

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 034

DATE: MAY 30, 2018

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

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

Please be advised that the April 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 -\$58.5 million and the incurred loss ratio to the end of 4 months is 118.8%, as summarized in the table below.

Amounts in \$000s	April 2018	April 2017	Year to date Apr 2018	Year to Date Apr 2017
Premium Written	33,621	29,169	107,042	116,323
Premium Earned	29,381	30,382	117,036	117,217
Incurred Losses	38,445	38,083	139,049	91,676
Underwriting & Admin Expense	12,251	9,235	36,469	33,937
Operating Result	(21,315)	(16,936)	(58,482)	(8,396)
Ratios:				
Loss ratio - Prior Accident Years	(7.0%)	(6.0%)	(20.3%)	(54.3%)
- Current Accident Year	137.8%	131.4%	139.1%	132.5%
<i>Total</i>	130.8%	125.4%	118.8%	78.2%
Underwriting & Admin Expense	41.7%	30.4%	31.2%	29.0%
Combined Operating Ratio	172.5%	155.8%	150.0%	107.2%

rounding differences may occur

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 -\$275.7 million and the estimated combined operating ratio to December 2018 is 173.7%, 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 (-\$275.9 million and 174.1%).

ON RSP 2018 Yr-end Projection	Current	Prior Mth	Change	Final 2018
Amounts in \$000s	(Apr 2018)	(Mar 2018)		Outlook*
Premium Written	430,776	429,602	1,174	413,190
Premium Earned	374,034	372,416	1,618	382,147
Incurred Losses	475,710	474,325	1,385	487,967
Underwriting & Admin Expense	174,066	174,029	37	147,584
Net Result from Operations	(275,742)	(275,938)	196	(253,404)
Ratios:				
Loss ratio				
- Prior Accident Years	(10.0%)	(9.8%)	(0.2%)	(7.5%)
- Current Accident Year	137.2%	137.2%	0.0%	135.2%
<i>Total</i>	127.2%	127.4%	(0.2%)	127.7%
Underwriting & Admin Expense	46.5%	46.7%	(0.2%)	38.6%
Combined Operating Ratio	173.7%	174.1%	(0.4%)	166.3%

rounding differences may occur

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

Current Month Results

The Ontario Risk Sharing Pool produced a -\$21.3 million Operating Result in the month of April 2018, a \$4.4 million deterioration compared with the same month last year. This deterioration is composed of a \$4.9 million deterioration stemming from the overall increase in the combined ratio (from 155.8% to 172.5% applied to \$29.4 million in earned premium), offset by an approximately \$0.5 million favourable impact associated with the \$1.0 million decrease in earned premium (at a combined ratio of 155.8%).

This month's results moved the year-to-date combined operating ratio from 142.4% at the end of 3 months to 150.0% at the end of 4 months. The 7.6 percentage point increase is composed of a 4.5 percentage point increase in the Prior Accident Year loss ratio, and a 3.6 percentage point increase in the expense ratio, offset by a 0.5 percentage point decrease in the Current Accident Year loss ratio.

Variations from Projections

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

April 2018	Actual	Projection	Difference	Difference %
Written Premium	33,621	32,447	1,174	3.6%
Earned Premium	29,381	29,590	(209)	(0.7%)
Reported Losses				
Paid Losses	28,469	25,207	3,262	12.9%
Paid Expenses	1,411	2,013	(602)	(29.9%)
Change in Outstanding Losses	7,590	5,793	1,797	31.0%
Total Reported Losses	37,470	33,013	4,457	13.5%
Change in IBNR Provision*	975	5,943	(4,968)	
Change in Premium Deficiency (DPAC)*	2,178	1,645	533	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP April 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 April 2018, reported losses were \$4.5 million higher than projected. The Current Accident Year had a \$1.1 million unfavourable variance in reported losses, and the Prior Accident Years had an approximately \$3.4 million unfavourable variance. Of the Prior Accident Years, 1996 had the largest variance in reported losses at \$6.6 million unfavourable, followed by Accident Year 2017 at a \$4.2 million favourable, Accident Year 2015 at a \$4.0 million unfavourable and Accident Year 2016 at a \$3.3 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 April 2018 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

The April 2018 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at December 31, 2017). The actuarial valuation will be updated next as at March 31, 2018 and we anticipate that the results will be reflected in the May 2018 Operational Report.

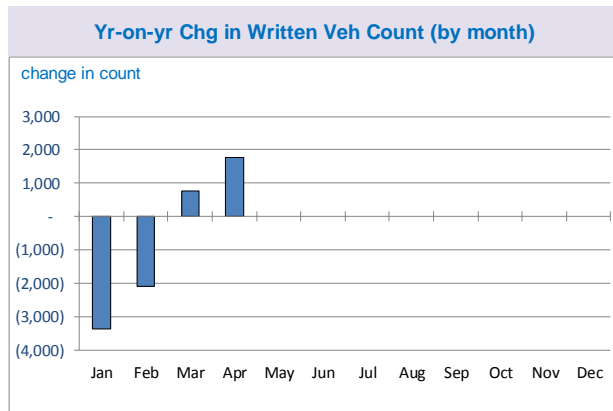
Management Comments

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 13.8% from 2017, being 3.0% of the 7.5 million 2016 industry private passenger vehicle count¹ 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 limits².

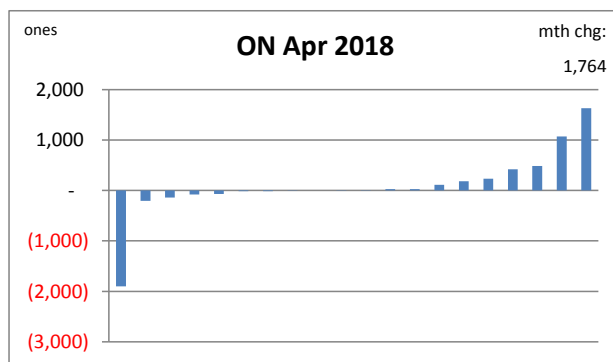
¹As we don't have an industry count yet for the 2017 accident year, we continue to use the 2016 count as a proxy for 2017. The December 31, 2017 Industry AIX loss development data showed that individually-rated private passenger written vehicle counts in Ontario increased 24 thousand vehicles or 0.3% in accident year 2017 over 2016, despite having decreased in the first half of the accident year (the 52 thousand decrease in the first half of 2017 over the first half of 2016 was the first year-on-year decrease in an accident half's written vehicle counts since 2003-H1). Given the limited growth in 2017, 2016 remains a good proxy for the final 2017 industry count.

Industry Ontario 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 100 thousand +/-16 thousand each year (1.5% +/-0.3%). However, 2015 increased 180 thousand (2.6%) over 2014, and 2016 grew 333 thousand or 4.6% over 2015. As such, the 24 thousand (0.3%) growth in vehicle count experienced in 2017 would certainly be considered low.

²At 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 84 cents per dollar of premium, the additional \$285 million in premium would generate an additional \$240 million in operating loss for sharing.

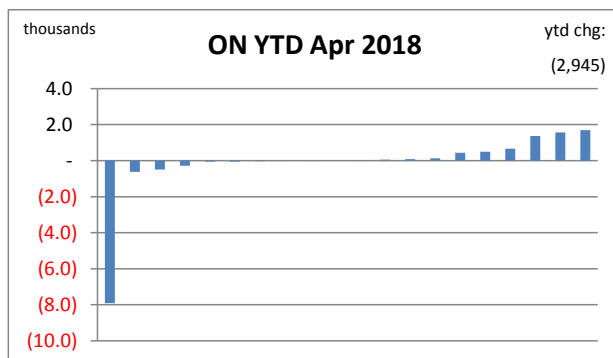


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with April reporting an increase of 1,764 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 2,265 vehicles, indicating a variance of 501 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in April 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 more³, and one remained the same. Of the 8 member company groups transferring

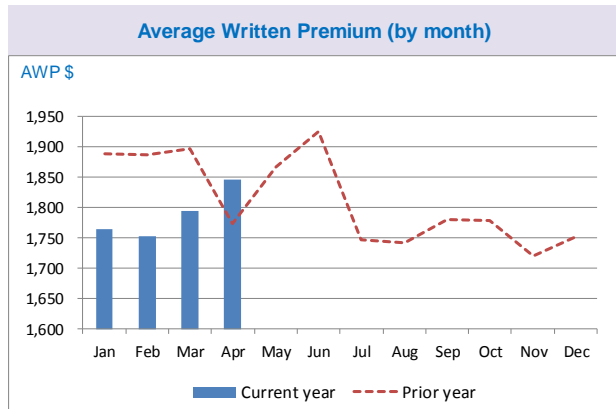
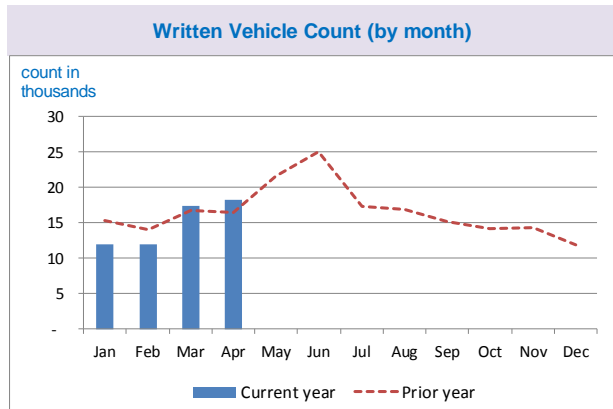
fewer vehicles, 1 member company group accounted for 78% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 2 member company groups accounted for 65% of the total transfer increases for the “grower” members.



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.

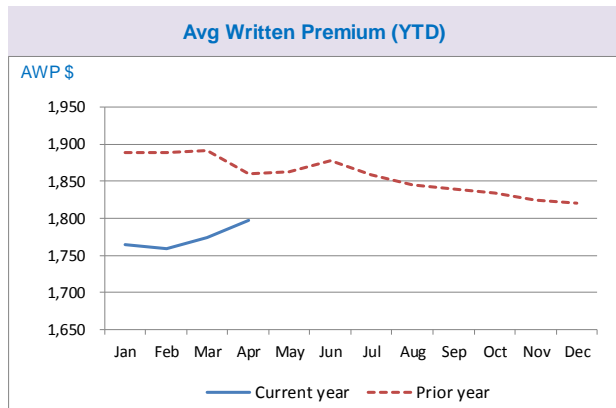
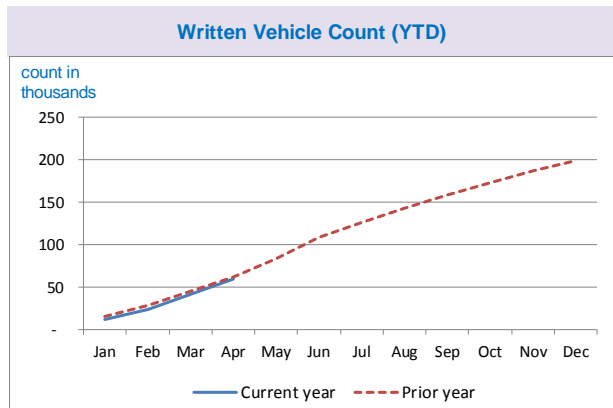
April’s year-on-year change in vehicle count transfers to the pool represents a 10.7% increase from April 2017, but counts were down 4.7% year-to-date. Average written premium was up 4.1% in April 2018 compared with the same month in 2017, but was down 3.4% year-to-date (see charts at the top of the next page).

³For 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.



	Apr-18	Apr-17	Amt Chg	% Chg
W. Veh curr mth	18,204	16,440	1,764	10.7%

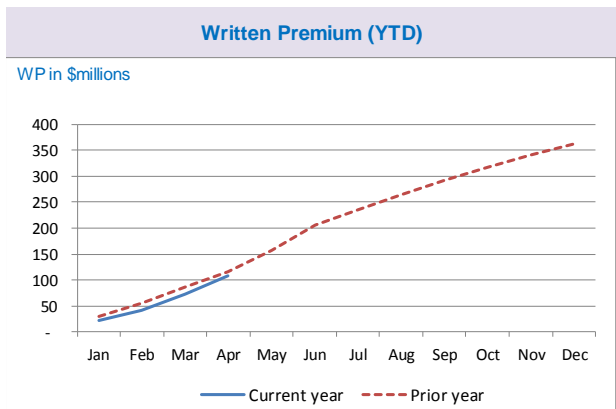
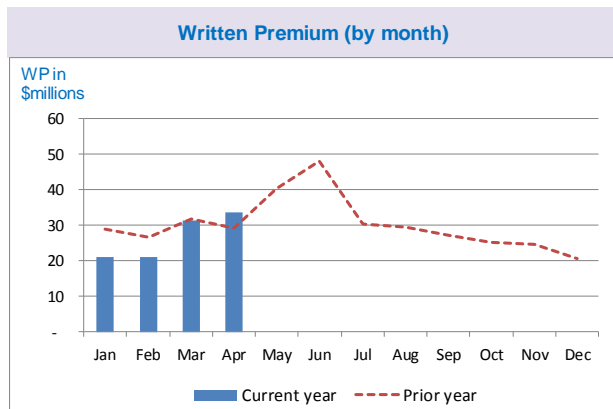
	Apr-18	Apr-17	Amt Chg	% Chg
AWP curr mth	1,847	1,774	73	4.1%



	Apr-18	Apr-17	Amt Chg	% Chg
W. Vehicles YTD	59,581	62,526	(2,945)	-4.7%

	Apr-18	Apr-17	Amt Chg	% Chg
Avg W. Prem YTD	1,797	1,860	(63)	-3.4%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 15.3% for the month compared with the 11.2% increase we projected last month, but was down 8.0% year-to-date (see charts immediately below).



	Apr-18	Apr-17	Amt Chg	% Chg
WP (\$000s) curr mth	33,621	29,169	4,452	15.3%

	Apr-18	Apr-17	Amt Chg	% Chg
WP (\$000s) YTD	107,043	116,323	(9,281)	-8.0%

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Ontario Risk Sharing Pool – April 2018 Operational Report

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 April 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Ontario

Operating Results for the 4 Months Ended April 30, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Net Premiums Written	\$21,028	\$21,024	\$31,369	\$33,621	\$107,042	\$430,776	\$362,505
Decrease (Increase) in Unearned Premiums	9,392	6,076	(1,234)	(\$4,240)	9,994	(56,742)	11,153
Net Premiums Earned	\$30,420	\$27,100	\$30,135	\$29,381	\$117,036	\$374,034	\$373,658
Claims Incurred:							
Prior Accident Years:							
Undiscounted	(\$355)	(\$265)	(\$18,967)	(\$100)	(\$19,687)	(\$19,687)	(\$47,673)
Effect of Discounting	(1,690)	(2,018)	1,563	(1,955)	(4,100)	(17,838)	(66,431)
Discounted	(\$2,045)	(\$2,283)	(\$17,404)	(\$2,055)	(\$23,787)	(\$37,525)	(\$114,104)
Current Accident Year:							
Undiscounted	\$37,624	\$33,465	\$40,131	\$37,097	\$148,317	\$471,878	\$455,722
Effect of Discounting	4,409	3,028	3,679	3,403	14,519	41,357	39,948
Discounted	\$42,033	\$36,493	\$43,810	\$40,500	\$162,836	\$513,235	\$495,670
Claims Incurred	\$39,988	\$34,210	\$26,406	\$38,445	\$139,049	\$475,710	\$381,566
Underwriting Expenses:							
Expense Allowance	\$6,354	\$6,376	\$9,366	\$9,971	\$32,067	\$128,863	\$110,765
Change in UPDR/DPAC:							
Undiscounted	(2,100)	(1,273)	6,072	1,589	4,288	33,758	6,769
Effect of Discounting	(1,151)	(734)	974	589	(322)	9,421	(8,538)
Discounted	(3,251)	(2,007)	7,046	2,178	3,966	43,179	(\$1,769)
Underwriting Expenses	\$3,103	\$4,369	\$16,412	\$12,149	\$36,033	\$172,042	\$108,996
Net Underwriting Gain (Loss)	(\$12,671)	(\$11,479)	(\$12,683)	(\$21,213)	(\$58,046)	(\$273,718)	(\$116,904)
Administrative Expenses	\$82	\$124	\$128	\$102	\$436	\$2,024	\$1,430
Operating Result	(\$12,753)	(\$11,603)	(\$12,811)	(\$21,315)	(\$58,482)	(\$275,742)	(\$118,334)
Ratios:							
Claims & Expenses Incurred (Earned)							
Prior Accident Years	-6.7%	-8.4%	-57.8%	-7.0%	-20.3%	-10.0%	-30.5%
Current Accident Year	138.2%	134.7%	145.4%	137.8%	139.1%	137.2%	132.7%
All Accident Years Combined	131.5%	126.3%	87.6%	130.8%	118.8%	127.2%	102.2%
Underwriting & Administrative Expenses (Earned)	10.5%	16.6%	54.9%	41.7%	31.2%	46.5%	29.6%
Combined Operating Ratio	142.0%	142.9%	142.5%	172.5%	150.0%	173.7%	131.8%

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