**Management Comments**

As shown in the table immediately below, the private passenger annualized vehicle counts decreased by 16.4% overall in April 2016 relative to April 2015. On a year-to-date basis, exposure counts are down by 6.1%, decreasing in all jurisdictions except Nova Scotia.

*FARM Private Passenger Written Car Years*

# FARM Vehicles Written								
Jurisdiction	Month of April 2016				Calendar YTD as of April 2016			
	2016	2015	Chg	% Chg	2016	2015	Chg	% Chg
Ontario	199	250	(51)	(20.4%)	553	670	(117)	(17.5%)
Alberta	241	279	(38)	(13.6%)	706	1,022	(316)	(30.9%)
Newfoundland & Labrador	1,024	1,518	(494)	(32.5%)	3,381	3,452	(71)	(2.1%)
New Brunswick	754	703	51	7.3%	2,441	2,498	(57)	(2.3%)
Nova Scotia	332	306	26	8.5%	1,220	1,115	105	9.4%
Prince Edward Island	132	151	(19)	(12.6%)	495	513	(18)	(3.5%)
Yukon	35	47	(12)	(25.5%)	82	144	(62)	(43.1%)
Northwest Territories	221	250	(29)	(11.6%)	832	892	(60)	(6.7%)
Nunavut	49	67	(18)	(26.9%)	152	198	(46)	(23.2%)
<b>All Jurisdictions</b>	<b>2,987</b>	<b>3,571</b>	<b>(584)</b>	<b>(16.4%)</b>	<b>9,862</b>	<b>10,504</b>	<b>(642)</b>	<b>(6.1%)</b>

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 April 2016 Participation Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2016**  
**FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH**  
**Operating Results for the 4 months ended April 30, 2016 (Discounted Basis)**  
**Source: Monthly (Accident Year) Member Participation Report as at 04/2016**  
(thousands of dollars)

	January	February	March	April	CY2016 YTD	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
<b>UNDERWRITING REVENUE:</b>							
PREMIUMS WRITTEN	\$11,014	\$10,437	\$12,647	\$16,323	\$50,421	\$181,701	\$189,847
CHANGE IN UNEARNED PREMIUMS	4,378	3,624	2,270	-1,943	8,329	-41	6,085
<b>NET PREMIUMS EARNED</b>	<b>\$15,392</b>	<b>\$14,061</b>	<b>\$14,917</b>	<b>\$14,380</b>	<b>\$58,750</b>	<b>\$181,660</b>	<b>\$195,932</b>
<b>CLAIMS INCURRED</b>							
PRIOR ACCIDENT YEARS							
UNDISCOUNTED	-201	70	-2,552	-2	-2,685	-2,685	-15,364
EFFECT OF DISCOUNTING	-575	-797	-288	-592	-2,252	-7,537	-4,171
DISCOUNTED	-776	-727	-2,840	-594	-4,937	-10,222	-19,535
CURRENT ACCIDENT YEAR							
UNDISCOUNTED	10,458	9,614	10,300	9,851	40,223	124,183	138,707
EFFECT OF DISCOUNTING	813	664	622	530	2,629	6,951	8,047
DISCOUNTED	11,271	10,278	10,922	10,381	42,852	131,134	146,754
<b>CLAIMS INCURRED</b>	<b>\$10,495</b>	<b>\$9,551</b>	<b>\$8,082</b>	<b>\$9,787</b>	<b>\$37,915</b>	<b>\$120,912</b>	<b>\$127,219</b>
<b>UNDERWRITING EXPENSES</b>							
OPERATING & SERVICE FEES	1,170	1,059	1,381	1,666	5,276	18,626	19,838
AGENTS COMMISSIONS	899	873	1,083	1,366	4,221	15,292	15,658
DRIVER RECORD ABSTRACTS	175	148	396	147	866	2,822	3,187
BAD DEBTS	-7	-4	1	190	180	-12	-579
PREMIUM DEFICIENCY/(DPAC)							
UNDISCOUNTED	336	277	178	-144	647	-118	292
EFFECT OF DISCOUNTING	-16	-5	4	1	-16	18	-230
DISCOUNTED	320	272	182	-143	631	-100	62
<b>UNDERWRITING EXPENSES</b>	<b>\$2,557</b>	<b>\$2,348</b>	<b>\$3,043</b>	<b>\$3,226</b>	<b>\$11,174</b>	<b>\$36,628</b>	<b>\$38,166</b>
<b>NET UNDERWRITING GAIN (LOSS)</b>	<b>\$2,340</b>	<b>\$2,162</b>	<b>\$3,792</b>	<b>\$1,367</b>	<b>\$9,661</b>	<b>\$24,120</b>	<b>\$30,547</b>
ADMINISTRATIVE EXPENSES	364	320	607	399	1,690	4,750	5,085
PREMIUM FINANCE FEE	-10	-9	-9	-9	-37	-27	-108
INVESTMENT INCOME	17	16	18	15	66	200	260
<b>OPERATING RESULTS</b>	<b>\$1,983</b>	<b>\$1,849</b>	<b>\$3,194</b>	<b>\$974</b>	<b>\$8,000</b>	<b>\$19,543</b>	<b>\$25,614</b>
<b>RATIOS:</b>							
Claims & Adj Expenses Incurred (Earned)							
Prior Accident Year	-5.0%	-5.2%	-19.0%	-4.1%	-8.4%	-5.6%	-10.0%
Current Accident Years	73.2%	73.1%	73.2%	72.2%	72.9%	72.2%	74.9%
All Accident Years Combined	68.2%	67.9%	54.2%	68.1%	64.5%	66.6%	64.9%
Underwriting & Admin Exp.(Earned)	19.0%	19.0%	24.5%	25.2%	21.9%	22.8%	22.1%
COMBINED OPERATING RATIO	87.2%	86.9%	78.7%	93.3%	86.4%	89.4%	87.0%

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 2016**  
**FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS**  
**Operating Results for the 4 months ended April 30, 2016 (Discounted Basis)**  
**Source: Monthly (Accident Year) Member Participation Report as at 04/2016**  
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
<b>UNDERWRITING REVENUE:</b>												
PREMIUMS WRITTEN	\$15,626	\$12,075	\$5,058	\$1,278	\$5,923	\$8,085	\$464	\$1,645	\$267	\$50,421	\$181,701	\$189,847
CHANGE IN UNEARNED PREMIUMS	4,828	773	367	241	735	1,003	206	-67	243	8,329	-41	6,085
<b>NET PREMIUMS EARNED</b>	<b>\$20,454</b>	<b>\$12,848</b>	<b>\$5,425</b>	<b>\$1,519</b>	<b>\$6,658</b>	<b>\$9,088</b>	<b>\$670</b>	<b>\$1,578</b>	<b>\$510</b>	<b>\$58,750</b>	<b>\$181,660</b>	<b>\$195,932</b>
<b>CLAIMS INCURRED</b>												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	252	-4,324	694	-368	-589	86	359	1,424	-219	-2,685	-2,685	-15,364
EFFECT OF DISCOUNTING	-849	-1,052	-44	-18	-131	-271	30	96	-13	-2,252	-7,537	-4,171
DISCOUNTED	-597	-5,376	650	-386	-720	-185	389	1,520	-232	-4,937	-10,222	-19,535
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	13,551	8,432	3,705	918	4,352	7,812	445	782	226	40,223	124,183	138,707
EFFECT OF DISCOUNTING	862	725	201	60	249	440	32	46	14	2,629	6,951	8,047
DISCOUNTED	14,413	9,157	3,906	978	4,601	8,252	477	828	240	42,852	131,134	146,754
<b>CLAIMS INCURRED</b>	<b>\$13,816</b>	<b>\$3,781</b>	<b>\$4,556</b>	<b>\$592</b>	<b>\$3,881</b>	<b>\$8,067</b>	<b>\$866</b>	<b>\$2,348</b>	<b>\$8</b>	<b>\$37,915</b>	<b>\$120,912</b>	<b>\$127,219</b>
<b>UNDERWRITING EXPENSES</b>												
OPERATING & SERVICE FEES	1,572	1,314	516	131	600	878	56	173	36	5,276	18,626	19,838
AGENTS COMMISSIONS	1,359	722	448	124	572	761	43	165	27	4,221	15,292	15,658
DRIVER RECORD ABSTRACTS	249	48	196	54	132	100	13	68	6	866	2,822	3,187
BAD DEBTS	0	193	0	0	0	-13	0	0	0	180	-12	-579
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	423	45	26	23	66	28	19	-6	23	647	-118	292
EFFECT OF DISCOUNTING	0	0	0	0	0	-16	0	0	0	-16	18	-230
DISCOUNTED	423	45	26	23	66	12	19	-6	23	631	-100	62
<b>UNDERWRITING EXPENSES</b>	<b>\$3,603</b>	<b>\$2,322</b>	<b>\$1,186</b>	<b>\$332</b>	<b>\$1,370</b>	<b>\$1,738</b>	<b>\$131</b>	<b>\$400</b>	<b>\$92</b>	<b>\$11,174</b>	<b>\$36,628</b>	<b>\$38,166</b>
<b>NET UNDERWRITING GAIN (LOSS)</b>	<b>\$3,035</b>	<b>\$6,745</b>	<b>(\$317)</b>	<b>\$595</b>	<b>\$1,407</b>	<b>(\$717)</b>	<b>(\$327)</b>	<b>(\$1,170)</b>	<b>\$410</b>	<b>\$9,661</b>	<b>\$24,120</b>	<b>\$30,547</b>
ADMINISTRATIVE EXPENSES	468	383	174	61	199	260	39	73	33	1,690	4,750	5,085
PREMIUM FINANCE FEE	-12	-12	-4	0	-4	-5	0	0	0	-37	-27	-108
INVESTMENT INCOME	18	24	5	1	6	12	0	0	0	66	200	260
<b>OPERATING RESULTS</b>	<b>\$2,573</b>	<b>\$6,374</b>	<b>(\$490)</b>	<b>\$535</b>	<b>\$1,210</b>	<b>(\$970)</b>	<b>(\$366)</b>	<b>(\$1,243)</b>	<b>\$377</b>	<b>\$8,000</b>	<b>\$19,543</b>	<b>\$25,614</b>
<b>RATIOS:</b>												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-2.9%	-41.8%	12.0%	-25.4%	-10.8%	-2.0%	58.1%	96.3%	-45.5%	-8.4%	-5.6%	-10.0%
Current Accident Years	70.5%	71.3%	72.0%	64.4%	69.1%	90.8%	71.2%	52.5%	47.1%	72.9%	72.2%	74.9%
All Accident Years Combined	67.6%	29.5%	84.0%	39.0%	58.3%	88.8%	129.3%	148.8%	1.6%	64.5%	66.6%	64.9%
Underwriting & Admin Exp.(Earned)	19.9%	21.1%	25.1%	25.9%	23.6%	22.0%	25.4%	30.0%	24.5%	21.9%	22.8%	22.1%
COMBINED OPERATING RATIO	87.5%	50.6%	109.1%	64.9%	81.9%	110.8%	154.7%	178.8%	26.1%	86.4%	89.4%	87.0%

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