



777 Bay Street, Suite 2400 T: 416 863 1750
P.O. Box 121 F: 416 868 0894
Toronto, Ontario E: mail@facilityassociation.com
M5G 2C8

TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F17 – 073
DATE: SEPTEMBER 29, 2017
SUBJECT: FARM – JULY 2017 PARTICIPATION REPORT

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

Please be advised that the July 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 \$11.6 million and the incurred loss ratio to the end of 7 months is 63.5%, as summarized in the table immediately below.

Amounts in \$000s	July 2017	July 2016	Year to date Jul 2017	Year to Date Jul 2016
Premium Written	16,994	16,410	110,403	107,044
Premium Earned	15,236	15,491	99,421	104,235
Incurred Losses	10,457	10,836	63,213	74,134
Underwriting & Admin Expense	3,565	3,542	24,596	24,755
Net Result from Operations	1,214	1,113	11,612	5,346
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(4.8%)	(2.0%)	(9.9%)	(1.5%)
- Current Accident Year	73.4%	71.9%	73.4%	72.6%
<i>Total</i>	68.6%	69.9%	63.5%	71.1%
<i>Underwriting & Admin Expense</i>	23.5%	22.9%	24.8%	23.8%
<i>Combined Operating Ratio</i>	92.1%	92.8%	88.3%	94.9%

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 \$20.3 million and the estimated combined operating ratio to December 2017 is 88.4% as indicated in the table below. This updated projection to the end of the year has not changed significantly from the projection provided last month (\$20.7 million and 88.1%). The current projected year-end net operating surplus variance from the Final 2017 Outlook (which was based on actuals up to the August 2016 Participation Report) is driven by earned premium and prior accident year impact variances.

FARM Year-end Projection Amounts in \$000s	Current (Jul 2017)	Prior Mth (Jun 2017)	Change	Final 2017 Outlook*
Premium Written	178,289	178,633	(344)	183,890
Premium Earned	173,010	172,463	547	179,643
Incurred Losses	112,616	111,694	922	122,815
Underwriting & Admin Expense	40,088	40,090	(2)	41,031
Net Result from Operations	20,307	20,679	(372)	15,797
Ratios:				
Loss ratio - Prior Accident Years	(7.8%)	(8.1%)	0.3%	(4.6%)
- Current Accident Year	72.9%	72.9%	0.0%	72.9%
<i>Total</i>	65.1%	64.8%	0.3%	68.4%
Underwriting & Admin Expense	23.3%	23.3%	0.0%	23.0%
Combined Operating Ratio	88.4%	88.1%	0.3%	91.4%

rounding differences may occur

*as posted to FA's website Oct. 27, 2016

Current month results

The Net Results from Operations in the month of July 2017 was \$1.2 million, down \$0.1 million from the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 92.8% to 92.1% applied to \$15.2 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 87.6% at the end of 6 months to 88.3% at the end of 7 months. The 0.7 percentage point increase is composed of a 0.9 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.2 percentage point decrease in the expense 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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July 2017	Actual	Projection	Difference	Difference %
Premium Written	16,994	17,344	(350)	(2.0%)
Premium Earned	15,236	14,542	694	4.8%
Reported Losses				
Paid Losses	10,435	10,840	(405)	(3.7%)
Change in Outstanding Losses	(1,026)	(688)	(338)	49.1%
Total Reported Losses	9,409	10,152	(743)	(7.3%)
Change in IBNR*	1,435	497	938	
Change in Premium Deficiency (DPAC)*	(132)	(274)	142	
Change in Retro Claims Expense*	(387)	(1,291)	904	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM July 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 July 2017, reported indemnity amounts were \$0.5 million lower 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 -\$0.7 million*). The Current Accident Year had a \$0.4 million unfavourable variance in reported indemnity, while the Prior Accident Years had an approximately favourable variance of \$0.9 million. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$1.8 million favourable, followed by Accident Year 2013 at \$1.5 million unfavourable. 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.

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Effect of Quarterly Valuation

The July 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 below, the private passenger annualized vehicle counts decreased by 4.5% overall in July 2017 relative to July 2016. On a year-to-date basis, exposure counts are down by 2.9%, decreasing in all jurisdictions except Ontario, Newfoundland & Labrador and Nova Scotia. With the 2017 year-to-date increases in Ontario and Newfoundland & Labrador, their counts are above the year-to-date levels in 2015¹.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of July 2017				Calendar YTD as of July 2017			
	2017	2016	Chg	% Chg	2017	2016	Chg	% Chg
Ontario	256	196	60	30.7%	1,380	1,195	185	15.5%
Alberta	168	143	25	17.7%	926	1,024	(99)	(9.6%)
Newfoundland & Labrador	943	934	9	1.0%	6,405	6,237	168	2.7%
New Brunswick	534	640	(106)	(16.6%)	4,000	4,378	(378)	(8.6%)
Nova Scotia	377	391	(14)	(3.6%)	2,355	2,283	72	3.2%
Prince Edward Island	129	175	(46)	(26.2%)	773	916	(143)	(15.6%)
Yukon	18	24	(5)	(22.7%)	100	154	(53)	(34.7%)
Northwest Territories	184	210	(26)	(12.5%)	1,288	1,470	(182)	(12.4%)
Nunavut	24	44	(20)	(45.7%)	111	197	(86)	(43.6%)
All Jurisdictions	2,633	2,757	(124)	(4.5%)	17,338	17,854	(516)	(2.9%)

Rounding differences may occur

In comparison of the year-to-date decrease of 516 vehicles (2.9%), at this time last year (i.e. year-to-date at July 2016), overall FARM private passenger vehicle counts were down 1,271 (6.6%), with only Nova Scotia seeing an increase, and Alberta counts were down 34.6%.

¹2015 ytd results are not shown in the table, but are referenced to provide an indication of the extent of the 2017 “rebound” in counts for Ontario and Newfoundland & Labrador.

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Last month, Ontario reclaimed 4th largest FARM private passenger jurisdiction from Northwest Territories, which had overtaken Ontario in 4th spot in February 2015. Ontario's growth this month as the Northwest Territories continues to shrink has widened the gap between the two.

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 July 2017 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 7 months ended July 31, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 07/2017
(thousands of dollars)

	January	February	March	April	May	June	July	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	\$16,994	\$110,403	\$178,289	\$171,000
CHANGE IN UNEARNED PREMIUMS	3,684	2,114	258	(2,654)	(6,272)	(6,354)	(1,758)	(10,982)	(5,280)	7,060
NET PREMIUMS EARNED	\$14,268	\$12,751	\$14,285	\$13,662	\$14,584	\$14,635	\$15,236	\$99,421	\$173,009	\$178,060
CLAIMS INCURRED										
PRIOR ACCIDENT YEARS										
UNDISCOUNTED	(132)	156	(10,108)	(64)	10,097	(36)	(44)	(131)	(132)	(2,129)
EFFECT OF DISCOUNTING	(790)	(707)	(7,562)	(708)	1,445	(667)	(689)	(9,678)	(13,406)	(1,579)
DISCOUNTED	(922)	(551)	(17,670)	(772)	11,542	(703)	(733)	(9,809)	(13,538)	(3,708)
CURRENT ACCIDENT YEAR										
UNDISCOUNTED	9,713	8,799	9,702	9,371	10,441	10,109	10,508	68,643	119,329	127,293
EFFECT OF DISCOUNTING	871	654	269	565	705	633	682	4,379	6,826	8,574
DISCOUNTED	10,584	9,453	9,971	9,936	11,146	10,742	11,190	73,022	126,155	135,867
CLAIMS INCURRED	\$9,662	\$8,902	(\$7,699)	\$9,164	\$22,688	\$10,039	\$10,457	\$63,213	\$112,617	\$132,159
UNDERWRITING EXPENSES										
OPERATING & SERVICE FEES	1,080	1,093	1,464	1,730	2,128	2,154	1,734	11,383	18,299	17,653
AGENTS COMMISSIONS	873	869	1,185	1,322	1,713	1,747	1,419	9,128	14,897	14,416
DRIVER RECORD ABSTRACTS	177	239	265	321	335	300	184	1,821	2,852	3,068
BAD DEBTS	(2)	(1)	(5)	0	(10)	(8)	(4)	(30)	(29)	(179)
PREMIUM DEFICIENCY/(DPAC)										
UNDISCOUNTED	266	183	(93)	(203)	(442)	(507)	(139)	(935)	(733)	331
EFFECT OF DISCOUNTING	(24)	1	100	15	230	67	7	396	420	112
DISCOUNTED	242	184	7	(188)	(212)	(440)	(132)	(539)	(313)	443
UNDERWRITING EXPENSES	\$2,370	\$2,384	\$2,916	\$3,185	\$3,954	\$3,753	\$3,201	\$21,763	\$35,706	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$2,236	\$1,465	\$19,068	\$1,313	(\$12,058)	\$843	\$1,578	\$14,445	\$24,686	\$10,500
ADMINISTRATIVE EXPENSES	379	421	361	408	494	442	376	2,881	4,539	4,999
PREMIUM FINANCE FEE	(9)	(8)	(10)	(7)	(9)	(10)	(9)	(62)	(52)	(108)
INVESTMENT INCOME	13	11	18	16	15	16	21	110	208	226
OPERATING RESULTS	\$1,861	\$1,047	\$18,715	\$914	(\$12,546)	\$407	\$1,214	\$11,612	\$20,303	\$5,619
RATIOS:										
Claims & Adj Expenses Incurred (Earned)										
Prior Accident Year	-6.5%	-4.3%	-123.7%	-5.7%	79.1%	-4.8%	-4.8%	-9.9%	-7.8%	-2.1%
Current Accident Years	74.2%	74.1%	69.8%	72.7%	76.4%	73.4%	73.4%	73.4%	72.9%	76.3%
All Accident Years Combined	67.7%	69.8%	-53.9%	67.0%	155.5%	68.6%	68.6%	63.5%	65.1%	74.2%
Underwriting & Admin Exp.(Earned)	19.3%	22.0%	22.9%	26.3%	30.5%	28.7%	23.5%	24.8%	23.3%	22.7%
COMBINED OPERATING RATIO	87.0%	91.8%	-31.0%	93.3%	186.0%	97.3%	92.1%	88.3%	88.4%	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 7 months ended July 31, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 07/2017
(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	\$32,807	\$28,121	\$11,495	\$2,699	\$12,846	\$17,868	\$1,255	\$2,644	\$668	\$110,403	\$178,289	\$171,000
CHANGE IN UNEARNED PREMIUMS	(1,807)	(4,971)	(1,202)	(87)	(1,001)	(1,656)	(198)	(88)	28	(10,982)	(\$5,280)	\$7,060
NET PREMIUMS EARNED	\$31,000	\$23,150	\$10,293	\$2,612	\$11,845	\$16,212	\$1,057	\$2,556	\$696	\$99,421	\$173,009	\$178,060
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(299)	(2,868)	(858)	838	3,094	1,184	(285)	(180)	(757)	(131)	(\$132)	(\$2,129)
EFFECT OF DISCOUNTING	(2,554)	(4,042)	(686)	(124)	(521)	(1,346)	(113)	(201)	(91)	(9,678)	(\$13,406)	(\$1,579)
DISCOUNTED	(2,853)	(6,910)	(1,544)	714	2,573	(162)	(398)	(381)	(848)	(9,809)	(13,538)	(3,708)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	20,027	15,013	7,604	1,575	8,156	13,919	679	1,354	316	68,643	\$119,329	\$127,293
EFFECT OF DISCOUNTING	1,105	1,299	433	103	466	829	51	72	21	4,379	\$6,826	\$8,574
DISCOUNTED	21,132	16,312	8,037	1,678	8,622	14,748	730	1,426	337	73,022	126,155	135,867
CLAIMS INCURRED	\$18,279	\$9,402	\$6,493	\$2,392	\$11,195	\$14,586	\$332	\$1,045	(\$511)	\$63,213	\$112,617	\$132,159
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	3,282	3,038	1,150	281	1,341	1,836	125	264	66	11,383	\$18,299	\$17,653
AGENTS COMMISSIONS	2,839	1,718	1,008	252	1,208	1,676	109	261	57	9,128	\$14,897	\$14,416
DRIVER RECORD ABSTRACTS	449	105	470	111	337	276	16	49	8	1,821	\$2,852	\$3,068
BAD DEBTS	(7)	(5)	(1)	(1)	1	(17)	0	0	0	(30)	(\$29)	(\$179)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	(149)	(304)	(97)	(4)	(84)	(279)	(16)	(7)	5	(935)	(\$733)	\$331
EFFECT OF DISCOUNTING	0	0	44	0	0	352	0	0	0	396	\$420	\$112
DISCOUNTED	(149)	(304)	(53)	(4)	(84)	73	(16)	(7)	5	(539)	(313)	443
UNDERWRITING EXPENSES	\$6,414	\$4,552	\$2,574	\$639	\$2,803	\$3,844	\$234	\$567	\$136	\$21,763	\$35,706	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$6,307	\$9,196	\$1,226	(\$419)	(\$2,153)	(\$2,218)	\$491	\$944	\$1,071	\$14,445	\$24,686	\$10,500
ADMINISTRATIVE EXPENSES	774	697	300	104	329	455	68	99	55	2,881	\$4,539	\$4,999
PREMIUM FINANCE FEE	(18)	(21)	(6)	0	(6)	(11)	0	0	0	(62)	(\$52)	(\$108)
INVESTMENT INCOME	26	40	9	2	13	19	0	1	0	110	\$208	\$226
OPERATING RESULTS	\$5,541	\$8,518	\$929	(\$521)	(\$2,475)	(\$2,665)	\$423	\$846	\$1,016	\$11,612	\$20,303	\$5,619
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-9.2%	-29.8%	-15.0%	27.3%	21.7%	-1.0%	-37.7%	-14.9%	-121.8%	-9.9%	-7.8%	-2.1%
Current Accident Years	68.2%	70.5%	78.1%	64.2%	72.8%	91.0%	69.1%	55.8%	48.4%	73.4%	72.9%	76.3%
All Accident Years Combined	59.0%	40.7%	63.1%	91.5%	94.5%	90.0%	31.4%	40.9%	-73.4%	63.5%	65.1%	74.2%
Underwriting & Admin Exp.(Earned)	23.2%	22.7%	27.9%	28.4%	26.4%	26.5%	28.6%	26.1%	27.4%	24.8%	23.3%	22.7%
COMBINED OPERATING RATIO	82.2%	63.4%	91.0%	119.9%	120.9%	116.5%	60.0%	67.0%	-46.0%	88.3%	88.4%	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