



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F16 – 070**

**DATE: SEPTEMBER 28, 2016**

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

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

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

### **New This Month**

#### Valuation

A valuation of the Ontario RSP as at June 30, 2016 has been completed since last month's Operational Report and the results of that valuation have been incorporated into this month's Operational Report. The valuation was completed by the Facility Association's internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

Ontario 2014 Bill 15 and 2015 Bill 91 included various changes to the Ontario automobile insurance product that affect the benefits available to policyholders. With the current Ontario RSP valuation (as at June 30, 2016), we've included various adjustments related to these recent product reforms, aligned with adjustments introduced with the September 30, 2015 valuation. For further detail related to recent legal decisions and changes in legislation / regulation and associated adjustments, please see the Ontario RSP August 2016 Operational Report – Actuarial Highlights and the Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at June 30, 2016 (links are provided further in this bulletin).

The implementation of the new valuation resulted in an estimated overall **\$29.4 million favourable** impact on the month's net result from operations, subtracting an estimated

**Bulletin F16-070**

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

17.6 points from the year-to-date Combined Operating Ratio (ending at 114.6%). The impact on the month's results is summarized in the table immediately below<sup>1</sup>.

Ontario	unfav / (fav) for the month and ytd						ytd EP 167,141 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(23,056)	(1,438)	(24,494)	3,190	(14,996)	(36,300)	(13.8%)	(0.9%)	(14.7%)	1.9%	(9.0%)	(21.7%)
CAY	3,520	757	4,277	683	-	4,960	2.1%	0.5%	2.6%	0.4%	-	3.0%
Prem Def	922	153	1,075	819	-	1,894	0.6%	0.1%	0.6%	0.5%	-	1.1%
<b>TOTAL</b>	<b>(18,614)</b>	<b>(528)</b>	<b>(19,142)</b>	<b>4,692</b>	<b>(14,996)</b>	<b>(29,446)</b>	<b>(11.1%)</b>	<b>(0.3%)</b>	<b>(11.5%)</b>	<b>2.8%</b>	<b>(9.0%)</b>	<b>(17.6%)</b>

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$19.1 million favourable impact – see column [3] in the left table above), and the impact of a 13 basis point decrease in the selected discount rate (from 0.81% to 0.68%, generating a \$4.7 million unfavourable impact – see column [4] in the left table above). There was no change in the margin for adverse deviation in investment yield (remains at 25 basis points), but the margins for adverse deviation for claims development as selected at the coverage / accident year level were updated with this valuation (generating a \$15.0 million favourable impact – see column [5] in the left table above).

Please see “Effect of Quarterly Valuation” further in this bulletin for additional details on the impacts of the updated valuation.

**Summary of Financial Results**

The calendar year-to-date Net Result from Operations is -\$24.5 million and the incurred loss ratio to the end of 8 months is 74.4%, as summarized in the table at the top of the next page.

<sup>1</sup> In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dsct rate” refers to the impact of changes in the selected discount rate applied to projected cashflows; and “apv adj.” refers to “actuarial present value adjustments”.

**Bulletin F16-070**  
**Ontario Risk Sharing Pool – August 2016 Operational Report**

Amounts in \$000s	August 2016	August 2015	Year to date Aug 2016	Year to Date Aug 2015
Written Premiums	30,955	21,178	196,311	161,390
Earned Premiums	23,312	21,872	167,141	179,687
Incurred Losses	(3,494)	(54,249)	124,463	82,132
Underwriting Expenses and Others	14,100	964	67,202	44,626
<b>Net Result from Operations</b>	<b>12,706</b>	<b>75,157</b>	<b>(24,524)</b>	<b>52,929</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Year</b>	<b>(165.7%)</b>	<b>(350.1%)</b>	<b>(59.1%)</b>	<b>(91.6%)</b>
- Current Accident Years	150.7%	102.1%	133.5%	137.3%
Total	<b>(15.0%)</b>	<b>(248.0%)</b>	<b>74.4%</b>	<b>45.7%</b>
<b>Underwriting &amp; Admin Exp.%</b>	<b>60.5%</b>	<b>4.4%</b>	<b>40.2%</b>	<b>24.8%</b>
<b>Combined Operating Ratio</b>	<b>45.5%</b>	<b>(243.6%)</b>	<b>114.6%</b>	<b>70.5%</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 -\$96.5 million and the estimated combined operating ratio to December 2016 is 136.2%. This updated projection to the end of the year has improved by \$28.0 million from the projection provided last month (-\$124.5 million and 146.9%), mainly due to the overall favourable impact of the valuation as at June 30, 2016, as summarized in the table immediately below (see more information under “Effect of Quarterly Valuation”). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

Ontario	unfav / (fav) projected for full year						year EP 267,184 (projected this month)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % full year EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	(23,056)	(1,437)	(24,493)	2,912	(13,698)	(35,279)	(8.6%)	(0.5%)	(9.2%)	1.1%	(5.1%)	(13.2%)
CAY	5,622	1,218	6,840	1,103	-	7,943	2.1%	0.5%	2.6%	0.4%	-	3.0%
Prem Def	(1,725)	(201)	(1,926)	953	-	(973)	(0.6%)	(0.1%)	(0.7%)	0.4%	-	(0.4%)
TOTAL	(19,159)	(420)	(19,579)	4,968	(13,698)	(28,309)	(7.2%)	(0.2%)	(7.3%)	1.9%	(5.1%)	(10.6%)

Current Month Results

The Ontario Risk Sharing Pool produced a \$12.7 million Net Result from Operations in the month of August 2016, a \$62.5 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$4.9 million favourable impact associated with the \$1.4 million increase in earned premium (at a combined ratio of -243.6%), offset by a

**Bulletin F16-070**  
**Ontario Risk Sharing Pool – August 2016 Operational Report**

---

\$67.4 million deterioration stemming from the overall increase in the combined ratio (from -243.6% to 45.5% applied to \$23.3 million in earned premium). The primary driver of the difference in combined ratios is the difference in the respective valuation implementation impacts.

This month's results moved the year-to-date combined operating ratio from 125.9% at the end of 7 months to 114.6% at the end of 8 months. The 11.3 percentage point decrease is composed of a 17.3 percentage point decrease in the Prior Accident Year loss ratio, offset by a 2.7 percentage point increase in the Current Accident Year loss ratio and a 3.3 percentage point increase in the expense ratio.

Variances from Projections

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

<b>August 2016</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premiums	30,955	33,693	(2,738)	(8.1%)
Earned Premiums	23,312	23,506	(194)	(0.8%)
<b>Reported Losses</b>				
Paid Losses	23,420	15,208	8,212	54.0%
Loss Expenses Paid	3,108	1,217	1,891	155.4%
Change in Outstanding Losses	(637)	1,496	(2,133)	(142.6%)
<b>Total Reported Losses</b>	<b>25,891</b>	<b>17,921</b>	<b>7,970</b>	<b>44.5%</b>
Change in IBNR *	(29,385)	11,518	(40,903)	
Change in Premium Deficiency (DPAC) *	4,845	3,816	1,029	

(Amounts in \$000's)

Rounding differences may occur.

\* Detailed information is included in [Ontario RSP August 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 August 2016, reported losses were \$8.0 million higher than projected. The Current Accident Year had a \$3.6 million unfavourable variance in reported losses, and the Prior Accident Years had a \$4.4 million unfavourable variance. Of the Prior Accident Years, 2013 had the largest variance in reported losses at \$5.3 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

**Bulletin F16-070**

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

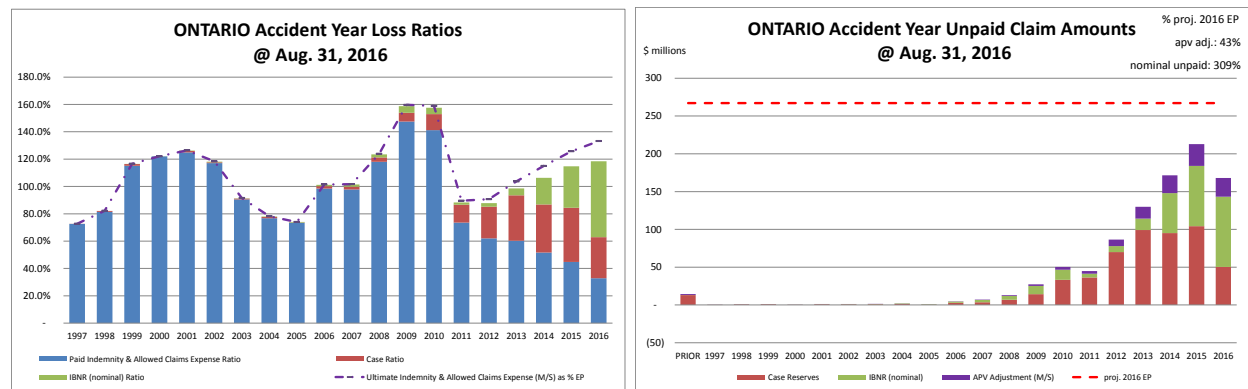
The variances for reported claims activity were beyond the set thresholds for both the Prior Accident Years and the Current Accident Year (paid variances were within the set thresholds). Management investigated reported claims activity and is satisfied that the variances are appropriately accounted for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

**Effect of Quarterly Valuation**

The August 2016 Ontario Risk Sharing Pool Operational Report reflects the results of an updated valuation as at June 30, 2016, with the associated impacts in relation to the results for August 2016 summarized in the table immediately below.

Ontario	unfav / (fav) for the month and ytd						mth EP 23,312 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns		sub-tot	dsct rate	margins		ults & payout patterns		dsct rate	margins		TOTAL
	Nominal	apv adj.		apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	(23,056)	(1,438)	(24,494)	3,190	(14,996)	(36,300)	(98.9%)	(6.2%)	(105.1%)	13.7%	(64.3%)	(155.7%)
CAY	3,520	757	4,277	683	-	4,960	15.1%	3.2%	18.3%	2.9%	-	21.3%
Prem Def	922	153	1,075	819	-	1,894	4.0%	0.7%	4.6%	3.5%	-	8.1%
<b>TOTAL</b>	<b>(18,614)</b>	<b>(528)</b>	<b>(19,142)</b>	<b>4,692</b>	<b>(14,996)</b>	<b>(29,446)</b>	<b>(79.8%)</b>	<b>(2.3%)</b>	<b>(82.1%)</b>	<b>20.1%</b>	<b>(64.3%)</b>	<b>(126.3%)</b>

The charts below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.

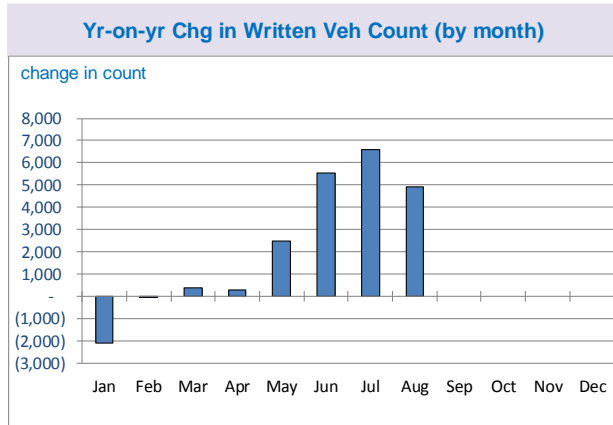


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Ontario RSP August 2016 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at June 30, 2016](#). The actuarial valuation will be updated next as at September 30, 2016 and we anticipate that the results will be reflected in the October 2016 Operational Report.

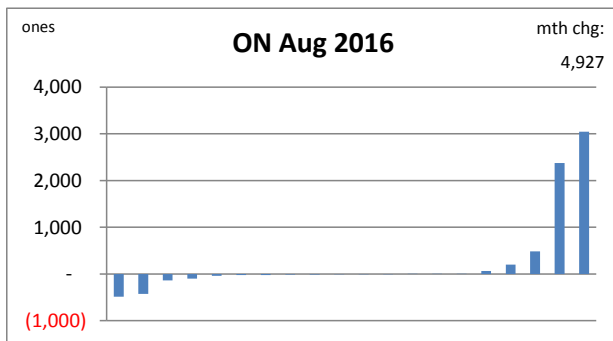
**Management Comments**

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 29.5% from 2015, being 2.4% 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.



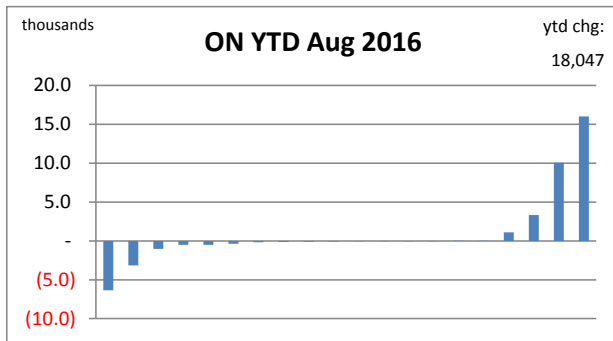
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with August reporting an increase of 4,927 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 6,631 vehicles, indicating a variance of 1,704 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in August 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. Twelve member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 8 transferred more<sup>2</sup>. Of the 12 member company groups transferring fewer vehicles, 2 member

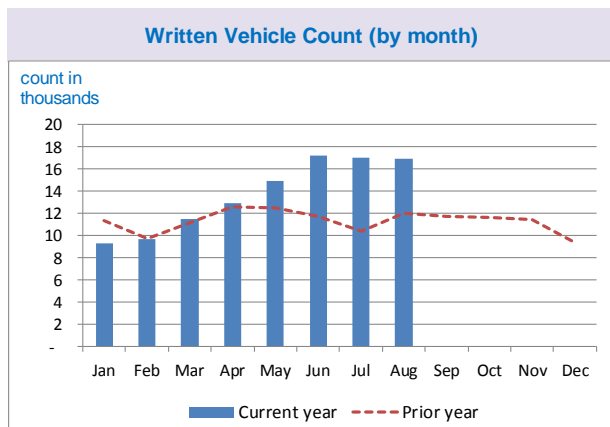
company groups accounted for 72% of the total transfer decrease for the “decliner” members. Of the 8 member company groups transferring more vehicles, 2 member company groups accounted for 88% of the total transfer increases for the “grower” members.

<sup>2</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.

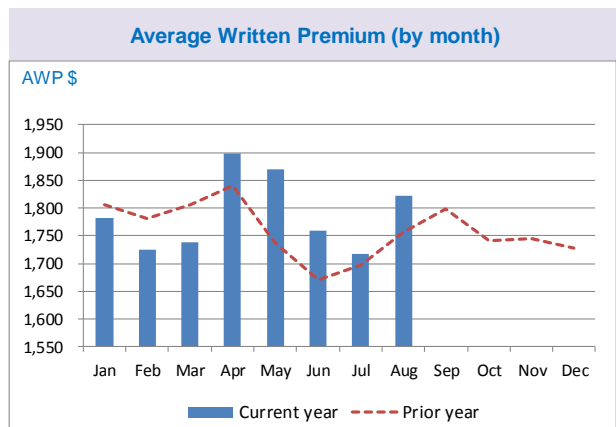


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

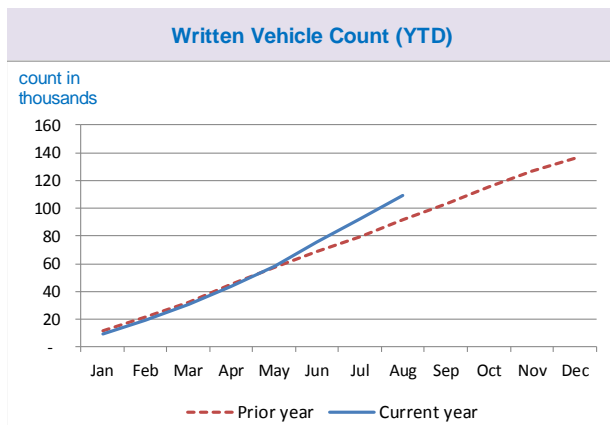
August's year-on-year change in vehicle count transfers to the pool represents a 40.9% increase from August 2015, and counts were up 19.7% year-to-date. Average written premium was up 3.8% in August 2016 compared with the same month in 2015, and up 1.6% year-to-date (see charts immediately below).



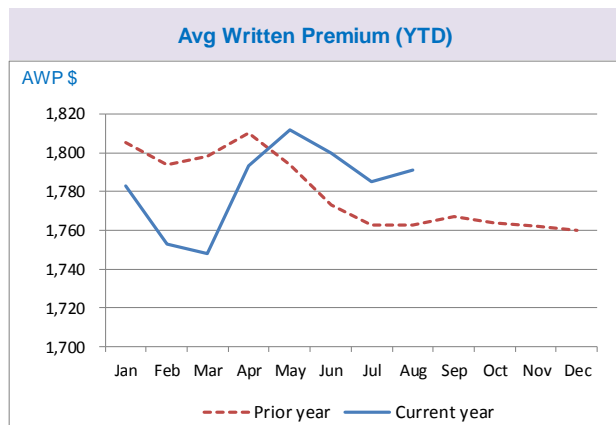
	Aug-16	Aug-15	Amt Chg	% Chg
W. Veh curr mth	16,979	12,052	4,927	40.9%



	Aug-16	Aug-15	Amt Chg	% Chg
AWP curr mth	1,823	1,757	66	3.8%



	Aug-16	Aug-15	Amt Chg	% Chg
W. Vehicles YTD	109,612	91,565	18,047	19.7%

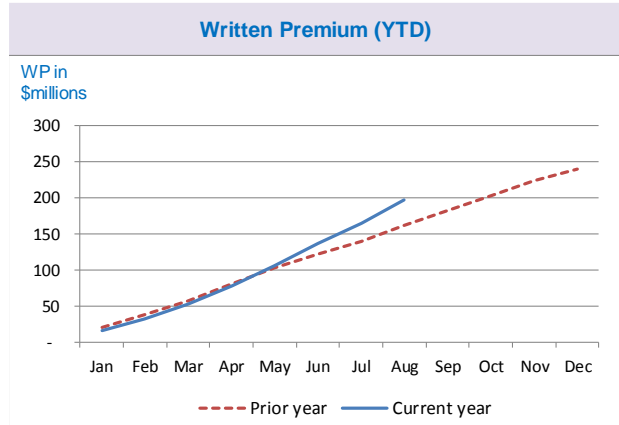
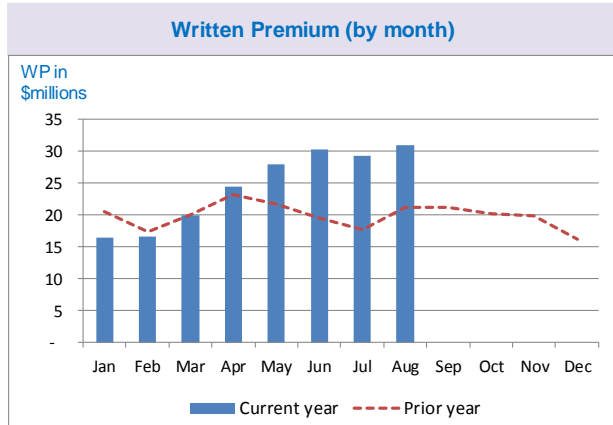


	Aug-16	Aug-15	Amt Chg	% Chg
Avg W. Prem YTD	1,791	1,763	28	1.6%

**Bulletin F16-070**  
**Ontario Risk Sharing Pool – August 2016 Operational Report**

---

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 46.2% for the month compared with the 59.1% increase we projected last month, and was up 21.6% year-to-date (see charts immediately below).



WP (\$000s) curr mth	Aug-16	Aug-15	Amt Chg	% Chg
	30,955	21,178	9,777	46.2%

WP (\$000s) YTD	Aug-16	Aug-15	Amt Chg	% Chg
	196,311	161,389	34,922	21.6%

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 August 2016 Operational Report – Actuarial Highlights](#)

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at June 30, 2016](#)

[Actuarial Quarterly Valuation Highlights Exhibits – Ontario RSP](#)



**SUMMARY OF OPERATIONS - CALENDAR YEAR 2016**  
**Risk Sharing Pool - Ontario**  
**Operating Results for the 8 Months Ended August 31, 2016 (Discounted basis)**  
*Source: Monthly Operational Report*  
(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	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	\$29,255	\$30,955	\$196,311	\$321,926	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$262	(\$4,644)	(\$6,907)	(\$9,316)	(\$6,877)	(\$7,643)	(\$29,170)	(\$54,742)	\$23,561
<b>Net Premiums Earned</b>	<b>\$20,266</b>	<b>\$18,943</b>	<b>\$20,308</b>	<b>\$19,877</b>	<b>\$21,046</b>	<b>\$21,011</b>	<b>\$22,378</b>	<b>\$23,312</b>	<b>\$167,141</b>	<b>\$267,184</b>	<b>\$262,568</b>
<b>Claims Incurred:</b>											
Prior Accident Years:											
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$50)	(\$65)	(\$23,117)	(\$69,376)	(\$69,377)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	233	(1,954)	(2,816)	(15,512)	(29,362)	(37,194)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$2,901)	(\$2,004)	(\$2,881)	(\$38,629)	(\$98,738)	(\$106,571)	(\$188,898)
Current Accident Year:											
Undiscounted	\$24,544	\$22,944	\$22,431	\$23,307	\$23,973	\$24,487	\$26,093	\$30,691	\$198,470	\$316,921	\$307,691
Effect of Discounting	3,598	2,733	2,632	2,629	2,973	2,697	3,025	4,444	24,731	39,928	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$26,946	\$27,184	\$29,118	\$35,135	\$223,201	\$356,849	\$342,646
<b>Claims Incurred</b>	<b>\$24,764</b>	<b>\$23,495</b>	<b>(\$19,795)</b>	<b>\$24,031</b>	<b>\$24,045</b>	<b>\$25,180</b>	<b>\$26,237</b>	<b>(\$3,494)</b>	<b>\$124,463</b>	<b>\$250,278</b>	<b>\$153,748</b>
<b>Underwriting Expenses:</b>											
Expense Allowance	\$4,926	\$4,981	\$5,959	\$7,212	\$8,209	\$8,906	\$8,616	\$9,150	\$57,959	\$95,644	\$70,525
Change in UPDR/DPAC:											
Undiscounted	(745)	(376)	(4,056)	1,084	281	1,847	1,492	2,605	2,132	5,967	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,517	1,135	2,240	6,229	10,363	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	3,364	2,627	4,845	8,361	16,330	(\$10,560)
<b>Underwriting Expenses</b>	<b>\$3,611</b>	<b>\$4,269</b>	<b>\$1,684</b>	<b>\$9,045</b>	<b>\$10,203</b>	<b>\$12,270</b>	<b>\$11,243</b>	<b>\$13,995</b>	<b>\$66,320</b>	<b>\$111,974</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>(\$13,202)</b>	<b>(\$16,439)</b>	<b>(\$15,102)</b>	<b>\$12,811</b>	<b>(\$23,642)</b>	<b>(\$95,068)</b>	<b>\$48,855</b>
<b>Administrative Expenses</b>	<b>\$80</b>	<b>\$128</b>	<b>\$142</b>	<b>\$104</b>	<b>\$116</b>	<b>\$109</b>	<b>\$98</b>	<b>\$105</b>	<b>\$882</b>	<b>\$1,464</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>(\$13,318)</b>	<b>(\$16,548)</b>	<b>(\$15,200)</b>	<b>\$12,706</b>	<b>(\$24,524)</b>	<b>(\$96,532)</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%	-13.8%	-9.5%	-12.9%	-165.7%	-59.1%	-39.9%	-71.9%
Current Accident Year	138.9%	135.5%	123.4%	130.5%	128.0%	129.4%	130.1%	150.7%	133.5%	133.6%	130.5%
All Accident Years Combined	122.2%	124.0%	-97.5%	120.9%	114.2%	119.9%	117.2%	-15.0%	74.4%	93.7%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	9.0%	46.0%	49.0%	58.9%	50.7%	60.5%	40.2%	42.5%	23.3%
<b>Combined Operating Ratio</b>	<b>140.4%</b>	<b>147.2%</b>	<b>-88.5%</b>	<b>166.9%</b>	<b>163.2%</b>	<b>178.8%</b>	<b>167.9%</b>	<b>45.5%</b>	<b>114.6%</b>	<b>136.2%</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