

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F17 – 098

DATE: DECEMBER 21, 2017

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

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

Please be advised that the November 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 -\$106.6 million and the incurred loss ratio to the end of 11 months is 100.0%, as summarized in the table below.

Amounts in \$000s	November 2017	November 2016	Year to date Nov 2017	Year to Date 30/112016
Premium Written	24,640	35,078	341,741	302,799
Premium Earned	30,341	25,992	343,147	242,798
Incurred Losses	38,272	32,114	342,849	220,493
Underwriting & Admin Expense	6,174	13,254	106,869	108,863
Operating Result	(14,105)	(19,376)	(106,571)	(86,558)
Ratios:				
Loss ratio - Prior Accident Years	(5.2%)	(7.8%)	(32.7%)	(43.1%)
- Current Accident Year	131.4%	131.3%	132.7%	133.9%
<i>Total</i>	126.2%	123.5%	100.0%	90.8%
Underwriting & Admin Expense	20.3%	51.0%	31.1%	44.8%
Combined Operating Ratio	146.5%	174.5%	131.1%	135.6%

rounding differences may occur

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These results are discussed in some detail in the “Current Month Results” section. 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 -\$118.5 million and the estimated combined operating ratio to December 2017 is 131.7%, as summarized in the table below. This updated projection to the end of the year has improved by \$2.6 million from the projection provided last month (-\$121.1 million and 132.2%). This improvement is driven by a \$4.9 million decrease in the projected written premium for the year, based on updated projections provided by members.

ON RSP Yr-end Projection Amounts in \$000s	Current (Nov 2017)	Prior Mth (Oct 2017)	Change	Final 2017 Outlook*
Premium Written	364,835	369,711	(4,876)	342,156
Premium Earned	374,100	375,584	(1,484)	342,151
Incurred Losses	381,166	382,987	(1,821)	422,925
Underwriting & Admin Expense	111,483	113,714	(2,231)	112,562
Net Result from Operations	(118,549)	(121,117)	2,568	(193,336)
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(30.4%)	(30.3%)	(0.1%)	(8.8%)
- Current Accident Year	132.3%	132.2%	0.1%	132.4%
<i>Total</i>	101.9%	101.9%	0.0%	123.6%
Underwriting & Admin Expense	29.8%	30.3%	(0.5%)	32.9%
Combined Operating Ratio	131.7%	132.2%	(0.5%)	156.5%

rounding differences may occur

*as posted to FA's website Sep. 28, 2016

Current Month Results

The Ontario Risk Sharing Pool produced a -\$14.1 million Operating Result in the month of November 2017, a \$5.3 million improvement compared with the same month last year. This improvement is composed of an \$8.5 million improvement stemming from the overall decrease in the combined ratio (from 174.5% to 146.5% applied to \$30.3 million in earned premium), offset by an estimated \$3.2 million unfavourable impact associated with a \$4.3 million increase in earned premium (at a combined ratio of 174.5%).

This month's results moved the year-to-date combined operating ratio from 129.6% at the end of 10 months to 131.1% at the end of 11 months. The 1.5 percentage point increase is composed of a 2.7 percentage point increase in the Current Accident Year loss ratio, offset by a 0.1 percentage point decrease in the Prior Accident Year loss ratio, further offset by a 1.1 percentage point decrease in the expense ratio.

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Variances from Projections

The table below provides a summary of key components of the operating results as compared to the estimates projected last month.

November 2017	Actual	Projection	Difference	Difference %
Written Premium	24,640	28,555	(3,915)	(13.7%)
Earned Premium	30,341	31,397	(1,056)	(3.4%)
Reported Losses				
Paid Losses	27,037	31,360	(4,323)	(13.8%)
Paid Expenses	1,577	2,237	(660)	(29.5%)
Change in Outstanding Losses	(3,081)	5,207	(8,288)	(159.2%)
Total Reported Losses	25,533	38,804	(13,271)	(34.2%)
Change in IBNR Provision*	12,739	571	12,168	
Change in Premium Deficiency (DPAC)*	(1,625)	(628)	(997)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP November 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 November 2017, reported losses were \$13.3 million lower than projected. The Current Accident Year had a \$2.3 million favourable variance in reported losses, and the Prior Accident Years had a \$11.0 million favourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$4.7 million favourable, followed by Accident Year 2013 at \$2.0 million favourable, Accident Year 2016 at \$1.9 million favourable and Accident Year 2014 at \$1.1 million favourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for the Prior Accident Years for the month. Management investigated the claims activity, particularly with respect to one member's reporting, related to conversion from one claims system to another, creating a timing difference for some transactions. Because FA leverages a "loss ratio matching" approach to booking results, management is satisfied that the variances are appropriately accounted for in our current booking process (inaccurate reporting for paid/case is "made-up for" by IBNR). All other variances were within the set thresholds for the month.

Booking IBNR

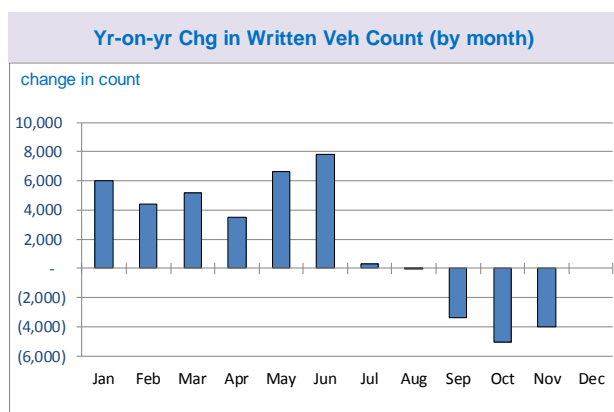
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 (other than the member reporting issue discussed in the previous section). IBNR is discussed in more detail in the [Ontario RSP November 2017 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

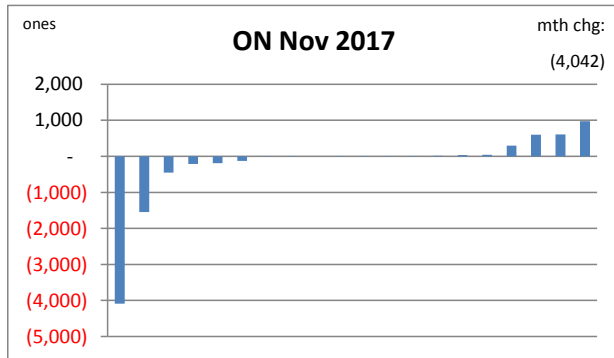
The November 2017 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2017). The actuarial valuation will be updated next as at December 31, 2017 and we anticipate that the results will be reflected in the March 2018 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 9.0% from 2016, being 2.6% of the 2016 industry private passenger vehicle count including farmers (as we don’t have an industry count yet for 2017, we continue to use the 2016 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.

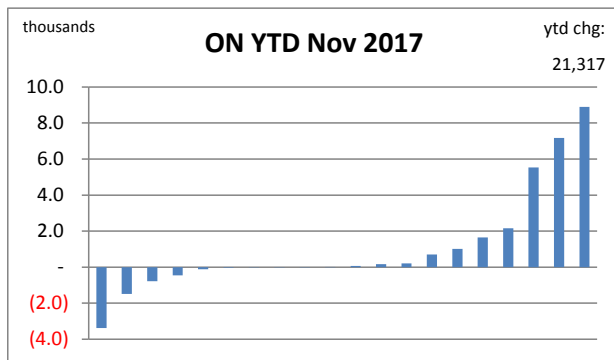


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with November reporting a decrease of 4,042 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 3,027 vehicles, indicating a variance of 1,015 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in November 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. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eleven transferred more¹, and one remained the same. Of the 8 member company groups transferring

fewer vehicles, 1 member company group accounted for 62% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 3 member company groups accounted for 85% of the total transfer increases for the “grower” members.

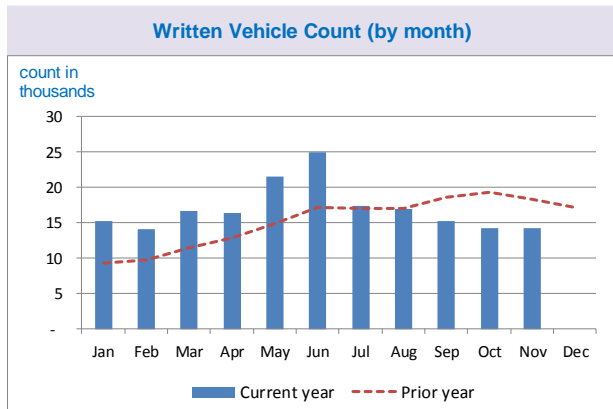


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Year-to-date, 9 member company groups have transferred fewer vehicles from last year as at the same

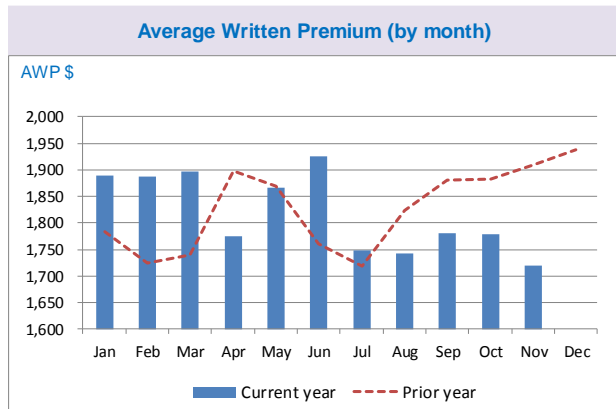
period, whereas 11 have transferred more.

November’s year-on-year change in vehicle count transfers to the pool represents a 22.0% decrease from November 2016, but counts were up 12.8% year-to-date. Average written premium was down 9.9% in November 2017 compared with the same month in 2016, but remained the same year-to-date (see charts at the top of the next page).

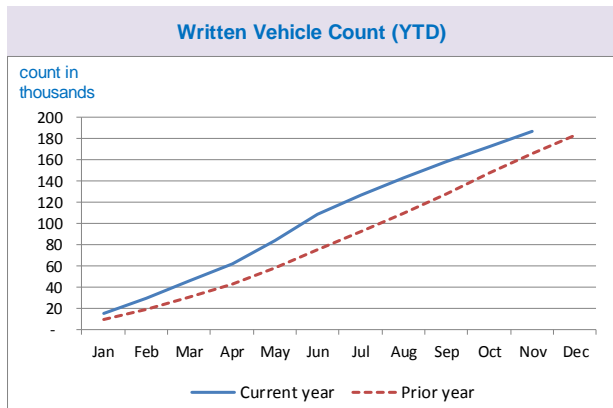
¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2016 or 2017. Groups that have not transferred vehicles in these two periods are ignored.



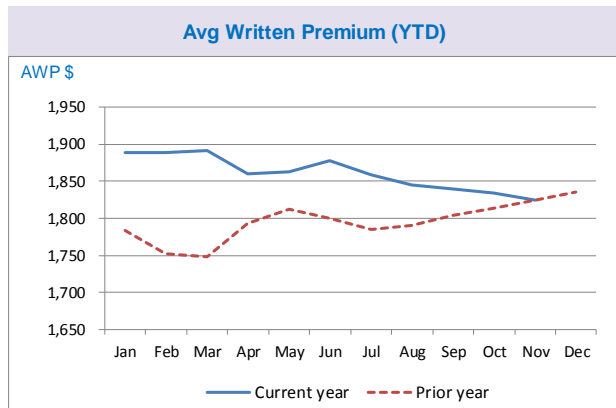
	Nov-17	Nov-16	Amt Chg	% Chg
W. Veh curr mth	14,326	18,369	(4,042)	-22.0%



	Nov-17	Nov-16	Amt Chg	% Chg
AWP curr mth	1,720	1,910	(190)	-9.9%

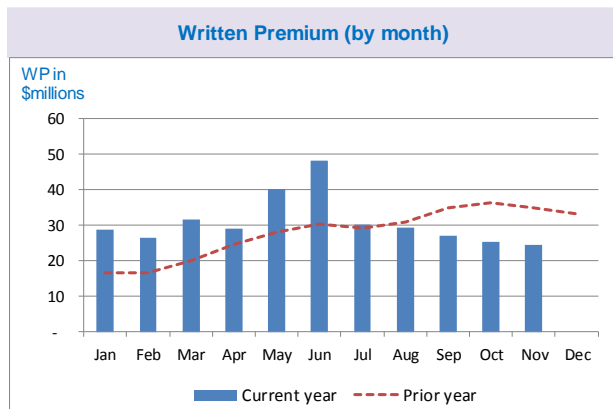


	Nov-17	Nov-16	Amt Chg	% Chg
W. Vehicles YTD	187,238	165,921	21,317	12.8%

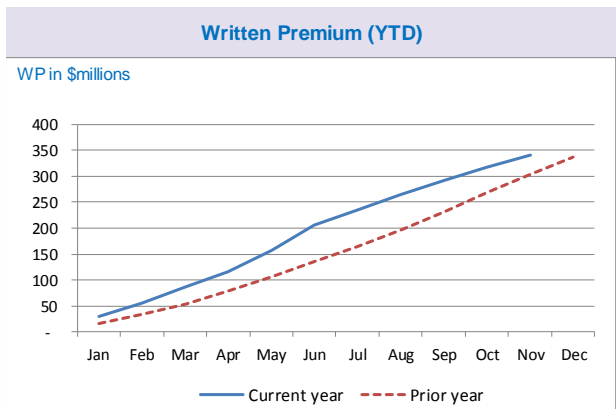


	Nov-17	Nov-16	Amt Chg	% Chg
Avg W. Prem YTD	1,825	1,825	-	0.0%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 29.8% for the month compared with the 18.6% decrease we projected last month, but was up 12.9% year-to-date (see charts immediately below).



	Nov-17	Nov-16	Amt Chg	% Chg
WP (\$000s) curr mth	24,640	35,078	(10,438)	-29.8%



	Nov-17	Nov-16	Amt Chg	% Chg
WP (\$000s) YTD	341,742	302,799	38,943	12.9%

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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 November 2017 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Ontario

Operating Results for the 11 Months Ended November 30, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Net Premiums Written	\$28,876	\$26,562	\$31,716	\$29,169	\$40,344	\$48,227	\$30,336	\$29,455	\$27,093	\$25,323	\$24,640	\$341,741	\$364,835	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$513	(\$833)	\$1,213	(\$8,307)	(\$15,216)	\$2,787	\$3,619	\$4,944	\$6,984	\$5,701	\$1,406	\$9,265	(\$65,186)
Net Premiums Earned	\$28,877	\$27,075	\$30,883	\$30,382	\$32,037	\$33,011	\$33,123	\$33,074	\$32,037	\$32,307	\$30,341	\$343,147	\$374,100	\$270,863
Claims Incurred:														
Prior Accident Years:														
Undiscounted	(\$57)	(\$181)	(\$36,952)	(\$90)	\$4,559	(\$146)	(\$364)	(\$16,452)	\$11	\$3,049	(\$553)	(\$47,176)	(\$47,176)	(\$70,534)
Effect of Discounting	(3,669)	(2,916)	(17,985)	(1,748)	1,150	(2,144)	(1,702)	(22,190)	(1,636)	(11,289)	(1,036)	(65,165)	(66,693)	(36,400)
Discounted	(\$3,726)	(\$3,097)	(\$54,937)	(\$1,838)	\$5,709	(\$2,290)	(\$2,066)	(\$38,642)	(\$1,625)	(\$8,240)	(\$1,589)	(\$112,341)	(\$113,869)	(\$106,934)
Current Accident Year:														
Undiscounted	\$33,991	\$31,994	\$36,797	\$35,910	\$39,022	\$39,296	\$39,643	\$42,625	\$38,401	\$43,150	\$37,374	\$418,203	\$455,750	\$323,543
Effect of Discounting	5,509	4,205	2,857	4,011	4,656	4,255	4,085	2,877	3,438	(1,393)	2,487	36,987	39,285	38,551
Discounted	\$39,500	\$36,199	\$39,654	\$39,921	\$43,678	\$43,551	\$43,728	\$45,502	\$41,839	\$41,757	\$39,861	\$455,190	\$495,035	\$362,094
Claims Incurred	\$35,774	\$33,102	(\$15,283)	\$38,083	\$49,387	\$41,261	\$41,662	\$6,860	\$40,214	\$33,517	\$38,272	\$342,849	\$381,166	\$255,160
Underwriting Expenses:														
Expense Allowance	\$8,709	\$8,005	\$9,598	\$8,938	\$12,275	\$14,620	\$9,367	\$9,049	\$8,306	\$7,795	\$7,701	\$104,363	\$111,176	\$99,733
Change in UPDR/DPAC:														
Undiscounted	45	48	1,238	279	3,393	3,840	273	1,005	(483)	(56)	(961)	8,621	7,196	7,831
Effect of Discounting	6	(63)	(3,226)	(113)	1,533	2,319	(308)	(1,723)	(628)	(4,510)	(664)	(7,377)	(8,306)	11,309
Discounted	51	(15)	(1,988)	166	4,926	6,159	(35)	(718)	(1,111)	(4,566)	(1,625)	1,244	(1,110)	\$19,140
Underwriting Expenses	\$8,760	\$7,990	\$7,610	\$9,104	\$17,201	\$20,779	\$9,332	\$8,331	\$7,195	\$3,229	\$6,076	\$105,607	\$110,066	\$118,873
Net Underwriting Gain (Loss)	(\$15,657)	(\$14,017)	\$38,556	(\$16,805)	(\$34,551)	(\$29,029)	(\$17,871)	\$17,883	(\$15,372)	(\$4,439)	(\$14,007)	(\$105,309)	(\$117,132)	(\$103,170)
Administrative Expenses	\$110	\$121	\$111	\$131	\$142	\$115	\$105	\$114	\$100	\$115	\$98	\$1,262	\$1,417	\$1,308
Operating Result	(\$15,767)	(\$14,138)	\$38,445	(\$16,936)	(\$34,693)	(\$29,144)	(\$17,976)	\$17,769	(\$15,472)	(\$4,554)	(\$14,105)	(\$106,571)	(\$118,549)	(\$104,478)
Ratios:														
Claims & Expenses Incurred (Earned)														
Prior Accident Years	-12.9%	-11.4%	-177.9%	-6.0%	17.8%	-6.9%	-6.2%	-116.8%	-5.1%	-25.5%	-5.2%	-32.7%	-30.4%	-39.5%
Current Accident Year	136.8%	133.7%	128.4%	131.4%	136.3%	131.9%	132.0%	137.6%	130.6%	129.3%	131.4%	132.7%	132.3%	133.7%
All Accident Years Combined	123.9%	122.3%	-49.5%	125.4%	154.1%	125.0%	125.8%	20.8%	125.5%	103.8%	126.2%	100.0%	101.9%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.0%	25.0%	30.4%	54.1%	63.3%	28.5%	25.5%	22.8%	10.4%	20.3%	31.1%	29.8%	44.4%
Combined Operating Ratio	154.6%	152.3%	-24.5%	155.8%	208.2%	188.3%	154.3%	46.3%	148.3%	114.2%	146.5%	131.1%	131.7%	138.6%

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