

TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F17 – 061
DATE: AUGUST 29, 2017
SUBJECT: FARM – JUNE 2017 PARTICIPATION REPORT

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

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

Summary of Financial Results

The calendar year-to-date Operating Result is \$10.4 million and the incurred loss ratio to the end of 6 months is 62.6%, as summarized in the table immediately below.

Amounts in \$000s	June 2017	June 2016	Year to date Jun 2017	Year to Date Jun 2016
Written Premiums	20,989	19,074	93,409	90,634
Earned Premiums	14,635	14,860	84,185	88,744
Incurred Losses	10,039	9,683	52,756	63,298
Underwriting Expenses and Others	4,189	4,075	21,031	21,213
Net Result from Operations	407	1,102	10,398	4,233
Ratios:				
Loss ratio % - Prior Accident Year	(4.8%)	(6.3%)	(10.8%)	(1.4%)
- Current Accident Years	73.4%	71.5%	73.4%	72.7%
<i>Total</i>	68.6%	65.2%	62.6%	71.3%
<i>Underwriting & Admin Exp. %</i>	28.7%	27.5%	25.0%	24.0%
<i>Combined Operating Ratio</i>	97.3%	92.7%	87.6%	95.3%

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”](#).

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Updated Projection to Year-end 2017

The projected calendar year Net Result from Operations to December 2017 is \$20.7 million and the estimated combined operating ratio to December 2017 is 88.1%. This updated projection to the end of the year has not changed significantly from the projection provided last month (\$20.6 million and 88.1%).

Current month results

The Net Results from Operations in the month of June 2017 was \$0.4 million, down \$0.7 million from the same month last year. This deterioration mainly stems from the overall increase in the combined ratio (from 92.7% to 97.3% applied to \$14.6 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 85.8% at the end of 5 months to 87.6% at the end of 6 months. The 1.8 percentage point increase is composed of a 1.2 percentage point increase in the Prior Accident Years loss ratio, and a 0.7 percentage point increase in the expense ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss 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.

June 2017	Actual	Projection	Difference	Difference %
Written Premiums	20,989	20,196	793	3.9%
Earned Premiums	14,635	14,391	244	1.7%
Reported Losses				
Paid Losses	11,938	10,955	983	9.0%
Change in Outstanding Losses	180	(1,003)	1,183	(117.9%)
Total Reported Losses	12,118	9,952	2,166	21.8%
Change in IBNR *	(1,852)	571	(2,423)	
Change in Premium Deficiency (DPAC) *	(440)	(463)	23	
Change in Retro Claims Expense *	(227)	(1,280)	1,053	

(Amounts in \$000's)

Rounding differences may occur

*Detailed information is included in [FARM June 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. Although variances from our projections are expected, management investigates variances beyond set thresholds and responds as appropriate. For the month of June 2017, reported indemnity

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amounts were \$2.5 million higher than projected (*allowed claims expenses are included in table at the bottom of the prior page as part of reported losses, explaining why the variance in Total Reported Losses in the table shows \$2.2 million*). The Current Accident Year had a \$0.5 million favourable variance in reported indemnity, while the Prior Accident Years had an unfavourable variance of \$3.0 million. No 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 June 2017 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at March 31, 2017 for all jurisdictions and business segments. The actuarial valuation will be updated next as at June 30, 2017 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the August 2017 Participation Report.

Management Comments

As shown in the table at the top of the next page, the private passenger annualized vehicle counts increased by 2.5% overall in June 2017 relative to June 2016. On a year-to-date basis, exposure counts are down by 3.0%, decreasing in all jurisdictions except Ontario, Newfoundland & Labrador and Nova Scotia.

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FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of June 2017				Calendar YTD as of June 2017			
	2017	2016	Chg	% Chg	2017	2016	Chg	% Chg
Ontario	280	226	54	23.8%	1,120	998	122	12.2%
Alberta	143	161	(19)	(11.5%)	759	882	(122)	(13.9%)
Newfoundland & Labrador	1,271	1,074	197	18.4%	5,431	5,303	128	2.4%
New Brunswick	646	772	(126)	(16.3%)	3,462	3,738	(276)	(7.4%)
Nova Scotia	400	353	47	13.3%	1,971	1,891	80	4.2%
Prince Edward Island	140	165	(25)	(15.1%)	640	755	(116)	(15.3%)
Yukon	18	25	(6)	(25.3%)	82	130	(48)	(36.9%)
Northwest Territories	166	207	(41)	(20.0%)	1,105	1,260	(156)	(12.4%)
Nunavut	28	34	(6)	(17.1%)	87	153	(66)	(43.0%)
All Jurisdictions	3,093	3,017	75	2.5%	14,657	15,111	(454)	(3.0%)

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 June 2017 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 6 months ended June 30, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 06/2017
(thousands of dollars)

	January	February	March	April	May	June	CY2017 YTD	CY2017 12 Months Updated Projections	CY2016 12 Months Actual
UNDERWRITING REVENUE:									
PREMIUMS WRITTEN	\$10,584	\$10,637	\$14,027	\$16,316	\$20,856	\$20,989	\$93,409	\$178,633	\$171,000
CHANGE IN UNEARNED PREMIUMS	3,684	2,114	258	(2,654)	(6,272)	(6,354)	(9,224)	(6,169)	7,060
NET PREMIUMS EARNED	\$14,268	\$12,751	\$14,285	\$13,662	\$14,584	\$14,635	\$84,185	\$172,464	\$178,060
CLAIMS INCURRED									
PRIOR ACCIDENT YEARS									
UNDISCOUNTED	(132)	156	(10,108)	(64)	10,097	(36)	(87)	(91)	(2,129)
EFFECT OF DISCOUNTING	(790)	(707)	(7,562)	(708)	1,445	(667)	(8,989)	(13,959)	(1,579)
DISCOUNTED	(922)	(551)	(17,670)	(772)	11,542	(703)	(9,076)	(14,050)	(3,708)
CURRENT ACCIDENT YEAR									
UNDISCOUNTED	9,713	8,799	9,702	9,371	10,441	10,109	58,135	118,955	127,293
EFFECT OF DISCOUNTING	871	654	269	565	705	633	3,697	6,788	8,574
DISCOUNTED	10,584	9,453	9,971	9,936	11,146	10,742	61,832	125,743	135,867
CLAIMS INCURRED	\$9,662	\$8,902	(\$7,699)	\$9,164	\$22,688	\$10,039	\$52,756	\$111,693	\$132,159
UNDERWRITING EXPENSES									
OPERATING & SERVICE FEES	1,080	1,093	1,464	1,730	2,128	2,154	9,649	18,314	17,653
AGENTS COMMISSIONS	873	869	1,185	1,322	1,713	1,747	7,709	14,951	14,416
DRIVER RECORD ABSTRACTS	177	239	265	321	335	300	1,637	2,854	3,068
BAD DEBTS	(2)	(1)	(5)	0	(10)	(8)	(26)	(22)	(179)
PREMIUM DEFICIENCY/(DPAC)									
UNDISCOUNTED	266	183	(93)	(203)	(442)	(507)	(796)	(821)	331
EFFECT OF DISCOUNTING	(24)	1	100	15	230	67	389	436	112
DISCOUNTED	242	184	7	(188)	(212)	(440)	(407)	(385)	443
UNDERWRITING EXPENSES	\$2,370	\$2,384	\$2,916	\$3,185	\$3,954	\$3,753	\$18,562	\$35,712	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$2,236	\$1,465	\$19,068	\$1,313	(\$12,058)	\$843	\$12,867	\$25,059	\$10,500
ADMINISTRATIVE EXPENSES	379	421	361	408	494	442	2,505	4,516	4,999
PREMIUM FINANCE FEE	(9)	(8)	(10)	(7)	(9)	(10)	(53)	(44)	(108)
INVESTMENT INCOME	13	11	18	16	15	16	89	181	226
OPERATING RESULTS	\$1,861	\$1,047	\$18,715	\$914	(\$12,546)	\$407	\$10,398	\$20,680	\$5,619
RATIOS:									
Claims & Adj Expenses Incurred (Earned)									
Prior Accident Year	-6.5%	-4.3%	-123.7%	-5.7%	79.1%	-4.8%	-10.8%	-8.1%	-2.1%
Current Accident Years	74.2%	74.1%	69.8%	72.7%	76.4%	73.4%	73.4%	72.9%	76.3%
All Accident Years Combined	67.7%	69.8%	-53.9%	67.0%	155.5%	68.6%	62.6%	64.8%	74.2%
Underwriting & Admin Exp.(Earned)	19.3%	22.0%	22.9%	26.3%	30.5%	28.7%	25.0%	23.3%	22.7%
COMBINED OPERATING RATIO	87.0%	91.8%	-31.0%	93.3%	186.0%	97.3%	87.6%	88.1%	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 6 months ended June 30, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 06/2017
(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	\$28,018	\$23,427	\$9,604	\$2,295	\$11,059	\$15,264	\$1,077	\$2,257	\$408	\$93,409	\$178,633	\$171,000
CHANGE IN UNEARNED PREMIUMS	(1,727)	(4,008)	(876)	(29)	(995)	(1,527)	(183)	(75)	196	(9,224)	(\$6,169)	\$7,060
NET PREMIUMS EARNED	\$26,291	\$19,419	\$8,728	\$2,266	\$10,064	\$13,737	\$894	\$2,182	\$604	\$84,185	\$172,464	\$178,060
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(294)	(2,870)	(860)	885	3,093	1,180	(284)	(180)	(757)	(87)	(\$91)	(\$2,129)
EFFECT OF DISCOUNTING	(2,310)	(3,824)	(667)	(108)	(461)	(1,222)	(107)	(199)	(91)	(8,989)	(\$13,959)	(\$1,579)
DISCOUNTED	(2,604)	(6,694)	(1,527)	777	2,632	(42)	(391)	(379)	(848)	(9,076)	(14,050)	(3,708)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	17,006	12,610	6,449	1,335	6,931	11,795	577	1,158	274	58,135	\$118,955	\$127,293
EFFECT OF DISCOUNTING	921	1,090	375	86	405	700	41	61	18	3,697	\$6,788	\$8,574
DISCOUNTED	17,927	13,700	6,824	1,421	7,336	12,495	618	1,219	292	61,832	125,743	135,867
CLAIMS INCURRED	\$15,323	\$7,006	\$5,297	\$2,198	\$9,968	\$12,453	\$227	\$840	(\$556)	\$52,756	\$111,693	\$132,159
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	2,803	2,532	962	235	1,164	1,581	107	225	40	9,649	\$18,314	\$17,653
AGENTS COMMISSIONS	2,409	1,420	841	215	1,036	1,437	92	223	36	7,709	\$14,951	\$14,416
DRIVER RECORD ABSTRACTS	392	101	422	102	302	254	14	43	7	1,637	\$2,854	\$3,068
BAD DEBTS	(6)	(5)	(1)	0	1	(15)	0	0	0	(26)	(\$22)	(\$179)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	(139)	(245)	(72)	1	(86)	(254)	(14)	(5)	18	(796)	(\$821)	\$331
EFFECT OF DISCOUNTING	0	0	41	0	0	348	0	0	0	389	\$436	\$112
DISCOUNTED	(139)	(245)	(31)	1	(86)	94	(14)	(5)	18	(407)	(385)	443
UNDERWRITING EXPENSES	\$5,459	\$3,803	\$2,193	\$553	\$2,417	\$3,351	\$199	\$486	\$101	\$18,562	\$35,712	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$5,509	\$8,610	\$1,238	(\$485)	(\$2,321)	(\$2,067)	\$468	\$856	\$1,059	\$12,867	\$25,059	\$10,500
ADMINISTRATIVE EXPENSES	674	594	258	91	291	401	62	88	46	2,505	\$4,516	\$4,999
PREMIUM FINANCE FEE	(16)	(18)	(5)	0	(5)	(9)	0	0	0	(53)	(\$44)	(\$108)
INVESTMENT INCOME	21	33	7	1	11	15	0	1	0	89	\$181	\$226
OPERATING RESULTS	\$4,840	\$8,031	\$982	(\$575)	(\$2,606)	(\$2,462)	\$406	\$769	\$1,013	\$10,398	\$20,680	\$5,619
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-9.9%	-34.5%	-17.5%	34.3%	26.2%	-0.3%	-43.7%	-17.4%	-140.4%	-10.8%	-8.1%	-2.1%
Current Accident Years	68.2%	70.5%	78.2%	62.7%	72.9%	91.0%	69.1%	55.9%	48.3%	73.4%	72.9%	76.3%
All Accident Years Combined	58.3%	36.0%	60.7%	97.0%	99.1%	90.7%	25.4%	38.5%	-92.1%	62.6%	64.8%	74.2%
Underwriting & Admin Exp.(Earned)	23.3%	22.6%	28.1%	28.4%	26.9%	27.3%	29.2%	26.3%	24.3%	25.0%	23.3%	22.7%
COMBINED OPERATING RATIO	81.6%	58.6%	88.8%	125.4%	126.0%	118.0%	54.6%	64.8%	-67.8%	87.6%	88.1%	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