

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F17 – 035**

**DATE: MAY 30, 2017**

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

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

Please be advised that the April 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 -\$8.4 million and the incurred loss ratio to the end of 4 months is 78.2%, as summarized in the table below.

<b>Amounts in \$000s</b>	<b>April 2017</b>	April 2016	<b>Year to date Apr 2017</b>	Year to Date Apr 2016
Premiums Written	29,169	24,521	116,323	77,821
Premiums Earned	30,382	19,877	117,217	79,394
Claims Incurred	38,083	24,031	91,676	52,495
General Expenses	9,235	9,149	33,937	19,063
<b>Operating Result</b>	<b>(16,936)</b>	<b>(13,303)</b>	<b>(8,396)</b>	<b>7,836</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Years</b>	<b>(6.0%)</b>	<b>(9.6%)</b>	<b>(54.3%)</b>	<b>(65.9%)</b>
- Current Accident Year	131.4%	130.5%	132.5%	132.0%
<i>Total</i>	<b>125.4%</b>	<b>120.9%</b>	<b>78.2%</b>	<b>66.1%</b>
<b>General Expenses %</b>	<b>30.4%</b>	<b>46.0%</b>	<b>29.0%</b>	<b>24.0%</b>
<b>Combined Operating Ratio</b>	<b>155.8%</b>	<b>166.9%</b>	<b>107.2%</b>	<b>90.1%</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 2017” attached to this bulletin.

*Updated Projection to Year-end 2017*

The projected calendar year Operating Result to December 2017 is -\$185.8 million and the estimated combined operating ratio to December 2017 is 148.3%. This updated projection to the end of the year has improved by \$4.1 million from the projection provided last month (-\$189.9 million and 148.7%). This improvement is driven by a \$7.5 million reduction in the projected written premium for the year.

*Current Month Results*

The Ontario Risk Sharing Pool produced a -\$16.9 million Operating Result in the month of April 2017, a \$3.6 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$7.0 million unfavourable impact associated with the \$10.5 million increase in earned premium (at a combined ratio of 166.9%), offset by a \$3.4 million improvement stemming from the overall decrease in the combined ratio (from 166.9% to 155.8% applied to \$30.4 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 90.1% at the end of 3 months to 107.2% at the end of 4 months. The 17.1 percentage point increase is composed of a 16.8 percentage point increase in the Prior Accident Year loss ratio, and a 0.6 percentage point increase in the expense ratio, offset by a 0.3 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.

April 2017	Actual	Projection	Difference	Difference %
Premiums Written	29,169	36,659	(7,490)	(20.4%)
Premiums Earned	30,382	31,251	(869)	(2.8%)
Reported Losses				
Paid Losses	21,715	24,766	(3,051)	(12.3%)
Paid Expenses	1,669	1,978	(309)	(15.6%)
Change in Outstanding Losses	5,714	(388)	6,102	>999.9%
<b>Total Reported Losses</b>	<b>29,098</b>	<b>26,356</b>	<b>2,742</b>	<b>10.4%</b>
Change in IBNR Provision*	8,985	12,402	(3,417)	
Change in Premium Deficiency (DPAC) *	166	2,405	(2,239)	

(Amounts in \$000's)

Rounding differences may occur.

\*Detailed information is included in [Ontario RSP April 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 April 2017, reported losses were \$2.7 million higher than projected. The Current Accident Year had a \$0.4 million unfavourable variance in reported losses, and the Prior Accident Years had a \$2.3 million unfavourable variance. Of the Prior Accident Years, 2014 had the largest variance in reported losses at \$2.2 million unfavourable, followed by Accident Year 2016 at a \$1.2 million favourable, Accident Year 2013 at a \$1.2 million unfavourable and Accident Year 2015 at a \$1.0 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 the Prior Accident Years for the month. Management investigated reported claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

### Booking IBNR

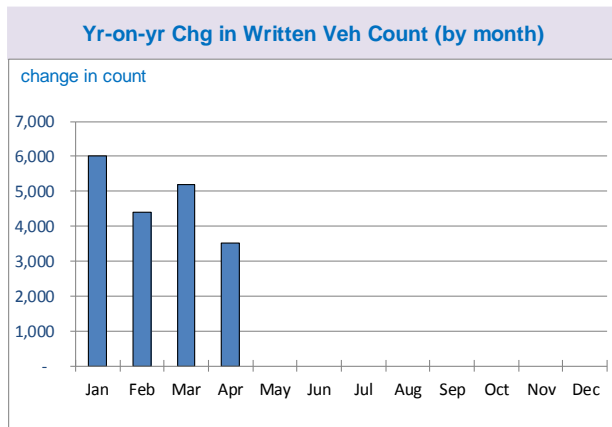
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 April 2017 Operational Report – Actuarial Highlights](#).

### Effect of Quarterly Valuation

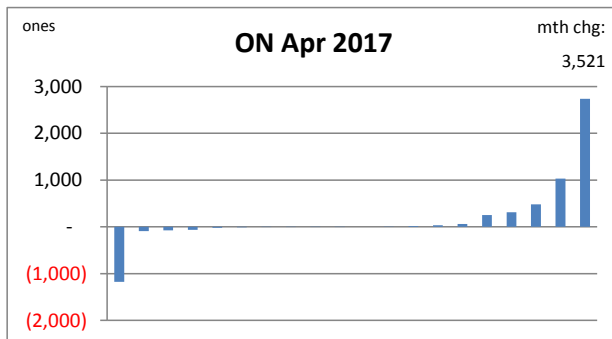
The April 2017 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at December 31, 2016). The actuarial valuation will be updated next as at March 31, 2017 and we anticipate that the results will be reflected in the May 2017 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 19.6% 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.



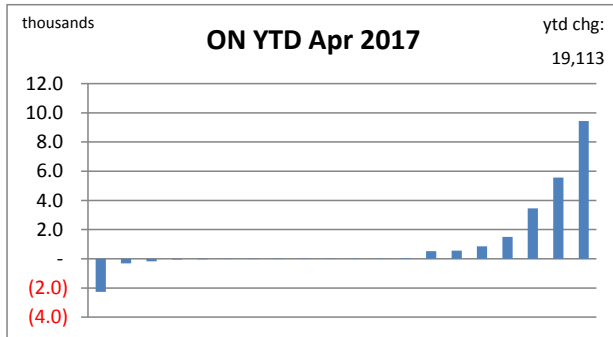
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with April reporting an increase of 3,521 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 5,785 vehicles, indicating a variance of 2,264 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in April 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 nine transferred more<sup>1</sup> and one remained the same. Of the 10 member company groups

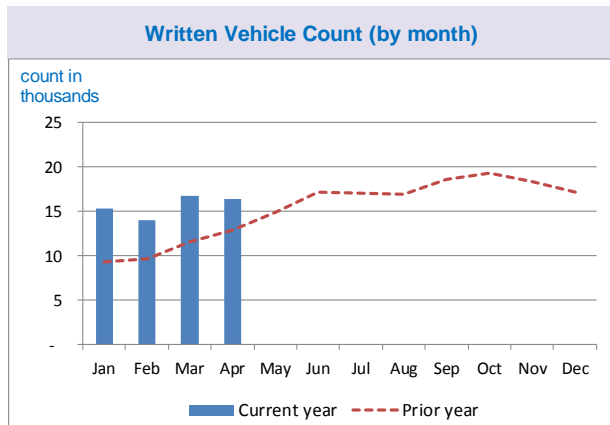
<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2016 or 2017. Groups that have not transferred vehicles in these two periods are ignored.

transferring fewer vehicles, 1 member company group accounted for 82% of the total transfer decrease for the “decliner” members. Of the 9 member company groups transferring more vehicles, 1 member company group accounted for 55% of the total transfer increases for the “grower” members.

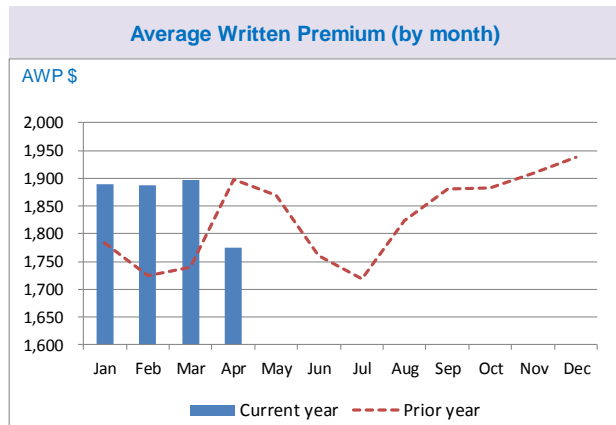


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

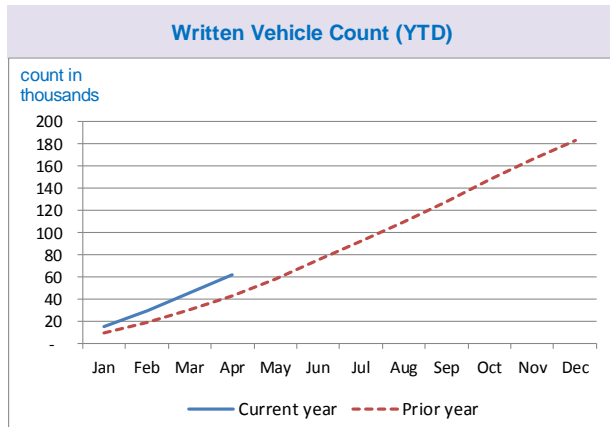
April’s year-on-year change in vehicle count transfers to the pool represents a 27.3% increase from April 2016, and counts were up 44.0% year-to-date. Average written premium was down 6.5% in April 2017 compared with the same month in 2016, but up 3.7% year-to-date (see charts immediately below and at the top of the next page).



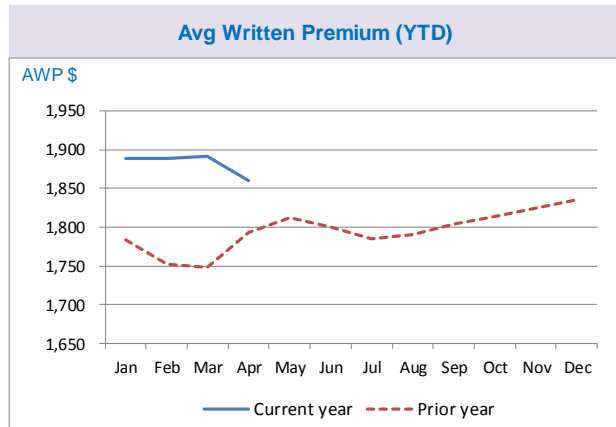
	Apr-17	Apr-16	Amt Chg	% Chg
W. Veh curr mth	16,440	12,919	3,521	27.3%



	Apr-17	Apr-16	Amt Chg	% Chg
AWP curr mth	1,774	1,898	(124)	-6.5%

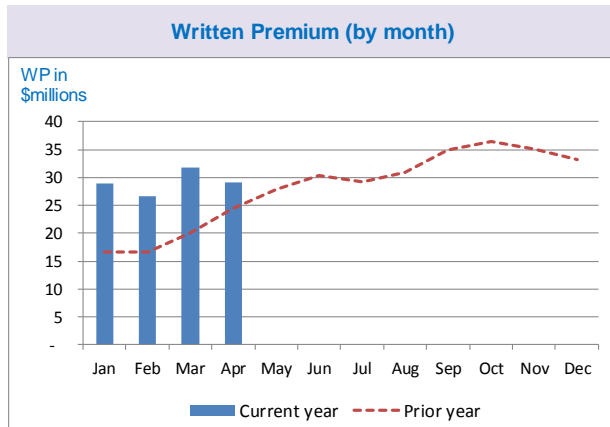


	Apr-17	Apr-16	Amt Chg	% Chg
W. Vehicles YTD	62,526	43,414	19,113	44.0%

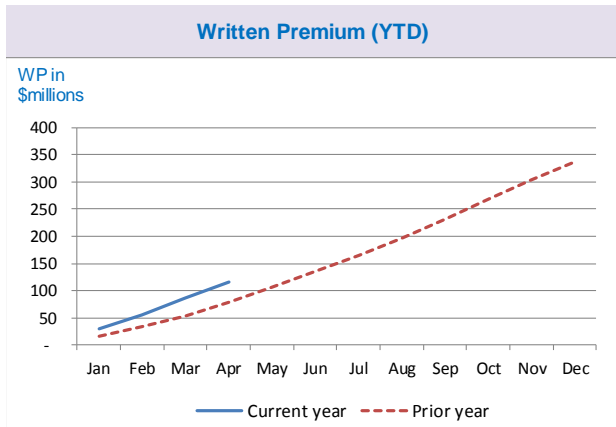


	Apr-17	Apr-16	Amt Chg	% Chg
Avg W. Prem YTD	1,860	1,793	67	3.7%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 19.0% for the month compared with the 49.5% increase we projected last month, and was up 49.5% year-to-date (see charts immediately below).



	Apr-17	Apr-16	Amt Chg	% Chg
WP (\$000s) curr mth	29,169	24,521	4,648	19.0%



	Apr-17	Apr-16	Amt Chg	% Chg
WP (\$000s) YTD	116,323	77,821	38,502	49.5%

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 April 2017 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2017**

Risk Sharing Pool - Ontario

Operating Results for the 4 Months Ended April 30, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Net Premiums Written	\$28,876	\$26,562	\$31,716	\$29,169	\$116,323	\$417,527	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$513	(\$833)	\$1,213	\$894	(\$32,658)	(\$65,186)
<b>Net Premiums Earned</b>	<b>\$28,877</b>	<b>\$27,075</b>	<b>\$30,883</b>	<b>\$30,382</b>	<b>\$117,217</b>	<b>\$384,869</b>	<b>\$270,863</b>
<b>Claims Incurred:</b>							
Prior Accident Years:							
Undiscounted	(\$57)	(\$181)	(\$36,952)	(\$90)	(\$37,280)	(\$37,280)	(\$70,534)
Effect of Discounting	(3,669)	(2,916)	(17,985)	(1,748)	(26,318)	(43,204)	(36,400)
Discounted	(\$3,726)	(\$3,097)	(\$54,937)	(\$1,838)	(\$63,598)	(\$80,484)	(\$106,934)
Current Accident Year:							
Undiscounted	\$33,991	\$31,994	\$36,797	\$35,910	\$138,692	\$454,253	\$323,543
Effect of Discounting	5,509	4,205	2,857	4,011	16,582	49,969	38,551
Discounted	\$39,500	\$36,199	\$39,654	\$39,921	\$155,274	\$504,222	\$362,094
<b>Claims Incurred</b>	<b>\$35,774</b>	<b>\$33,102</b>	<b>(\$15,283)</b>	<b>\$38,083</b>	<b>\$91,676</b>	<b>\$423,738</b>	<b>\$255,160</b>
<b>Underwriting Expenses:</b>							
Expense Allowance	\$8,709	\$8,005	\$9,598	\$8,938	\$35,250	\$124,108	\$99,733
Change in UPDR/DPAC:							
Undiscounted	45	48	1,238	279	1,610	18,234	7,831
Effect of Discounting	6	(63)	(3,226)	(113)	(3,396)	2,683	11,309
Discounted	51	(15)	(1,988)	166	(1,786)	20,917	\$19,140
<b>Underwriting Expenses</b>	<b>\$8,760</b>	<b>\$7,990</b>	<b>\$7,610</b>	<b>\$9,104</b>	<b>\$33,464</b>	<b>\$145,025</b>	<b>\$118,873</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$15,657)</b>	<b>(\$14,017)</b>	<b>\$38,556</b>	<b>(\$16,805)</b>	<b>(\$7,923)</b>	<b>(\$183,894)</b>	<b>(\$103,170)</b>
<b>Administrative Expenses</b>	<b>\$110</b>	<b>\$121</b>	<b>\$111</b>	<b>\$131</b>	<b>\$473</b>	<b>\$1,932</b>	<b>\$1,308</b>
<b>Operating Result</b>	<b>(\$15,767)</b>	<b>(\$14,138)</b>	<b>\$38,445</b>	<b>(\$16,936)</b>	<b>(\$8,396)</b>	<b>(\$185,826)</b>	<b>(\$104,478)</b>
<b>Ratios:</b>							
<b>Claims &amp; Expenses Incurred (Earned)</b>							
Prior Accident Years	-12.9%	-11.4%	-177.9%	-6.0%	-54.3%	-20.9%	-39.5%
Current Accident Year	136.8%	133.7%	128.4%	131.4%	132.5%	131.0%	133.7%
All Accident Years Combined	123.9%	122.3%	-49.5%	125.4%	78.2%	110.1%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.0%	25.0%	30.4%	29.0%	38.2%	44.4%
<b>Combined Operating Ratio</b>	<b>154.6%</b>	<b>152.3%</b>	<b>-24.5%</b>	<b>155.8%</b>	<b>107.2%</b>	<b>148.3%</b>	<b>138.6%</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