

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F17 – 019

DATE: MARCH 30, 2017

**SUBJECT: ONTARIO RISK SHARING POOL
– FEBRUARY 2017 OPERATIONAL REPORT**

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

Please be advised that the February 2017 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 -\$29.9 million and the incurred loss ratio to the end of 2 months is 123.1%, as summarized in the table below.

Amounts in \$000s	February 2017	February 2016	Year to date Feb 2017	Year to Date Feb 2016
Premiums Written	26,562	16,711	55,438	33,254
Premiums Earned	27,075	18,943	55,952	39,209
Claims Incurred	33,102	23,495	68,876	48,259
General Expenses	8,111	4,397	16,981	8,088
Operating Result	(14,138)	(8,949)	(29,905)	(17,138)
Ratios:				
Loss ratio % - Prior Accident Years	(11.4%)	(11.5%)	(12.2%)	(14.2%)
- Current Accident Year	133.7%	135.5%	135.3%	137.3%
<i>Total</i>	122.3%	124.0%	123.1%	123.1%
General Expenses %	30.0%	23.2%	30.3%	20.6%
Combined Operating Ratio	152.3%	147.2%	153.4%	143.7%

Rounding differences may apply.

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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 2017” attached to this bulletin.

Updated Projection to Year-end 2017

The projected calendar year Operating Result to December 2017 is -\$240.5 million and the estimated combined operating ratio to December 2017 is 162.1%. This updated projection to the end of the year has deteriorated by \$18.7 million from the projection provided last month (-\$221.8 million and 159.2%). The deterioration is composed of an estimated \$7.5 million unfavourable impact associated with the \$12.7 million increase in projected earned premium (at a combined ratio of 159.2%), and a \$11.2 million deterioration stemming from the overall increase in the combined ratio (from 159.2% to 162.1% applied to \$387.3 million in projected earned premium).

Current Month Results

The Ontario Risk Sharing Pool produced a -\$14.1 million Operating Result in the month of February 2017, a \$5.2 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$3.8 million unfavourable impact associated with the \$8.1 million increase in earned premium (at a combined ratio of 147.2%), with the remaining \$1.4 million deterioration stemming from the overall increase in the combined ratio (from 147.2% to 152.3% applied to \$27.1 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 154.6% at the end of 1 month to 153.4% at the end of 2 months. The 1.2 percentage point decrease is composed of a 1.5 percentage point decrease in the Current Accident Year loss ratio, and a 0.4 percentage point decrease in the expense ratio, offset by a 0.7 percentage point increase in the Prior 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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February 2017	Actual	Projection	Difference	Difference %
Premiums Written	26,562	22,363	4,199	18.8%
Premiums Earned	27,075	26,894	181	0.7%
Reported Losses				
Paid Losses	24,760	22,814	1,946	8.5%
Paid Expenses	2,600	2,154	446	20.7%
Change in Outstanding Losses	1,980	1,211	769	63.5%
Total Reported Losses	29,340	26,179	3,161	12.1%
Change in IBNR Provision*	3,762	7,024	(3,262)	
Change in Premium Deficiency (DPAC) *	(15)	(1,406)	1,391	

(Amounts in \$000's)

Rounding differences may occur.

*Detailed information is included in [Ontario RSP February 2017 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 February 2017, reported losses were \$3.2 million higher than projected. The Current Accident Year had an approximately \$0.5 million unfavourable variance in reported losses, and the Prior Accident Years had a \$2.7 million unfavourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$1.7 million unfavourable, followed by Accident Year 2013 at a \$1.3 million unfavourable, Accident Year 2015 at a \$1.2 million unfavourable and Accident Year 2010 at a \$1.2 million favourable. 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 February 2017 Operational Report – Actuarial Highlights](#).

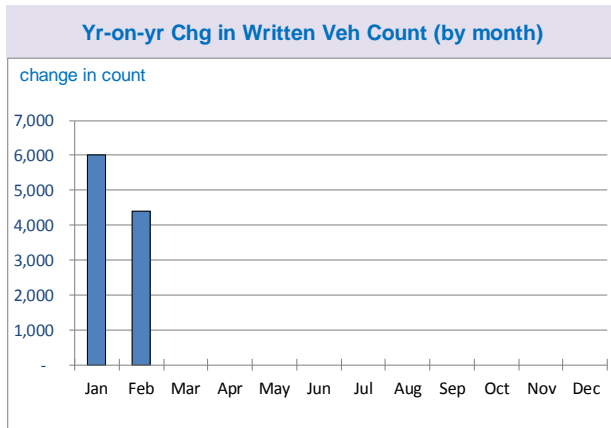
Effect of Quarterly Valuation

The February 2017 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2016). The actuarial

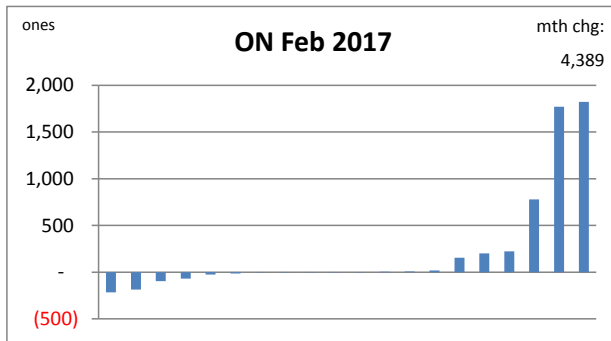
valuation will be updated next as at December 31, 2016 and we anticipate that the results will be reflected in the March 2017 Operational Report.

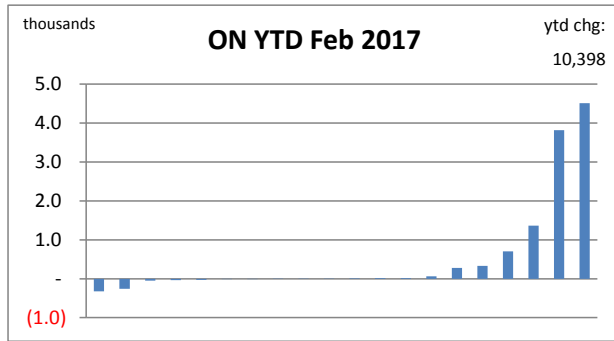
Management Comments

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 2017 vehicle count up 18.7% from 2016, being 3.0% 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.



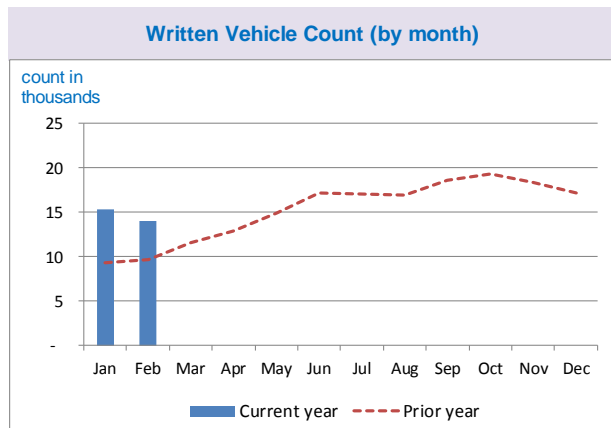
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with February reporting an increase of 4,389 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 2,515 vehicles, indicating a variance of 1,874 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in February than projected.



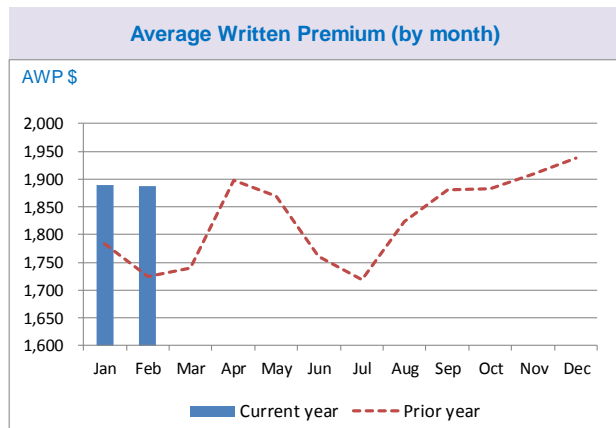


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

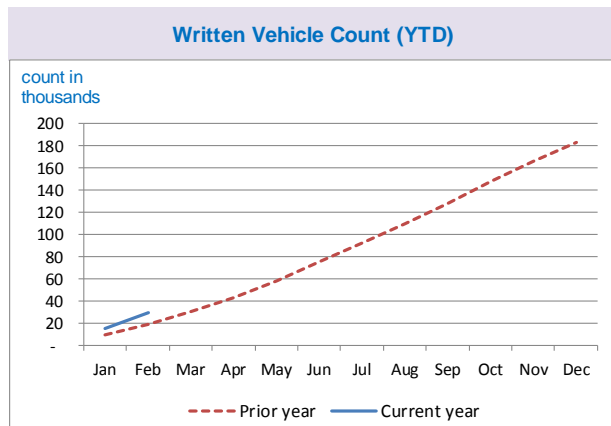
February’s year-on-year change in vehicle count transfers to the pool represents a 45.3% increase from February 2016, and counts were up 54.8% year-to-date. Average written premium was up 9.4% in February 2017 compared with the same month in 2016, and up 7.7% year-to-date (see charts immediately below).



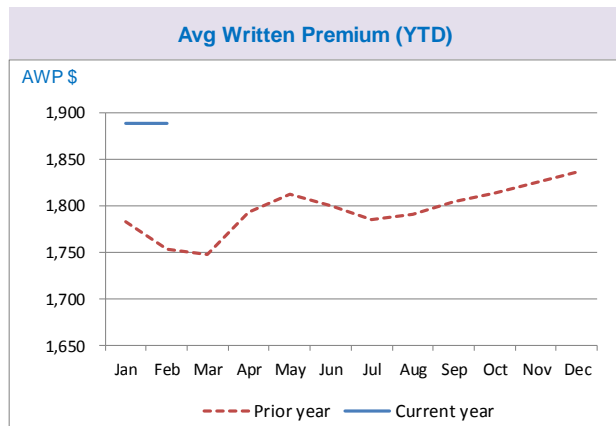
	Feb-17	Feb-16	Amt Chg	% Chg
W. Veh curr mth	14,079	9,690	4,389	45.3%



	Feb-17	Feb-16	Amt Chg	% Chg
AWP curr mth	1,887	1,725	162	9.4%



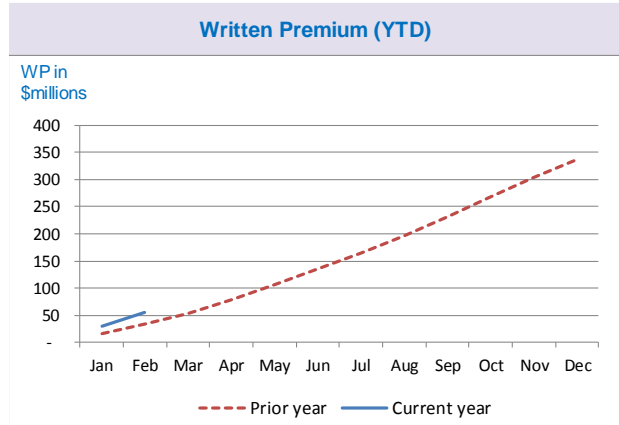
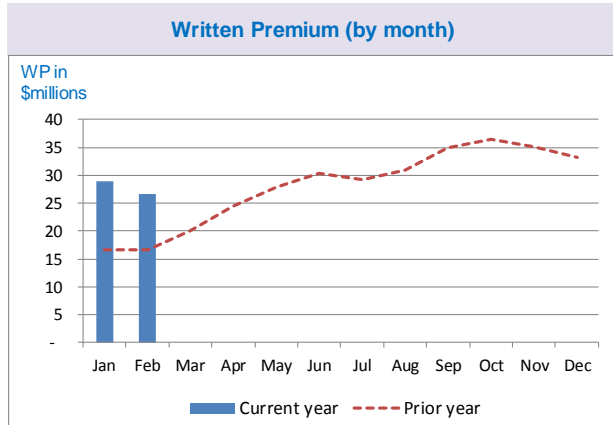
	Feb-17	Feb-16	Amt Chg	% Chg
W. Vehicles YTD	29,366	18,968	10,398	54.8%



	Feb-17	Feb-16	Amt Chg	% Chg
Avg W. Prem YTD	1,888	1,753	135	7.7%

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As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 58.9% for the month compared with the 33.8% increase we projected last month, and was up 66.7% year-to-date (see charts immediately below).



	Feb-17	Feb-16	Amt Chg	% Chg
WP (\$000s) curr mth	26,562	16,711	9,851	58.9%

	Feb-17	Feb-16	Amt Chg	% Chg
WP (\$000s) YTD	55,437	33,254	22,183	66.7%

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 February 2017 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Ontario

Operating Results for the 2 Months Ended February 28, 2017 (Discounted basis)

EXHIBIT 1

Source: Monthly Operational Report

(thousands of dollars)

	January	February	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Net Premiums Written	\$28,876	\$26,562	\$55,438	\$412,229	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$513	\$514	(\$24,938)	(\$65,186)
Net Premiums Earned	\$28,877	\$27,075	\$55,952	\$387,291	\$270,863
Claims Incurred:					
Prior Accident Years:					
Undiscounted	(\$57)	(\$181)	(\$238)	(\$238)	(\$70,534)
Effect of Discounting	(3,669)	(2,916)	(6,585)	(31,465)	(36,400)
Discounted	(\$3,726)	(\$3,097)	(\$6,823)	(\$31,703)	(\$106,934)
Current Accident Year:					
Undiscounted	\$33,991	\$31,994	\$65,985	\$455,309	\$323,543
Effect of Discounting	5,509	4,205	9,714	59,810	38,551
Discounted	\$39,500	\$36,199	\$75,699	\$515,119	\$362,094
Claims Incurred	\$35,774	\$33,102	\$68,876	\$483,416	\$255,160
Underwriting Expenses:					
Expense Allowance	\$8,709	\$8,005	\$16,714	\$121,969	\$99,733
Change in UPDR/DPAC:					
Undiscounted	45	48	93	14,947	7,831
Effect of Discounting	6	(63)	(57)	5,466	11,309
Discounted	51	(15)	36	20,413	\$19,140
Underwriting Expenses	\$8,760	\$7,990	\$16,750	\$142,382	\$118,873
Net Underwriting Gain (Loss)	(\$15,657)	(\$14,017)	(\$29,674)	(\$238,507)	(\$103,170)
Administrative Expenses	\$110	\$121	\$231	\$1,949	\$1,308
Operating Result	(\$15,767)	(\$14,138)	(\$29,905)	(\$240,456)	(\$104,478)
Ratios:					
Claims & Expenses Incurred (Earned)					
Prior Accident Years	-12.9%	-11.4%	-12.2%	-8.2%	-39.5%
Current Accident Year	136.8%	133.7%	135.3%	133.0%	133.7%
All Accident Years Combined	123.9%	122.3%	123.1%	124.8%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.0%	30.3%	37.3%	44.4%
Combined Operating Ratio	154.6%	152.3%	153.4%	162.1%	138.6%

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