

TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F17 – 087
DATE: NOVEMBER 29, 2017
SUBJECT: FARM – SEPTEMBER 2017 PARTICIPATION REPORT

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

Please be advised that the September 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 \$19.5 million and the incurred loss ratio to the end of 9 months is 60.2%, as summarized in the table immediately below.

Amounts in \$000s	September 2017	September 2016	Year to date Sep 2017	Year to Date Sep 2016
Premium Written	18,013	14,337	145,515	136,057
Premium Earned	15,349	14,809	130,216	134,373
Incurred Losses	10,754	10,451	78,405	86,472
Underwriting & Admin Expense	3,701	3,265	32,275	31,241
Net Result from Operations	894	1,093	19,536	16,660
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(3.5%)	(2.4%)	(13.8%)	(9.6%)
- Current Accident Year	73.6%	73.0%	74.0%	74.0%
<i>Total</i>	70.1%	70.6%	60.2%	64.4%
<i>Underwriting & Admin Expense</i>	24.2%	22.1%	24.8%	23.3%
<i>Combined Operating Ratio</i>	94.3%	92.7%	85.0%	87.7%

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 \$24.4 million and the estimated combined operating ratio to December 2017 is 86.2% as indicated in the table at the below. This updated projection to the end of the year has not changed significantly from the projection provided last month (\$24.3 million and 86.2%).

FARM Year-end Projection	Current	Prior Mth		Final 2017
Amounts in \$000s	(Sep 2017)	(Aug 2017)	Change	Outlook*
Premium Written	182,227	179,198	3,029	183,890
Premium Earned	175,649	174,334	1,315	179,643
Incurred Losses	110,152	109,423	728	122,815
Underwriting & Admin Expense	41,118	40,564	554	41,031
Net Result from Operations	24,379	24,346	33	15,797
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(11.1%)	(11.0%)	(0.1%)	(4.6%)
- Current Accident Year	73.8%	73.8%	0.0%	72.9%
<i>Total</i>	62.7%	62.8%	(0.1%)	68.4%
Underwriting & Admin Expense	23.5%	23.4%	0.1%	23.0%
Combined Operating Ratio	86.2%	86.2%	0.0%	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 September 2017 was \$0.9 million, down \$0.2 million from the same month last year. This deterioration mainly stems from the overall increase in the combined ratio (from 92.7% to 94.3% applied to \$15.3 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 83.8% at the end of 8 months to 85.0% at the end of 9 months. The 1.2 percentage point increase is composed of a 1.4 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio, further offset by a 0.1 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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September 2017	Actual	Projection	Difference	Difference %
Premium Written	18,013	14,987	3,026	20.2%
Premium Earned	15,349	14,784	565	3.8%
Reported Losses				
Paid Losses	12,099	8,992	3,107	34.6%
Change in Outstanding Losses	(3,269)	1,149	(4,418)	(384.5%)
Total Reported Losses	8,830	10,141	(1,311)	(12.9%)
Change in IBNR*	1,996	962	1,034	
Change in Premium Deficiency (DPAC)*	(135)	(58)	(77)	
Change in Retro Claims Expense*	(72)	(626)	554	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM September 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 September 2017, reported indemnity amounts were \$0.9 million lower than projected (*allowed claims expenses are included in table immediately above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows -\$1.3 million*). The Current Accident Year had an approximately \$0.4 million favourable variance in reported indemnity, and the Prior Accident Years had a favourable variance of \$0.5 million. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$1.3 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.

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Effect of Quarterly Valuation

The September 2017 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at June 30, 2017 for all jurisdictions and business segments. The actuarial valuation will be updated next as at September 30, 2017 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the October 2017 Participation Report.

Management Comments

As shown in the table below, the private passenger annualized vehicle counts decreased by 1.4% overall in September 2017 relative to September 2016. On a year-to-date basis, exposure counts are down by 2.0%, decreasing in all jurisdictions except Ontario, Newfoundland & Labrador and Nova Scotia.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of September 2017				Calendar YTD as of September 2017			
	2017	2016	Chg	% Chg	2017	2016	Chg	% Chg
Ontario	246	203	43	20.9%	1,874	1,592	282	17.7%
Alberta	110	145	(35)	(24.3%)	1,191	1,311	(119)	(9.1%)
Newfoundland & Labrador	906	843	63	7.5%	8,361	8,090	272	3.4%
New Brunswick	633	702	(69)	(9.9%)	5,175	5,683	(508)	(8.9%)
Nova Scotia	375	365	10	2.6%	3,103	3,009	94	3.1%
Prince Edward Island	136	119	17	13.9%	1,031	1,112	(81)	(7.3%)
Yukon	17	22	(4)	(19.7%)	141	199	(58)	(29.3%)
Northwest Territories	188	221	(32)	(14.6%)	1,670	1,898	(227)	(12.0%)
Nunavut	19	47	(28)	(59.0%)	151	269	(119)	(44.1%)
All Jurisdictions	2,631	2,668	(37)	(1.4%)	22,697	23,163	(465)	(2.0%)

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 September 2017 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 9 months ended September 30, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 09/2017
(thousands of dollars)

	January	February	March	April	May	June	July	August	September	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	\$17,099	\$18,013	\$145,515	\$182,228	\$171,000
CHANGE IN UNEARNED PREMIUMS	3,684	2,114	258	(2,654)	(6,272)	(6,354)	(1,758)	(1,653)	(2,664)	(15,299)	(6,578)	7,060
NET PREMIUMS EARNED	\$14,268	\$12,751	\$14,285	\$13,662	\$14,584	\$14,635	\$15,236	\$15,446	\$15,349	\$130,216	\$175,650	\$178,060
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(132)	156	(10,108)	(64)	10,097	(36)	(44)	(3,345)	(57)	(3,533)	(3,500)	(2,129)
EFFECT OF DISCOUNTING	(790)	(707)	(7,562)	(708)	1,445	(667)	(689)	(4,291)	(486)	(14,455)	(15,944)	(1,579)
DISCOUNTED	(922)	(551)	(17,670)	(772)	11,542	(703)	(733)	(7,636)	(543)	(17,988)	(19,444)	(3,708)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	9,713	8,799	9,702	9,371	10,441	10,109	10,508	11,726	10,734	91,103	122,705	127,293
EFFECT OF DISCOUNTING	871	654	269	565	705	633	682	348	563	5,290	6,890	8,574
DISCOUNTED	10,584	9,453	9,971	9,936	11,146	10,742	11,190	12,074	11,297	96,393	129,595	135,867
CLAIMS INCURRED	\$9,662	\$8,902	(\$7,699)	\$9,164	\$22,688	\$10,039	\$10,457	\$4,438	\$10,754	\$78,405	\$110,151	\$132,159
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	1,080	1,093	1,464	1,730	2,128	2,154	1,734	1,749	1,894	15,026	18,717	17,653
AGENTS COMMISSIONS	873	869	1,185	1,322	1,713	1,747	1,419	1,424	1,419	11,971	15,167	14,416
DRIVER RECORD ABSTRACTS	177	239	265	321	335	300	184	358	141	2,320	2,926	3,068
BAD DEBTS	(2)	(1)	(5)	0	(10)	(8)	(4)	(2)	(27)	(59)	(35)	(179)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	266	183	(93)	(203)	(442)	(507)	(139)	(124)	(171)	(1,230)	(646)	331
EFFECT OF DISCOUNTING	(24)	1	100	15	230	67	7	181	36	613	542	112
DISCOUNTED	242	184	7	(188)	(212)	(440)	(132)	57	(135)	(617)	(104)	443
UNDERWRITING EXPENSES	\$2,370	\$2,384	\$2,916	\$3,185	\$3,954	\$3,753	\$3,201	\$3,586	\$3,292	\$28,641	\$36,671	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$2,236	\$1,465	\$19,068	\$1,313	(\$12,058)	\$843	\$1,578	\$7,422	\$1,303	\$23,170	\$28,828	\$10,500
ADMINISTRATIVE EXPENSES	379	421	361	408	494	442	376	407	425	3,713	4,615	4,999
PREMIUM FINANCE FEE	(9)	(8)	(10)	(7)	(9)	(10)	(9)	(9)	(9)	(80)	(71)	(108)
INVESTMENT INCOME	13	11	18	16	15	16	21	24	25	159	240	226
OPERATING RESULTS	\$1,861	\$1,047	\$18,715	\$914	(\$12,546)	\$407	\$1,214	\$7,030	\$894	\$19,536	\$24,382	\$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%	-49.4%	-3.5%	-13.8%	-11.1%	-2.1%
Current Accident Years	74.2%	74.1%	69.8%	72.7%	76.4%	73.4%	73.4%	78.2%	73.6%	74.0%	73.8%	76.3%
All Accident Years Combined	67.7%	69.8%	-53.9%	67.0%	155.5%	68.6%	68.6%	28.8%	70.1%	60.2%	62.7%	74.2%
Underwriting & Admin Exp.(Earned)	19.3%	22.0%	22.9%	26.3%	30.5%	28.7%	23.5%	25.9%	24.2%	24.8%	23.5%	22.7%
COMBINED OPERATING RATIO	87.0%	91.8%	-31.0%	93.3%	186.0%	97.3%	92.1%	54.7%	94.3%	85.0%	86.2%	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 9 months ended September 30, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 09/2017
(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	\$42,843	\$38,939	\$14,766	\$3,360	\$16,337	\$23,470	\$1,567	\$3,393	\$840	\$145,515	\$182,228	\$171,000
CHANGE IN UNEARNED PREMIUMS	(2,324)	(8,016)	(1,404)	(37)	(954)	(2,329)	(182)	(100)	47	(15,299)	(\$6,578)	\$7,060
NET PREMIUMS EARNED	\$40,519	\$30,923	\$13,362	\$3,323	\$15,383	\$21,141	\$1,385	\$3,293	\$887	\$130,216	\$175,650	\$178,060
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	1,129	(3,734)	(1,861)	654	3,160	(945)	(374)	(673)	(889)	(3,533)	(\$3,500)	(\$2,129)
EFFECT OF DISCOUNTING	(3,328)	(6,406)	(1,049)	(226)	(797)	(2,056)	(140)	(345)	(108)	(14,455)	(\$15,944)	(\$1,579)
DISCOUNTED	(2,199)	(10,140)	(2,910)	428	2,363	(3,001)	(514)	(1,018)	(997)	(17,988)	(19,444)	(3,708)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	26,505	20,057	9,997	2,144	10,997	18,333	844	1,824	402	91,103	\$122,705	\$127,293
EFFECT OF DISCOUNTING	1,278	1,581	517	140	591	1,008	58	90	27	5,290	\$6,890	\$8,574
DISCOUNTED	27,783	21,638	10,514	2,284	11,588	19,341	902	1,914	429	96,393	129,595	135,867
CLAIMS INCURRED	\$25,584	\$11,498	\$7,604	\$2,712	\$13,951	\$16,340	\$388	\$896	(\$568)	\$78,405	\$110,151	\$132,159
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	4,285	4,207	1,476	356	1,691	2,433	156	339	83	15,026	\$18,717	\$17,653
AGENTS COMMISSIONS	3,710	2,333	1,300	320	1,547	2,211	138	338	74	11,971	\$15,167	\$14,416
DRIVER RECORD ABSTRACTS	550	145	591	142	433	371	18	62	8	2,320	\$2,926	\$3,068
BAD DEBTS	(7)	(5)	(1)	(2)	1	(44)	(1)	0	0	(59)	(\$35)	(\$179)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	(198)	(505)	(120)	(3)	(86)	(302)	(13)	(9)	6	(1,230)	(\$646)	\$331
EFFECT OF DISCOUNTING	0	0	97	0	0	516	0	0	0	613	\$542	\$112
DISCOUNTED	(198)	(505)	(23)	(3)	(86)	214	(13)	(9)	6	(617)	(104)	443
UNDERWRITING EXPENSES	\$8,340	\$6,175	\$3,343	\$813	\$3,586	\$5,185	\$298	\$730	\$171	\$28,641	\$36,671	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$6,595	\$13,250	\$2,415	(\$202)	(\$2,154)	(\$384)	\$699	\$1,667	\$1,284	\$23,170	\$28,828	\$10,500
ADMINISTRATIVE EXPENSES	990	939	378	131	411	582	86	126	70	3,713	\$4,615	\$4,999
PREMIUM FINANCE FEE	(23)	(28)	(8)	0	(7)	(14)	0	0	0	(80)	(\$71)	(\$108)
INVESTMENT INCOME	41	56	13	2	17	26	1	2	1	159	\$240	\$226
OPERATING RESULTS	\$5,623	\$12,339	\$2,042	(\$331)	(\$2,555)	(\$954)	\$614	\$1,543	\$1,215	\$19,536	\$24,382	\$5,619
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-5.4%	-32.8%	-21.8%	12.9%	15.4%	-14.2%	-37.1%	-30.9%	-112.4%	-13.8%	-11.1%	-2.1%
Current Accident Years	68.6%	70.0%	78.7%	68.7%	75.3%	91.5%	65.1%	58.1%	48.4%	74.0%	73.8%	76.3%
All Accident Years Combined	63.2%	37.2%	56.9%	81.6%	90.7%	77.3%	28.0%	27.2%	-64.0%	60.2%	62.7%	74.2%
Underwriting & Admin Exp.(Earned)	23.0%	23.0%	27.8%	28.4%	26.0%	27.3%	27.7%	26.0%	27.2%	24.8%	23.5%	22.7%
COMBINED OPERATING RATIO	86.2%	60.2%	84.7%	110.0%	116.7%	104.6%	55.7%	53.2%	-36.8%	85.0%	86.2%	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