

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F18 – 019**

**DATE: MARCH 29, 2018**

**SUBJECT: ONTARIO RISK SHARING POOL  
– FEBRUARY 2018 OPERATIONAL REPORT**

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

Please be advised that the February 2018 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 -\$24.4 million and the incurred loss ratio to the end of 2 months is 129.0%, as summarized in the table below.

<b>Amounts in \$000s</b>	<b>February 2018</b>	February 2017	<b>Year to date Feb 2018</b>	Year to Date Feb 2017
Premium Written	21,024	26,562	42,052	55,438
Premium Earned	27,100	27,075	57,520	55,952
Incurred Losses	34,210	33,102	74,198	68,876
Underwriting & Admin Expense	4,493	8,111	7,678	16,981
<b>Operating Result</b>	<b>(11,603)</b>	<b>(14,138)</b>	<b>(24,356)</b>	<b>(29,905)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	<b>(8.4%)</b>	<b>(11.4%)</b>	<b>(7.5%)</b>	<b>(12.2%)</b>
- Current Accident Year	134.7%	133.7%	136.5%	135.3%
<i>Total</i>	<b>126.3%</b>	<b>122.3%</b>	<b>129.0%</b>	<b>123.1%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>16.6%</b>	<b>30.0%</b>	<b>13.3%</b>	<b>30.3%</b>
<b>Combined Operating Ratio</b>	<b>142.9%</b>	<b>152.3%</b>	<b>142.3%</b>	<b>153.4%</b>

*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 2018” attached to this bulletin.

Updated Projection to Year-end 2018

The projected calendar year Operating Result to December 2018 is -\$266.7 million and the estimated combined operating ratio to December 2018 is 171.7%, as summarized in the table below. This updated projection to the end of the year has not changed significantly from the projection provided last month (-\$265.9 million and 171.6%).

<b>ON RSP 2018 Yr-end Projection</b>	<b>Current</b>	Prior Mth	<b>Change</b>	Final 2018
<b>Amounts in \$000s</b>	<b>(Feb 2018)</b>	(Jan 2018)		Outlook*
Premium Written	430,434	430,608	(174)	413,190
Premium Earned	371,830	371,397	433	382,147
Incurring Losses	475,545	474,026	1,519	487,967
Underwriting & Admin Expense	163,018	163,260	(242)	147,584
<b>Net Result from Operations</b>	<b>(266,733)</b>	<b>(265,889)</b>	<b>(844)</b>	<b>(253,404)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(5.6%)	(5.8%)	0.2%	(7.5%)
- Current Accident Year	133.5%	133.4%	0.1%	135.2%
<i>Total</i>	<b>127.9%</b>	<b>127.6%</b>	<b>0.3%</b>	<b>127.7%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>43.8%</b>	<b>44.0%</b>	<b>(0.2%)</b>	<b>38.6%</b>
<b>Combined Operating Ratio</b>	<b>171.7%</b>	<b>171.6%</b>	<b>0.1%</b>	<b>166.3%</b>

*rounding differences may occur*

\*as posted to FA's website Oct. 3, 2017

Current Month Results

The Ontario Risk Sharing Pool produced a -\$11.6 million Operating Result in the month of February 2018, a \$2.5 million improvement compared with the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 152.3% to 142.9% applied to \$27.1 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 142.0% at the end of 1 month to 142.3% at the end of 2 months. The 0.3 percentage point increase is composed of a 2.8 percentage point increase in the expense ratio, offset by a 0.8 percentage point decrease in the Prior Accident Year loss ratio and a 1.7 percentage point decrease in the Current Accident Year loss ratio.

As noted in last month's bulletin, FA management was notified on January 31, 2018 by a member of a potential recorded case reserve overstatement. Management investigated and estimated the overstatement for the Ontario RSP as at October 31, 2017 as indicated in the table at the top of the next page.

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*Estimated case reserve overstatement as at Oct 31, 2017*

**Case Reserve Overstatement**

100 RSP ON

	<b>Amounts in \$000s</b>
2006	222
2007	194
2008	193
2009	593
2010	253
2011	27
2012	688
2013	695
2014	1,221
2015	2,440
2016	2,260
2017	2,480
<b>TOTAL</b>	<b>11,266</b>

The overstatement of \$11.3 million represented 2.0% of total case reserves recorded at October 31, 2017 for the Ontario RSP, and 1.3% of nominal claims liabilities.

FA's year-end audited financial statements (as at October 31, 2017) were adjusted to reflect this overstatement by reducing the claims liabilities amount by the overstatement (as well as release of associated margins for adverse claims development). However, no adjustment has currently been made to reflect this in the Member Statements (i.e. monthly RSP Operational Reports). It is currently expected to be reflected via reductions in ultimate with the December 31, 2017 valuation, expected to be implemented into the March 2018 Operational Reports.

*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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<b>February 2018</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premium	21,024	25,053	(4,029)	(16.1%)
Earned Premium	27,100	27,937	(837)	(3.0%)
Reported Losses				
Paid Losses	27,721	24,064	3,657	15.2%
Paid Expenses	591	2,728	(2,137)	(78.3%)
Change in Outstanding Losses	6,343	7,947	(1,604)	(20.2%)
<b>Total Reported Losses</b>	<b>34,655</b>	<b>34,739</b>	<b>(84)</b>	<b>(0.2%)</b>
Change in IBNR Provision*	(445)	1,056	(1,501)	
Change in Premium Deficiency (DPAC)*	(2,007)	(870)	(1,137)	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP February 2018 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 February 2018, reported losses were \$0.1 million lower than projected. The Current Accident Year had a \$2.1 million unfavourable variance in reported losses, while the Prior Accident Years had a \$2.2 million favourable variance. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$4.1 million favourable, followed by Accident Year 2014 at a \$1.6 million unfavourable and Accident Year 2015 at a \$1.5 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 paid claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

**Booking IBNR**

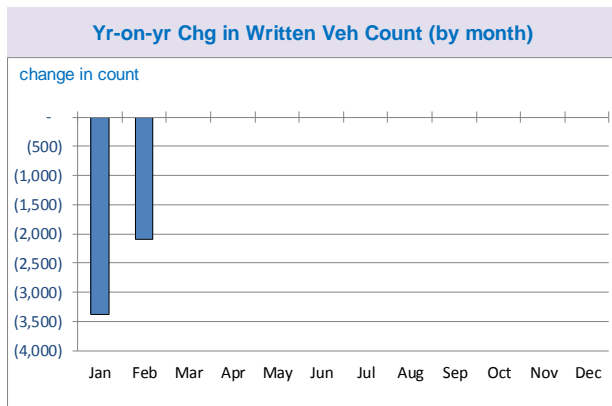
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 February 2018 Operational Report – Actuarial Highlights](#).

### Effect of Quarterly Valuation

The February 2018 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 2018 vehicle count up 13.7% from 2017, being 3.0% of the 7.5 million 2016 industry private passenger vehicle count<sup>1</sup> including farmers. 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.



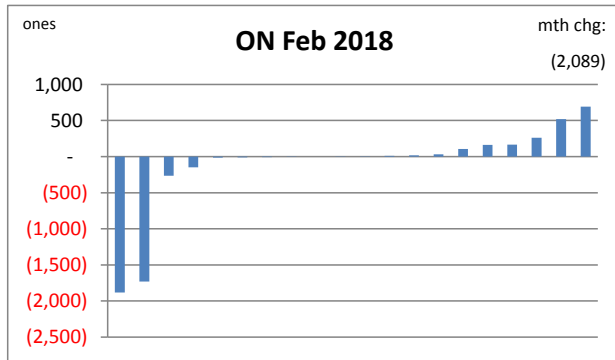
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with February reporting a decrease of 2,089 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 778 vehicles, indicating a variance of 1,311 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in February than projected.

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<sup>1</sup>As we don't have an industry count yet for the 2017 accident year, we continue to use the 2016 count as a proxy for 2017. The June 30, 2017 Industry AIX loss development data showed that individually-rated private passenger written vehicle counts in Ontario decreased 82 thousand vehicles or 2.2% in accident-half 2017-H1 over 2016-H1, the first year-on-year decrease in an accident half's written vehicle counts since 2003-H1.

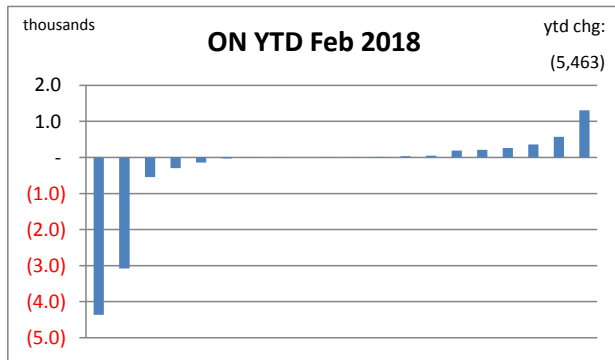
Vehicle count growth slowed around the time of the 2008 financial crisis (year-on-year growth of less than 1%, whereas growth was over 2% on average the previous 4 years), but from 2010 to 2014 inclusive, counts were increasing approximately 50 thousand +/-8 thousand each half (1.5% +/-0.3%). For 2015 and 2016, however, counts increased more quickly, at 2.1%, 3.0%, 6.3% (2015-H1, 2015-H2, 2016-H1), before slowing down again to 2.9% for 2016-H2, and now the 2.2% decrease for 2017-H1.

At 5%, the ON RSP limit represents approximately 377 thousand vehicles or 150 thousand more than currently projected for 2018. Assuming an average written premium of \$1,900 (the current projection for 2018), the premium at the 5% limit transfer would be approximately \$715 million, or \$285 million more than we are currently projecting. In the unlikely event that the full transfer was to take place, and generating an operating loss of 72 cents per dollar of premium, the additional \$285 million would generate an additional \$205 million in operating loss for sharing.



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 more<sup>2</sup>, and one remained the same. Of the 8 member company groups transferring

fewer vehicles, 2 member company groups accounted for 89% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 2 member company groups accounted for 61% of the total transfer increases for the “grower” members.

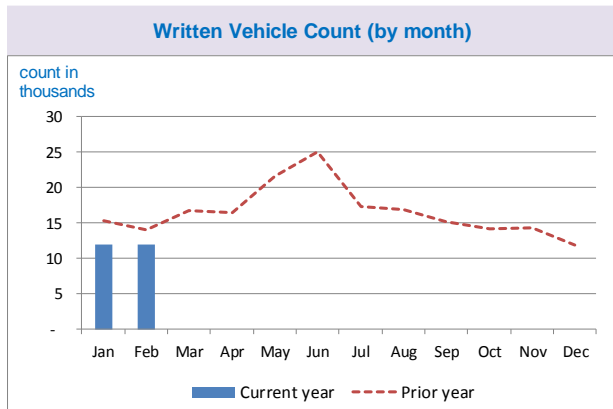


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

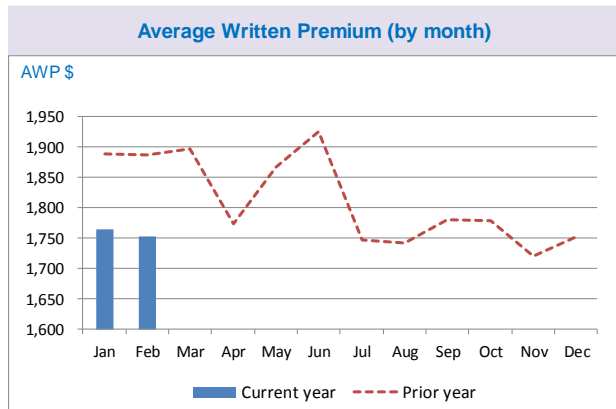
February’s year-on-year change in vehicle count transfers to the pool represents a 14.8% decrease from February 2017, and counts were down 18.6% year-to-date. Average written premium was down 7.1% in February 2018 compared with the same month in 2017, and down 6.8% year-to-date (see charts at the top of the next page).

<sup>2</sup>For 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.

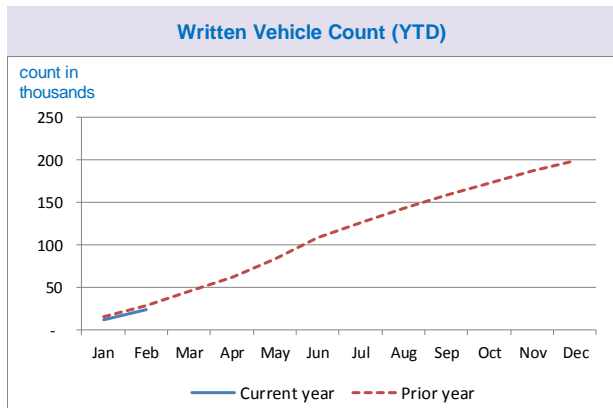
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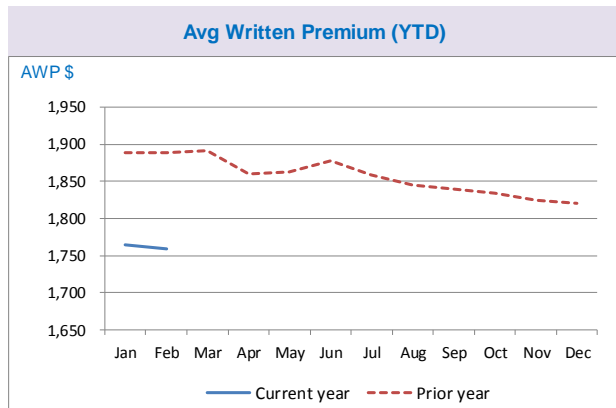
	Feb-18	Feb-17	Amt Chg	% Chg
W. Veh curr mth	11,990	14,079	(2,089)	-14.8%



	Feb-18	Feb-17	Amt Chg	% Chg
AWP curr mth	1,753	1,887	(134)	-7.1%



	Feb-18	Feb-17	Amt Chg	% Chg
W. Vehicles YTD	23,903	29,366	(5,463)	-18.6%

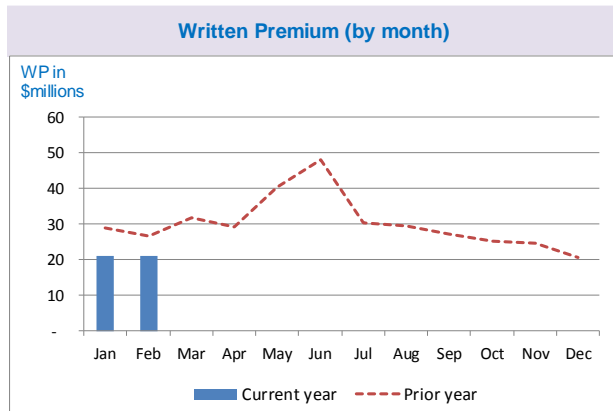


	Feb-18	Feb-17	Amt Chg	% Chg
Avg W. Prem YTD	1,759	1,888	(129)	-6.8%

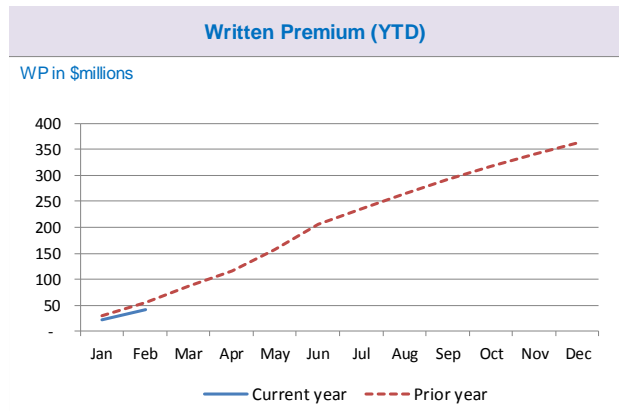
As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 20.8% for the month compared with the 5.7% decrease we projected last month, and was down 24.1% year-to-date (see charts immediately at the top of the next page).

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	Feb-18	Feb-17	Amt Chg	% Chg
WP (\$000s) curr mth	21,024	26,562	(5,537)	-20.8%



	Feb-18	Feb-17	Amt Chg	% Chg
WP (\$000s) YTD	42,052	55,437	(13,385)	-24.1%

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 February 2018 Operational Report – Actuarial Highlights](#)



## SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Ontario

Operating Results for the 2 Months Ended February 28, 2018 (Discounted basis)

EXHIBIT 1

Source: *Monthly Operational Report*

(thousands of dollars)

	January	February	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Net Premiums Written	\$21,028	\$21,024	\$42,052	\$430,434	\$362,505
Decrease (Increase) in Unearned Premiums	\$9,392	\$6,076	\$15,468	(\$58,604)	\$11,153
<b>Net Premiums Earned</b>	<b>\$30,420</b>	<b>\$27,100</b>	<b>\$57,520</b>	<b>\$371,830</b>	<b>\$373,658</b>
<b>Claims Incurred:</b>					
Prior Accident Years:					
Undiscounted	(\$355)	(\$265)	(\$620)	(\$620)	(\$47,673)
Effect of Discounting	(1,690)	(2,018)	(3,708)	(20,164)	(66,431)
Discounted	(\$2,045)	(\$2,283)	(\$4,328)	(\$20,784)	(\$114,104)
Current Accident Year:					
Undiscounted	\$37,624	\$33,465	\$71,089	\$456,118	\$455,722
Effect of Discounting	4,409	3,028	7,437	40,211	39,948
Discounted	\$42,033	\$36,493	\$78,526	\$496,329	\$495,670
<b>Claims Incurred</b>	<b>\$39,988</b>	<b>\$34,210</b>	<b>\$74,198</b>	<b>\$475,545</b>	<b>\$381,566</b>
<b>Underwriting Expenses:</b>					
Expense Allowance	\$6,354	\$6,376	\$12,730	\$128,857	\$110,765
Change in UPDR/DPAC:					
Undiscounted	(2,100)	(1,273)	(3,373)	23,839	6,769
Effect of Discounting	(1,151)	(734)	(1,885)	8,249	(8,538)
Discounted	(3,251)	(2,007)	(5,258)	32,088	(\$1,769)
<b>Underwriting Expenses</b>	<b>\$3,103</b>	<b>\$4,369</b>	<b>\$7,472</b>	<b>\$160,945</b>	<b>\$108,996</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$12,671)</b>	<b>(\$11,479)</b>	<b>(\$24,150)</b>	<b>(\$264,660)</b>	<b>(\$116,904)</b>
<b>Administrative Expenses</b>	<b>\$82</b>	<b>\$124</b>	<b>\$206</b>	<b>\$2,073</b>	<b>\$1,430</b>
<b>Operating Result</b>	<b>(\$12,753)</b>	<b>(\$11,603)</b>	<b>(\$24,356)</b>	<b>(\$266,733)</b>	<b>(\$118,334)</b>
<b>Ratios:</b>					
<b>Claims &amp; Expenses Incurred (Earned)</b>					
Prior Accident Years	-6.7%	-8.4%	-7.5%	-5.6%	-30.5%
Current Accident Year	138.2%	134.7%	136.5%	133.5%	132.7%
All Accident Years Combined	131.5%	126.3%	129.0%	127.9%	102.2%
Underwriting & Administrative Expenses (Earned)	10.5%	16.6%	13.3%	43.8%	29.6%
<b>Combined Operating Ratio</b>	<b>142.0%</b>	<b>142.9%</b>	<b>142.3%</b>	<b>171.7%</b>	<b>131.8%</b>

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