



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 052

DATE: JULY 28, 2016

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

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

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

New This Month

Quarterly Sharing Update

An update of the "Member's Usage" of the Ontario Risk Sharing Pool ("RSP") was performed since the release of the May 2016 Operational Report, bringing members' sharing current to the second quarter 2016. The usage update is reflected in the June 2016 Operational Report.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$22.0 million and the incurred loss ratio to the end of 6 months is 83.8%, as summarized in the table at the top of the next page.

Bulletin F16-052
Ontario Risk Sharing Pool – June 2016 Operational Report

Amounts in \$000s	June 2016	June 2015	Year to date Jun 2016	Year to Date Jun 2015
Written Premiums	30,327	19,556	136,101	122,507
Earned Premiums	21,011	21,943	121,451	135,593
Incurred Losses	25,180	28,488	101,720	107,440
Underwriting Expenses and Others	12,379	5,216	41,761	39,898
Net Result from Operations	(16,548)	(11,761)	(22,030)	(11,745)
Ratios:				
Loss ratio % - Prior Accident Year	(9.5%)	(11.1%)	(47.1%)	(63.1%)
- Current Accident Years	129.4%	140.9%	130.9%	142.3%
<i>Total</i>	119.9%	129.8%	83.8%	79.2%
Underwriting & Admin Exp.%	58.9%	23.8%	34.4%	29.4%
Combined Operating Ratio	178.8%	153.6%	118.2%	108.6%

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 -\$126.2 million and the estimated combined operating ratio to December 2016 is 147.2%. This updated projection to the end of the year has not changed significantly from the projection provided last month (-\$126.6 million and 147.4%).

Current Month Results

The Ontario Risk Sharing Pool produced a -\$16.5 million Net Result from Operations in the month of June 2016, a \$4.8 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$0.5 million favourable impact associated with the \$0.9 million decrease in earned premium (at a combined ratio of 153.6%), offset by a \$5.3 million deterioration stemming from the overall increase in the combined ratio (from 153.6% to 178.8% applied to \$21.0 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 105.5% at the end of 5 months to 118.2% at the end of 6 months. The 12.7 percentage point increase is composed of a 7.9 percentage point increase in the Prior Accident Year loss ratio, and a 5.1 percentage point increase in the expense ratio, offset by a 0.3 percentage point decrease in the Current Accident Year loss ratio.

Bulletin F16-052
Ontario Risk Sharing Pool – June 2016 Operational Report

Variances from Projections

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

June 2016	Actual	Projection	Difference	Difference %
Written Premiums	30,327	31,839	(1,512)	(4.7%)
Earned Premiums	21,011	21,688	(677)	(3.1%)
Reported Losses				
Paid Losses	20,052	19,996	56	0.3%
Loss Expenses Paid	1,967	1,819	148	8.1%
Change in Outstanding Losses	2,595	3,297	(702)	(21.3%)
Total Reported Losses	24,614	25,112	(498)	(2.0%)
Change in IBNR *	566	1,006	(440)	
Change in Premium Deficiency (DPAC) *	3,364	3,639	(275)	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Ontario RSP June 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 beyond set thresholds and responds as appropriate.

For the month of June 2016, reported losses were \$0.5 million lower than projected. The Current Accident Year had a \$3.7 million unfavourable variance in reported losses, while the Prior Accident Years had a \$4.2 million favourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$4.1 million favourable, followed by Accident Year 1994 at \$2.9 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for reported claims activity were beyond the set thresholds for both the Prior Accident Years and the Current Accident Year (paid variances were within the set thresholds). Management investigated reported claims activity and is satisfied that the variances are appropriately accounted for in our current booking process.

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

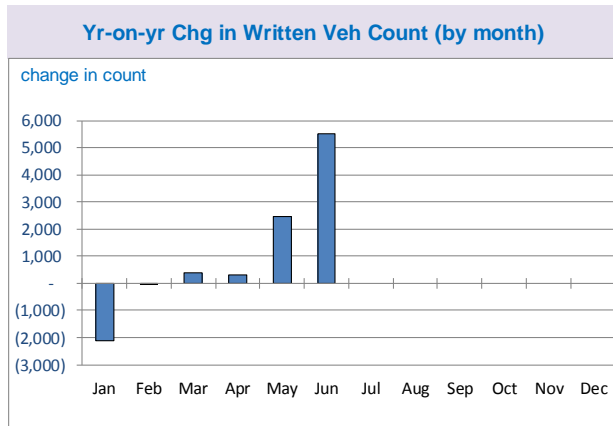
the impact of earned premium variances (as IBNR is based on loss ratios). This is consistent with management’s investigation into reported claims variances concluding they were random and not necessarily indicative of a trend. IBNR is discussed in more detail in the [Ontario RSP June 2016 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

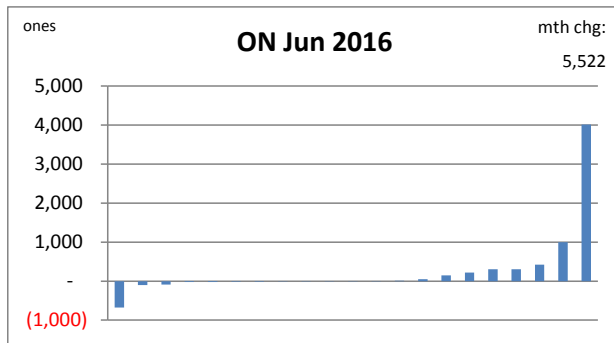
The June 2016 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2016). The actuarial valuation will be updated next as at June 30, 2016 and we anticipate that the results will be reflected in the August 2016 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 33.0% from 2015, being 2.5% of the 2015 industry private passenger vehicle count (excluding farmers) and the 2014 industry private passenger vehicle farmers count (as we don’t have an industry count for farmers 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.

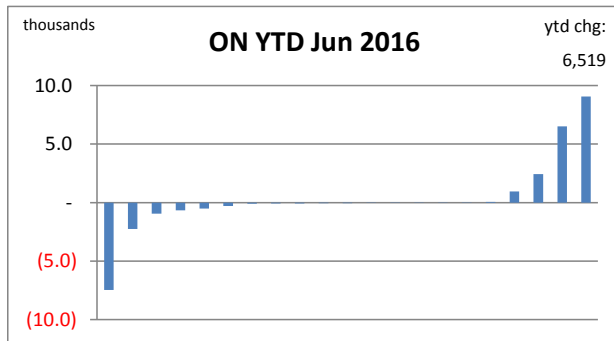


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with June reporting an increase of 5,522 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 5,276 vehicles, indicating a variance of 246 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in June than projected.



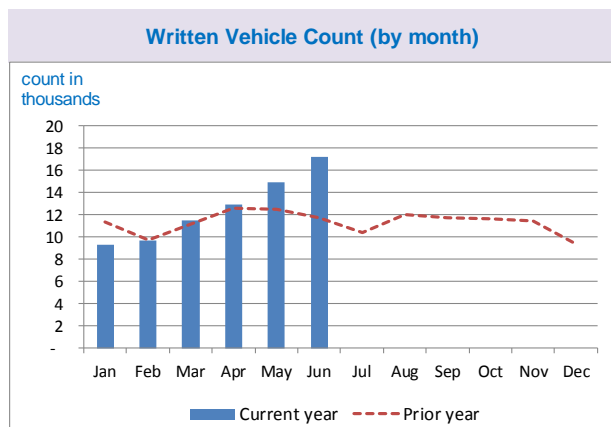
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Ten member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 11 transferred more¹. Of the 10 member company groups transferring fewer vehicles, 1 member

company group accounted for 71% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 1 member company group accounted for 62% of the total transfer increases for the “grower” members.

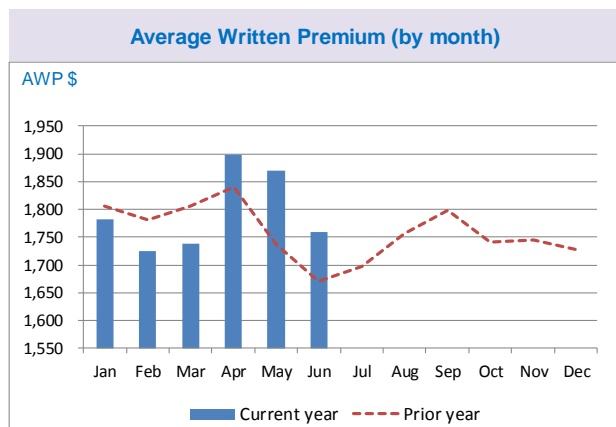


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

June’s year-on-year change in vehicle count transfers to the pool represents a 47.2% increase from June 2015, and counts were up 9.4% year-to-date. Average written premium was up 5.4% in June 2016 compared with the same month in 2015, and up 1.5% year-to-date (see charts immediately below and at the top of the next page).



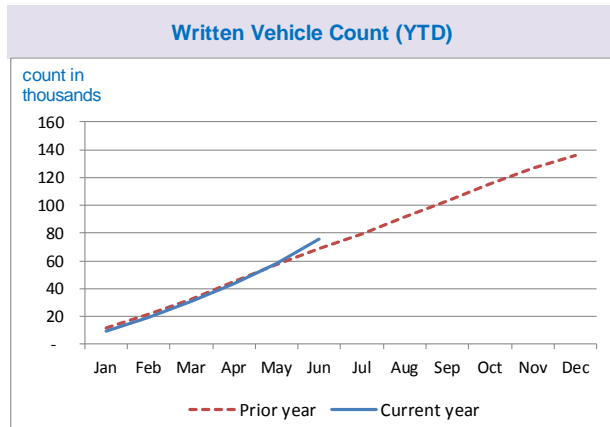
	Jun-16	Jun-15	Amt Chg	% Chg
W. Veh curr mth	17,233	11,711	5,522	47.2%



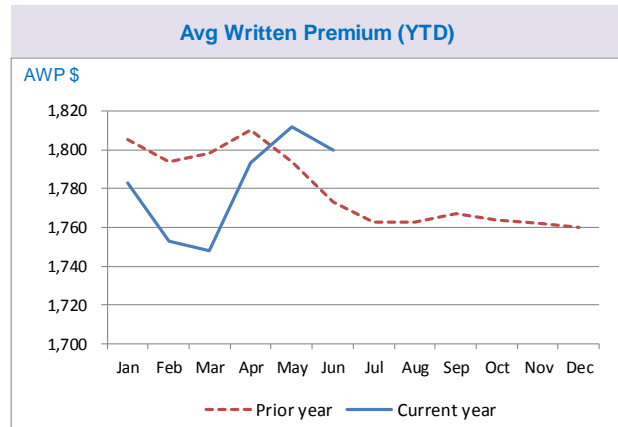
	Jun-16	Jun-15	Amt Chg	% Chg
AWP curr mth	1,760	1,670	90	5.4%

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.

Bulletin F16-052
Ontario Risk Sharing Pool – June 2016 Operational Report

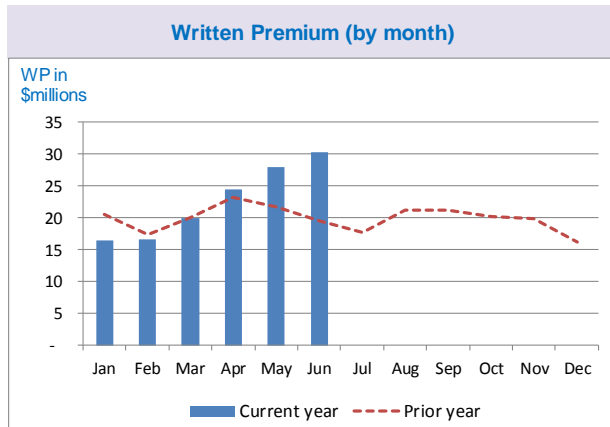


	Jun-16	Jun-15	Amt Chg	% Chg
W. Vehicles YTD	75,602	69,083	6,519	9.4%

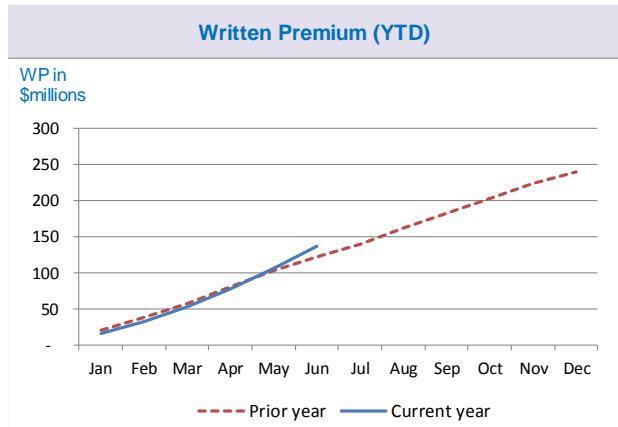


	Jun-16	Jun-15	Amt Chg	% Chg
Avg W. Prem YTD	1,800	1,773	27	1.5%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 55.1% for the month compared with the 62.8% increase we projected last month, and was up 11.1% year-to-date (see charts immediately below).



	Jun-16	Jun-15	Amt Chg	% Chg
WP (\$000s) curr mth	30,327	19,556	10,772	55.1%



	Jun-16	Jun-15	Amt Chg	% Chg
WP (\$000s) YTD	136,102	122,507	13,595	11.1%

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 June 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
Risk Sharing Pool - Ontario
Operating Results for the 6 Months Ended June 30, 2016 (Discounted basis)
Source: Monthly Operational Report
(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Net Premiums Written	\$16,543	\$16,711	\$20,046	\$24,521	\$27,953	\$30,327	\$136,101	\$323,408	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$262	(\$4,644)	(\$6,907)	(\$9,316)	(\$14,650)	(\$56,571)	\$23,561
Net Premiums Earned	\$20,266	\$18,943	\$20,308	\$19,877	\$21,046	\$21,011	\$121,451	\$266,837	\$262,568
Claims Incurred:									
Prior Accident Years:									
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$50)	(\$46,194)	(\$46,195)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	233	(1,954)	(11,034)	(24,935)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$2,901)	(\$2,004)	(\$57,228)	(\$71,130)	(\$188,898)
Current Accident Year:									
Undiscounted	\$24,544	\$22,944	\$22,431	\$23,307	\$23,973	\$24,487	\$141,686	\$310,769	\$307,691
Effect of Discounting	3,598	2,733	2,632	2,629	2,973	2,697	17,262	37,541	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$26,946	\$27,184	\$158,948	\$348,310	\$342,646
Claims Incurred	\$24,764	\$23,495	(\$19,795)	\$24,031	\$24,045	\$25,180	\$101,720	\$277,180	\$153,748
Underwriting Expenses:									
Expense Allowance	\$4,926	\$4,981	\$5,959	\$7,212	\$8,209	\$8,906	\$40,193	\$96,386	\$70,525
Change in UPDR/DPAC:									
Undiscounted	(745)	(376)	(4,056)	1,084	281	1,847	(1,965)	8,057	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,517	2,854	9,908	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	3,364	889	17,965	(\$10,560)
Underwriting Expenses	\$3,611	\$4,269	\$1,684	\$9,045	\$10,203	\$12,270	\$41,082	\$114,351	\$59,965
Net Underwriting Gain (Loss)	(\$8,109)	(\$8,821)	\$38,419	(\$13,199)	(\$13,202)	(\$16,439)	(\$21,351)	(\$124,694)	\$48,855
Administrative Expenses	\$80	\$128	\$142	\$104	\$116	\$109	\$679	\$1,532	\$1,309
Net Result from Operations	(\$8,189)	(\$8,949)	\$38,277	(\$13,303)	(\$13,318)	(\$16,548)	(\$22,030)	(\$126,226)	\$47,546
Ratios:									
Claims & Expenses Incurred (Earned)									
Prior Accident Years	-16.7%	-11.5%	-220.9%	-9.6%	-13.8%	-9.5%	-47.1%	-26.7%	-71.9%
Current Accident Year	138.9%	135.5%	123.4%	130.5%	128.0%	129.4%	130.9%	130.5%	130.5%
All Accident Years Combined	122.2%	124.0%	-97.5%	120.9%	114.2%	119.9%	83.8%	103.8%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	9.0%	46.0%	49.0%	58.9%	34.4%	43.4%	23.3%
Combined Operating Ratio	140.4%	147.2%	-88.5%	166.9%	163.2%	178.8%	118.2%	147.2%	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