



TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F17 – 042
DATE: JUNE 29, 2017
SUBJECT: FARM – APRIL 2017 PARTICIPATION REPORT

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

Please be advised that the April 2017 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

New This Month

Annual Update of Member Sharing Ratios

The April 2017 FARM Participation Report reflects the annual update of member sharing ratios for Accident Years 2015, 2016, 2017 and 2018. Please refer to Bulletin [F17-048](#) for additional information.

Summary of Financial Results

The calendar year-to-date Operating Result is \$22.5 million and the incurred loss ratio to the end of 4 months is 36.5%, as summarized in the table at the top of the next page.

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Amounts in \$000s	Apr 2017	Apr 2016	Year to date Apr 2017	Year to Date Apr 2016
Written Premiums	16,316	16,323	51,564	50,421
Earned Premiums	13,662	14,380	54,966	58,750
Incurred Losses	9,164	9,787	20,029	37,915
Underwriting Expenses and Others	3,584	3,619	12,400	12,835
Net Result from Operations	914	974	22,537	8,000
Ratios:				
Loss ratio % - Prior Accident Year	(5.7%)	(4.1%)	(36.2%)	(8.4%)
- Current Accident Years	72.7%	72.2%	72.7%	72.9%
<i>Total</i>	67.0%	68.1%	36.5%	64.5%
Underwriting & Admin Exp. %	26.3%	25.2%	22.6%	21.9%
Combined Operating Ratio	93.3%	93.3%	59.1%	86.4%

Rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2017 - All jurisdictions by month”. A comparable summary by jurisdiction is included in Exhibit 2. Detailed exhibits by jurisdiction are included in a separate folder on our website called [“Summary of Operations”](#).

Updated Projection to Year-end 2017

The projected calendar year Net Result from Operations to December 2017 is \$33.7 million and the estimated combined operating ratio to December 2017 is 80.5%. This updated projection to the end of the year has deteriorated \$0.5 million from the projection provided last month (\$34.2 million and 80.3%). The main cause of this deterioration is a \$1.9 million decrease in projected claims payments for Ontario non-private passenger during 2017, which reduces the associated projected release of actuarial present value adjustments (releases into income will occur after 2017 based on the updated projections). Reductions in Alberta writings have also contributed to the projected operating result decline.

We want to draw your attention to the fact that the Ontario Prior Accident Years (PAYs) claims ratio has a 25.2 percentage point decrease (from -7.3% to -32.5%) from that included in the FARM Final Outlook for Calendar Year 2017 (please see member bulletin [F16-077](#)), contributing to the significant decrease in the year-end projected combined operating ratio (from 82.5% to 57.0%). Compared to the March ratio, the Ontario PAYs claims ratio has a 0.6 percentage point increase (from -33.1% to -32.5%), driven by the above mentioned deterioration of a \$1.9 million decrease in projected claims payments for Ontario non-private passenger during 2017. The significant decrease in Ontario PAYs claims ratio from the Final Outlook to March 2017 (from -7.3% to -33.1%) resulted from the implementation of a valuation as at December 31, 2016 reflected in the March 2017 Participation Report. Please see details in the table at the top of the next page.

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RATIOS	Final Outlook for Calendar Year 2017 - Based on August 2016 Participation Report	Summary of Operations - March 2017	Summary of Operations - April 2017
Claims & Adj Expenses Incurred (Earned)			
Prior Accident Year	-7.3%	-33.1%	-32.5%
Current Accident Years	70.1%	69.2%	69.4%
All Accident Years Combined	62.8%	36.1%	36.9%
Underwriting & Admin Exp.(Earned)	19.7%	20.0%	20.1%
COMBINED OPERATING RATIO	82.5%	56.1%	57.0%

Current month results

The Net Results from Operations in the month of April 2017 was \$0.9 million, insignificantly changed from the same month last year.

This month's results moved the year-to-date combined operating ratio from 47.8% at the end of 3 months to 59.1% at the end of 4 months. The 11.3 percentage point increase is composed of a 10.1 percentage point increase in the Prior Accident Years loss ratio, and a 1.2 percentage point increase in the expense ratio.

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.

April 2017	Actual	Projection	Difference	Difference %
Written Premiums	16,316	17,242	(926)	(5.4%)
Earned Premiums	13,662	14,406	(744)	(5.2%)
Reported Losses				
Paid Losses	12,702	11,482	1,220	10.6%
Change in Outstanding Losses	(5,340)	(1,276)	(4,064)	(318.5%)
Total Reported Losses	7,362	10,206	(2,844)	(27.9%)
Change in IBNR *	2,180	192	1,988	
Change in Premium Deficiency (DPAC) *	(188)	(261)	73	
Change in Retro Claims Expense *	(378)	(1,379)	1,001	

(Amounts in \$000 's)

Rounding differences may occur

*Detailed information is included in [FARM April 2017 Participation 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.

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Although variances from our projections are expected, management investigates variances beyond set thresholds and responds as appropriate.

For the month of April 2017, reported indemnity amounts were \$2.5 million lower than projected (*allowed claims expenses are included in table above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows \$2.8 million*). The Current Accident Year had a \$1.3 million favourable variance in reported indemnity, and the Prior Accident Years had a favourable variance of \$1.2 million. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$1.5 million favourable. No other single Prior Accident Year had a reported indemnity variance in excess of \$1.0 million.

The variances for claims activity that were beyond the set thresholds at the jurisdiction, business segment level, and accident year group (i.e. Prior Accident Years vs. Current Accident Year) were investigated by Management. Management 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 for the most recent accident years back to 1994 (for accident years 1993 and earlier, IBNR is held at \$0). This is consistent with management's investigation into reported claims variances, concluding they were random and not necessarily indicative of a trend.

Effect of Quarterly Valuation

The April 2017 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at December 31, 2016 for all jurisdictions and business segments. The actuarial valuation will be updated next as at March 31, 2017 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the May 2017 Participation Report.

Management Comments

As shown in the table below, the private passenger annualized vehicle counts decreased by 9.2% overall in April 2017 relative to April 2016. On a year-to-date basis, exposure counts are down by 5.0%, decreasing in all jurisdictions except Ontario.

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FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of April 2017				Calendar YTD as of April 2017			
	2017	2016	Chg	% Chg	2017	2016	Chg	% Chg
Ontario	178	191	(13)	(6.6%)	589	543	46	8.4%
Alberta	145	166	(21)	(12.8%)	450	534	(84)	(15.8%)
Newfoundland & Labrador	909	969	(60)	(6.1%)	2,990	3,046	(56)	(1.8%)
New Brunswick	607	681	(74)	(10.9%)	2,124	2,220	(95)	(4.3%)
Nova Scotia	297	322	(25)	(7.7%)	1,154	1,157	(4)	(0.3%)
Prince Edward Island	131	140	(9)	(6.1%)	366	429	(63)	(14.7%)
Yukon	16	23	(7)	(28.6%)	40	76	(35)	(46.7%)
Northwest Territories	201	222	(20)	(9.2%)	755	852	(97)	(11.4%)
Nunavut	15	38	(23)	(60.8%)	40	101	(61)	(60.2%)
All Jurisdictions	2,499	2,751	(252)	(9.2%)	8,509	8,959	(450)	(5.0%)

Rounding differences may occur

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 link:

[FARM April 2017 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 4 months ended April 30, 2017 (Discounted Basis)

Source: Monthly (Accident Year) Member Participation Report as at 04/2017

(thousands of dollars)

	January	February	March	April	CY2017 YTD	CY2017 12 Months Updated Projections	CY2016 12 Months Actual
UNDERWRITING REVENUE:							
PREMIUMS WRITTEN	\$10,584	\$10,637	\$14,027	\$16,316	\$51,564	\$179,235	\$171,000
CHANGE IN UNEARNED PREMIUMS	3,684	2,114	258	(2,654)	3,402	(6,732)	7,060
NET PREMIUMS EARNED	\$14,268	\$12,751	\$14,285	\$13,662	\$54,966	\$172,503	\$178,060
CLAIMS INCURRED							
PRIOR ACCIDENT YEARS							
UNDISCOUNTED	(132)	156	(10,108)	(64)	(10,148)	(10,152)	(2,129)
EFFECT OF DISCOUNTING	(790)	(707)	(7,562)	(708)	(9,767)	(15,506)	(1,579)
DISCOUNTED	(922)	(551)	(17,670)	(772)	(19,915)	(25,658)	(3,708)
CURRENT ACCIDENT YEAR							
UNDISCOUNTED	9,713	8,799	9,702	9,371	37,585	117,773	127,293
EFFECT OF DISCOUNTING	871	654	269	565	2,359	6,557	8,574
DISCOUNTED	10,584	9,453	9,971	9,936	39,944	124,330	135,867
CLAIMS INCURRED	\$9,662	\$8,902	(\$7,699)	\$9,164	\$20,029	\$98,672	\$132,159
UNDERWRITING EXPENSES							
OPERATING & SERVICE FEES	1,080	1,093	1,464	1,730	5,367	18,297	17,653
AGENTS COMMISSIONS	873	869	1,185	1,322	4,249	15,044	14,416
DRIVER RECORD ABSTRACTS	177	239	265	321	1,002	2,733	3,068
BAD DEBTS	(2)	(1)	(5)	0	(8)	(9)	(179)
PREMIUM DEFICIENCY/(DPAC)							
UNDISCOUNTED	266	183	(93)	(203)	153	(881)	331
EFFECT OF DISCOUNTING	(24)	1	100	15	92	375	112
DISCOUNTED	242	184	7	(188)	245	(506)	443
UNDERWRITING EXPENSES	\$2,370	\$2,384	\$2,916	\$3,185	\$10,855	\$35,559	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$2,236	\$1,465	\$19,068	\$1,313	\$24,082	\$38,272	\$10,500
ADMINISTRATIVE EXPENSES	379	421	361	408	1,569	4,660	4,999
PREMIUM FINANCE FEE	(9)	(8)	(10)	(7)	(34)	(27)	(108)
INVESTMENT INCOME	13	11	18	16	58	162	226
OPERATING RESULTS	\$1,861	\$1,047	\$18,715	\$914	\$22,537	\$33,747	\$5,619
RATIOS:							
Claims & Adj Expenses Incurred (Earned)							
Prior Accident Year	-6.5%	-4.3%	-123.7%	-5.7%	-36.2%	-14.9%	-2.1%
Current Accident Years	74.2%	74.1%	69.8%	72.7%	72.7%	72.1%	76.3%
All Accident Years Combined	67.7%	69.8%	-53.9%	67.0%	36.5%	57.2%	74.2%
Underwriting & Admin Exp.(Earned)	19.3%	22.0%	22.9%	26.3%	22.6%	23.3%	22.7%
COMBINED OPERATING RATIO	87.0%	91.8%	-31.0%	93.3%	59.1%	80.5%	96.9%

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 4 months ended April 30, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 04/2017
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2017 12 Months Updated Projections	CY2016 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$15,621	\$12,963	\$5,293	\$1,246	\$5,998	\$8,242	\$431	\$1,574	\$196	\$51,564	\$179,235	\$171,000
CHANGE IN UNEARNED PREMIUMS	1,668	(541)	434	273	600	736	148	(124)	208	3,402	(\$6,732)	\$7,060
NET PREMIUMS EARNED	\$17,289	\$12,422	\$5,727	\$1,519	\$6,598	\$8,978	\$579	\$1,450	\$404	\$54,966	\$172,503	\$178,060
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(978)	(6,389)	(1,693)	211	126	(163)	(230)	(889)	(143)	(10,148)	(\$10,152)	(\$2,129)
EFFECT OF DISCOUNTING	(2,466)	(4,190)	(736)	(178)	(662)	(1,106)	(99)	(292)	(38)	(9,767)	(\$15,506)	(\$1,579)
DISCOUNTED	(3,444)	(10,579)	(2,429)	33	(536)	(1,269)	(329)	(1,181)	(181)	(19,915)	(25,658)	(3,708)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	11,137	8,034	4,187	864	4,481	7,599	372	730	181	37,585	\$117,773	\$127,293
EFFECT OF DISCOUNTING	607	673	245	64	264	433	24	37	12	2,359	\$6,557	\$8,574
DISCOUNTED	11,744	8,707	4,432	928	4,745	8,032	396	767	193	39,944	124,330	135,867
CLAIMS INCURRED	\$8,300	(\$1,872)	\$2,003	\$961	\$4,209	\$6,763	\$67	(\$414)	\$12	\$20,029	\$98,672	\$132,159
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	1,563	1,402	530	125	656	873	42	157	19	5,367	\$18,297	\$17,653
AGENTS COMMISSIONS	1,336	774	463	118	576	773	38	154	17	4,249	\$15,044	\$14,416
DRIVER RECORD ABSTRACTS	245	60	246	61	193	151	10	30	6	1,002	\$2,733	\$3,068
BAD DEBTS	1	(2)	0	0	1	(8)	0	0	0	(8)	(\$9)	(\$179)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	147	(35)	36	26	51	(95)	14	(11)	20	153	(\$881)	\$331
EFFECT OF DISCOUNTING	0	0	0	0	0	92	0	0	0	92	\$375	\$112
DISCOUNTED	147	(35)	36	26	51	(3)	14	(11)	20	245	(506)	443
UNDERWRITING EXPENSES	\$3,292	\$2,199	\$1,275	\$330	\$1,477	\$1,786	\$104	\$330	\$62	\$10,855	\$35,559	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$5,697	\$12,095	\$2,449	\$228	\$912	\$429	\$408	\$1,534	\$330	\$24,082	\$38,272	\$10,500
ADMINISTRATIVE EXPENSES	427	376	161	54	178	250	33	64	26	1,569	\$4,660	\$4,999
PREMIUM FINANCE FEE	(11)	(12)	(3)	0	(3)	(5)	0	0	0	(34)	(\$27)	(\$108)
INVESTMENT INCOME	14	22	4	0	7	10	0	1	0	58	\$162	\$226
OPERATING RESULTS	\$5,273	\$11,729	\$2,289	\$174	\$738	\$184	\$375	\$1,471	\$304	\$22,537	\$33,747	\$5,619
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-19.9%	-85.2%	-42.4%	2.2%	-8.1%	-14.1%	-56.8%	-81.4%	-44.8%	-36.2%	-14.9%	-2.1%
Current Accident Years	67.9%	70.1%	77.4%	61.1%	71.9%	89.5%	68.4%	52.9%	47.8%	72.7%	72.1%	76.3%
All Accident Years Combined	48.0%	-15.1%	35.0%	63.3%	63.8%	75.4%	11.6%	-28.5%	3.0%	36.5%	57.2%	74.2%
Underwriting & Admin Exp.(Earned)	21.5%	20.7%	25.1%	25.3%	25.1%	22.7%	23.7%	27.2%	21.8%	22.6%	23.3%	22.7%
COMBINED OPERATING RATIO	69.5%	5.6%	60.1%	88.6%	88.9%	98.1%	35.3%	-1.3%	24.8%	59.1%	80.5%	96.9%

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