

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 080

DATE: OCTOBER 27, 2016

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

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

Please be advised that the September 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 Operating Result is -\$45.0 million and the incurred loss ratio to the end of 9 months is 80.9%, as summarized in the table below.

Amounts in \$000s	September 2016	September 2015	Year to date Sep 2016	Year to Date Sep 2015
Premiums Written	35,021	21,202	231,332	182,592
Premiums Earned	23,814	21,084	190,955	200,771
Claims Incurred	30,072	27,192	154,535	109,324
General Expenses	14,257	7,051	81,459	51,677
Operating Result	(20,515)	(13,159)	(45,039)	39,770
Ratios:				
Loss ratio % - Prior Accident Years	(5.5%)	(6.5%)	(52.4%)	(82.6%)
- Current Accident Year	131.8%	135.4%	133.3%	137.1%
<i>Total</i>	126.3%	128.9%	80.9%	54.5%
General Expenses %	59.9%	33.4%	42.7%	25.7%
Combined Operating Ratio	186.2%	162.3%	123.6%	80.2%

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 Operating Result to December 2016 is -\$92.8 million and the estimated combined operating ratio to December 2016 is 134.7%. This updated projection to the end of the year has improved by \$3.7 million from the projection provided last month (-\$96.5 million and 136.2%). This improvement is driven by a \$6.2 million reduction in projected written premium (and associated assumption updates), resulting in a lower projected net operating loss.

Current Month Results

The Ontario Risk Sharing Pool produced a -\$20.5 million Operating Result in the month of September 2016, a \$7.4 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$1.7 million unfavourable impact associated with the \$2.7 million increase in earned premium (at a combined ratio of 162.3%), with the remaining \$5.7 million deterioration stemming from the overall increase in the combined ratio (from 162.3% to 186.2% applied to \$23.8 million in earned premium).

The general expenses in the month of September 2016 increased by \$7.2 million (102.2%) compared with the same month last year. This increase is composed of a \$4.2 million increase in the expense allowance due to a \$13.8 million (65.2%) increase in written premium (expense allowance to written premium ratios remain almost the same, 29.9% in 2016 and 29.5% in 2015), with the remaining \$3.0 million increase generated by different impacts of changes in premium deficiency incurred in the month of September 2016 relative to September 2015.

This month’s results moved the year-to-date combined operating ratio from 114.6% at the end of 8 months to 123.6% at the end of 9 months. The 9.0 percentage point increase is composed of a 6.7 percentage point increase in the Prior Accident Years loss ratio, and a 2.5 percentage point increase in the expense ratio, offset by a 0.2 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.

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September 2016	Actual	Projection	Difference	Difference %
Premiums Written	35,021	35,023	(2)	(0.0%)
Premiums Earned	23,814	23,722	92	0.4%
Reported Losses				
Paid Losses	18,729	17,538	1,191	6.8%
Paid Expenses	1,525	1,460	65	4.5%
Change in Outstanding Losses	3,447	(635)	4,082	642.8%
Total Reported Losses	23,701	18,363	5,338	29.1%
Change in IBNR Provision*	6,371	11,843	(5,472)	
Change in Premium Deficiency (DPAC) *	3,711	3,736	(25)	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Ontario RSP September 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 September 2016, reported losses were \$5.3 million higher than projected. The Current Accident Year had a \$6.5 million unfavourable variance in reported losses, while the Prior Accident Years had an approximately \$1.2 million favourable variance. Of the Prior Accident Years, 2009 had the largest variance in reported losses at \$1.4 million unfavourable, followed by Accident Year 2011 at a \$1.3 million favourable, Accident Year 2010 at a \$1.2 million favourable and Accident Year 2013 at a \$1.1 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

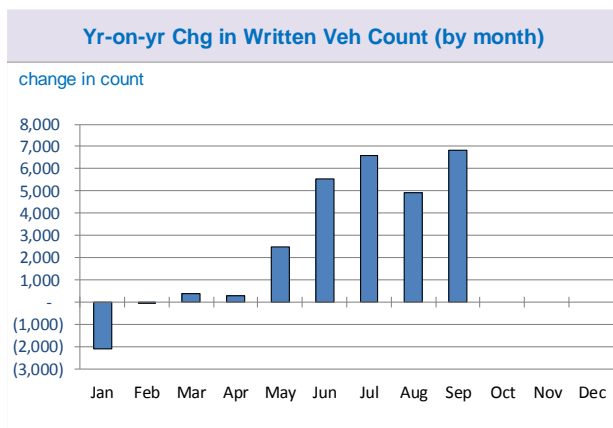
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

Effect of Quarterly Valuation

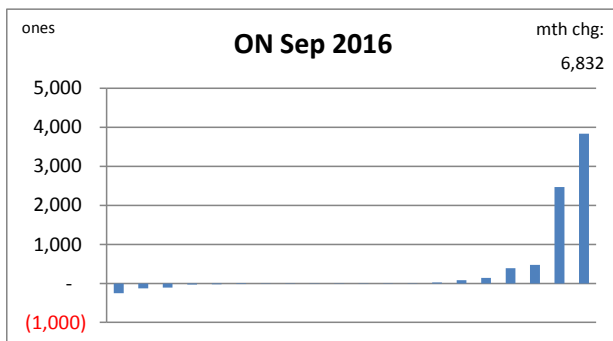
The September 2016 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at June 30, 2016). The actuarial valuation will be updated next as at September 30, 2016 and we anticipate that the results will be reflected in the October 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 27.2% from 2015, being 2.4% of the 2015 industry private passenger vehicle count including farmers (as we don't have an industry count yet for 2016, we continue to use the 2015 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.



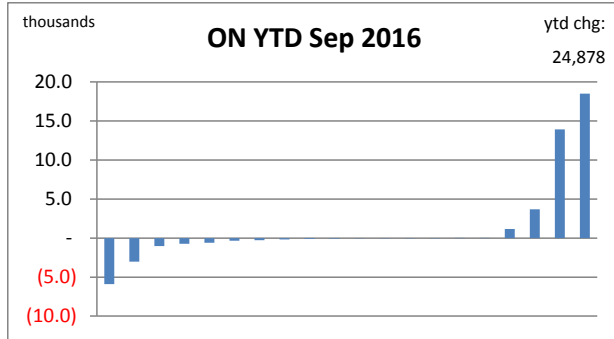
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with September reporting an increase of 6,832 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 6,722 vehicles, indicating a variance of 110 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in September 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 more¹. Of the 12 member company groups transferring fewer vehicles, 1 member

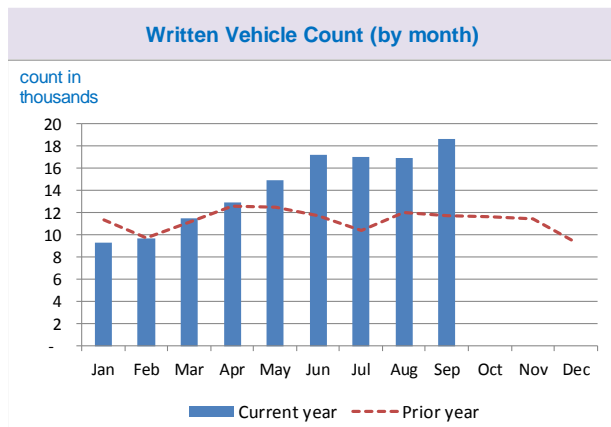
¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2015 or 2016. Groups that have not transferred vehicles in these two periods are ignored.

company group accounted for 44% of the total transfer decrease for the “decliner” members. Of the 8 member company groups transferring more vehicles, 2 member company groups accounted for 85% of the total transfer increases for the “grower” members.

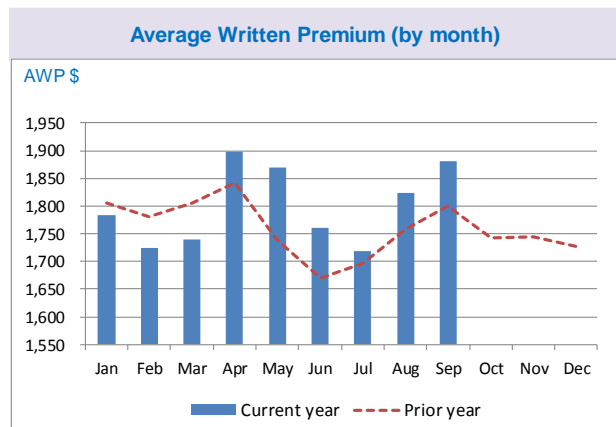


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

September’s year-on-year change in vehicle count transfers to the pool represents a 58.0% increase from September 2015, and counts were up 24.1% year-to-date. Average written premium was up 4.6% in September 2016 compared with the same month in 2015, and up 2.1% year-to-date (see charts immediately below and at the top of the next page).

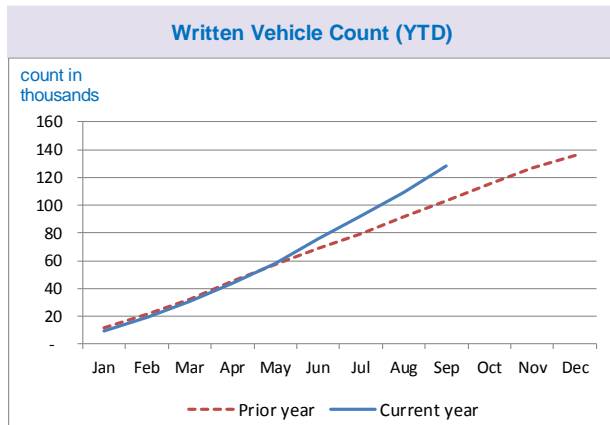


	Sep-16	Sep-15	Amt Chg	% Chg
W. Veh curr mth	18,620	11,788	6,832	58.0%

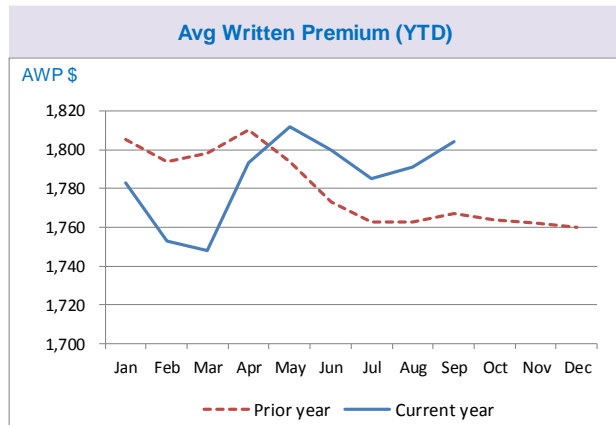


	Sep-16	Sep-15	Amt Chg	% Chg
AWP curr mth	1,881	1,799	82	4.6%

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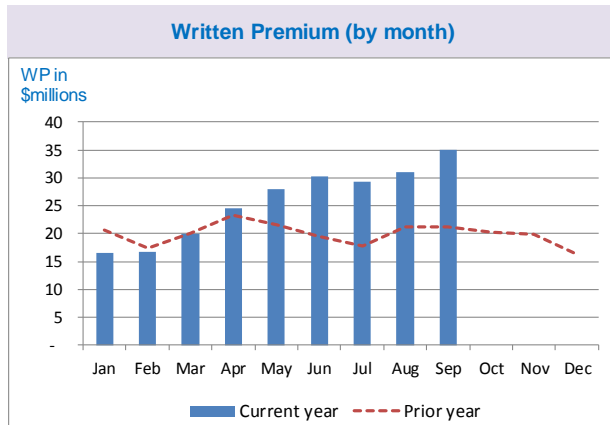


	Sep-16	Sep-15	Amt Chg	% Chg
W. Vehicles YTD	128,232	103,353	24,878	24.1%

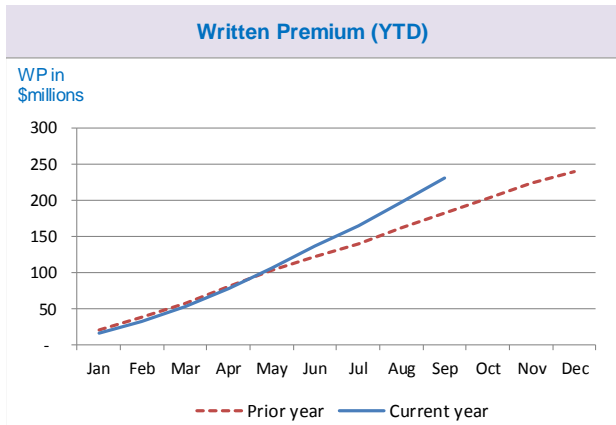


	Sep-16	Sep-15	Amt Chg	% Chg
Avg W. Prem YTD	1,804	1,767	37	2.1%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 65.2% for the month, the same increase as we projected last month, and was up 26.7% year-to-date (see charts immediately below).



	Sep-16	Sep-15	Amt Chg	% Chg
WP (\$000s) curr mth	35,021	21,202	13,819	65.2%



	Sep-16	Sep-15	Amt Chg	% Chg
WP (\$000s) YTD	231,332	182,591	48,741	26.7%

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 September 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Ontario

Operating Results for the 9 Months Ended September 30, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	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	\$35,021	\$231,332	\$315,737	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$262	(\$4,644)	(\$6,907)	(\$9,316)	(\$6,877)	(\$7,643)	(\$11,207)	(\$40,377)	(\$48,005)	\$23,561
Net Premiums Earned	\$20,266	\$18,943	\$20,308	\$19,877	\$21,046	\$21,011	\$22,378	\$23,312	\$23,814	\$190,955	\$267,732	\$262,568
Claims Incurred:												
Prior Accident Years:												
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$50)	(\$65)	(\$23,117)	(\$23)	(\$69,399)	(\$69,400)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	233	(1,954)	(2,816)	(15,512)	(1,283)	(30,645)	(36,824)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$2,901)	(\$2,004)	(\$2,881)	(\$38,629)	(\$1,306)	(\$100,044)	(\$106,224)	(\$188,898)
Current Accident Year:												
Undiscounted	\$24,544	\$22,944	\$22,431	\$23,307	\$23,973	\$24,487	\$26,093	\$30,691	\$28,221	\$226,691	\$317,594	\$307,691
Effect of Discounting	3,598	2,733	2,632	2,629	2,973	2,697	3,025	4,444	3,157	27,888	40,013	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$26,946	\$27,184	\$29,118	\$35,135	\$31,378	\$254,579	\$357,607	\$342,646
Claims Incurred	\$24,764	\$23,495	(\$19,795)	\$24,031	\$24,045	\$25,180	\$26,237	(\$3,494)	\$30,072	\$154,535	\$251,383	\$153,748
Underwriting Expenses:												
Expense Allowance	\$4,926	\$4,981	\$5,959	\$7,212	\$8,209	\$8,906	\$8,616	\$9,150	\$10,455	\$68,414	\$93,735	\$70,525
Change in UPDR/DPAC:												
Undiscounted	(745)	(376)	(4,056)	1,084	281	1,847	1,492	2,605	1,873	4,005	4,773	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,517	1,135	2,240	1,838	8,067	9,247	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	3,364	2,627	4,845	3,711	12,072	14,020	(\$10,560)
Underwriting Expenses	\$3,611	\$4,269	\$1,684	\$9,045	\$10,203	\$12,270	\$11,243	\$13,995	\$14,166	\$80,486	\$107,755	\$59,965
Net Underwriting Gain (Loss)	(\$8,109)	(\$8,821)	\$38,419	(\$13,199)	(\$13,202)	(\$16,439)	(\$15,102)	\$12,811	(\$20,424)	(\$44,066)	(\$91,406)	\$48,855
Administrative Expenses	\$80	\$128	\$142	\$104	\$116	\$109	\$98	\$105	\$91	\$973	\$1,383	\$1,309
Operating Result	(\$8,189)	(\$8,949)	\$38,277	(\$13,303)	(\$13,318)	(\$16,548)	(\$15,200)	\$12,706	(\$20,515)	(\$45,039)	(\$92,789)	\$47,546
Ratios:												
Claims & Expenses Incurred (Earned)												
Prior Accident Years	-16.7%	-11.5%	-220.9%	-9.6%	-13.8%	-9.5%	-12.9%	-165.7%	-5.5%	-52.4%	-39.7%	-71.9%
Current Accident Year	138.9%	135.5%	123.4%	130.5%	128.0%	129.4%	130.1%	150.7%	131.8%	133.3%	133.6%	130.5%
All Accident Years Combined	122.2%	124.0%	-97.5%	120.9%	114.2%	119.9%	117.2%	-15.0%	126.3%	80.9%	93.9%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	9.0%	46.0%	49.0%	58.9%	50.7%	60.5%	59.9%	42.7%	40.8%	23.3%
Combined Operating Ratio	140.4%	147.2%	-88.5%	166.9%	163.2%	178.8%	167.9%	45.5%	186.2%	123.6%	134.7%	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