

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F18 – 060**

**DATE: AUGUST 30, 2018**

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

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

Please be advised that the July 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 -\$118.9 million and the incurred loss ratio to the end of 7 months is 123.3%, as summarized in the table below.

Amounts in \$000s	July 2018	July 2017	Year to date Jul 2018	Year to Date Jul 2017
Premium Written	31,602	30,336	209,232	235,230
Premium Earned	29,623	33,123	206,183	215,388
Incurring Losses	38,975	41,662	254,143	223,986
Underwriting & Admin Expense	10,656	9,437	70,938	81,611
<b>Operating Result</b>	<b>(20,008)</b>	<b>(17,976)</b>	<b>(118,898)</b>	<b>(90,209)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	<b>(4.1%)</b>	<b>(6.2%)</b>	<b>(13.9%)</b>	<b>(28.9%)</b>
- Current Accident Year	135.7%	132.0%	137.2%	132.9%
<i>Total</i>	<b>131.6%</b>	<b>125.8%</b>	<b>123.3%</b>	<b>104.0%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>36.0%</b>	<b>28.5%</b>	<b>34.4%</b>	<b>37.9%</b>
<b>Combined Operating Ratio</b>	<b>167.6%</b>	<b>154.3%</b>	<b>157.7%</b>	<b>141.9%</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 -\$234.4 million and the estimated combined operating ratio to December 2018 is 164.9%, as summarized in the table below. This updated projection to the end of the year has improved by \$4.8 million from the projection provided last month (-\$239.2 million and 165.7%). This improvement is driven by a \$7.7 million decrease in the projected written premium for the year.

<b>ON RSP 2018 Yr-end Projection</b> <b>Amounts in \$000s</b>	<b>Current</b> <b>(Jul 2018)</b>	Prior Mth (Jun 2018)	<b>Change</b>	Final 2018 Outlook*
Premium Written	393,302	400,993	(7,691)	413,190
Premium Earned	361,188	364,416	(3,228)	382,147
Incurred Losses	454,859	458,690	(3,831)	487,967
Underwriting & Admin Expense	140,750	144,920	(4,170)	147,584
<b>Net Result from Operations</b>	<b>(234,421)</b>	<b>(239,194)</b>	<b>4,773</b>	<b>(253,404)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(10.1%)	(10.1%)	0.0%	(7.5%)
- Current Accident Year	136.0%	136.0%	0.0%	135.2%
<i>Total</i>	<b>125.9%</b>	<b>125.9%</b>	<b>0.0%</b>	<b>127.7%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>39.0%</b>	<b>39.8%</b>	<b>(0.8%)</b>	<b>38.6%</b>
<b>Combined Operating Ratio</b>	<b>164.9%</b>	<b>165.7%</b>	<b>(0.8%)</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 -\$20.0 million Operating Result in the month of July 2018, a \$2.0 million deterioration compared with the same month last year. This deterioration is composed of a \$3.9 million unfavourable impact stemming from the overall increase in the combined ratio (from 154.3% to 167.6% applied to \$29.6 million in earned premium), offset by a \$1.9 million favourable impact associated with the \$3.5 million decrease in earned premium (at a combined ratio of 154.3%).

This month's results moved the year-to-date combined operating ratio from 155.9% at the end of 6 months to 157.7% at the end of 7 months. The 1.8 percentage point increase is composed of a 1.7 percentage point increase in the Prior Accident Year loss ratio and a 0.3 percentage point increase in the expense ratio, offset by a 0.2 percentage point decrease in the Current Accident Year loss 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.

<b>July 2018</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premium	31,602	38,967	(7,365)	(18.9%)
Earned Premium	29,623	30,568	(945)	(3.1%)
Reported Losses				
Paid Losses	24,755	28,686	(3,931)	(13.7%)
Paid Expenses	1,358	2,502	(1,144)	(45.7%)
Change in Outstanding Losses	4,733	(2,461)	7,194	(292.3%)
<b>Total Reported Losses</b>	<b>30,846</b>	<b>28,727</b>	<b>2,119</b>	<b>7.4%</b>
Change in IBNR Provision*	8,129	11,152	(3,023)	
Change in Premium Deficiency (DPAC)*	1,094	3,609	(2,515)	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP July 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 July 2018, reported losses were \$2.1 million higher than projected. The Current Accident Year had a \$0.5 million favourable variance in reported losses, while the Prior Accident Years had a \$2.6 million unfavourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$2.9 million unfavourable, followed by Accident Year 2014 at \$1.8 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

*Booking IBNR*

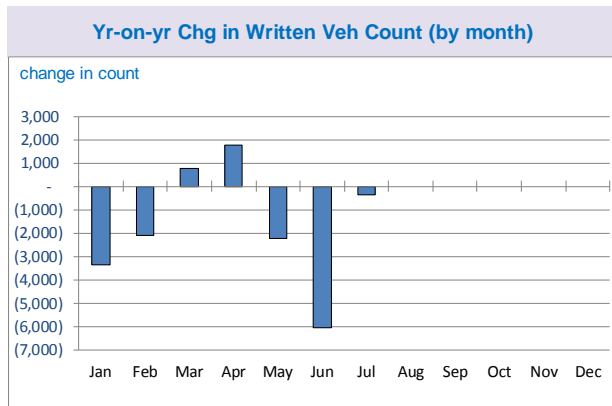
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

**Effect of Quarterly Valuation**

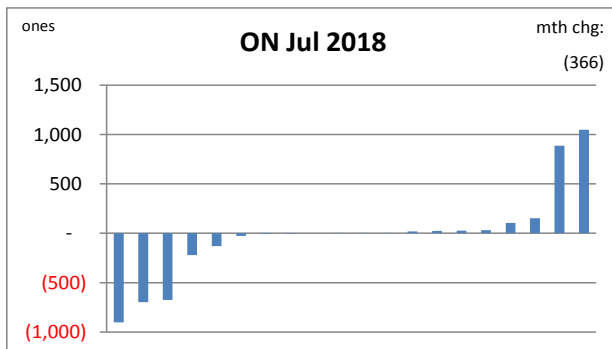
The July 2018 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2018). The actuarial valuation will be updated next as at June 30, 2018 and we anticipate that the results will be reflected in the August 2018 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 4.4% from 2017, being 2.7% of the 2017 industry private passenger vehicle count (excluding farmers) and the 2016 industry private passenger vehicle farmers count (as we don't have an industry count for farmers 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 July reporting a decrease of 366 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 2,437 vehicles, indicating a variance of 2,803 from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the pool in July than projected.

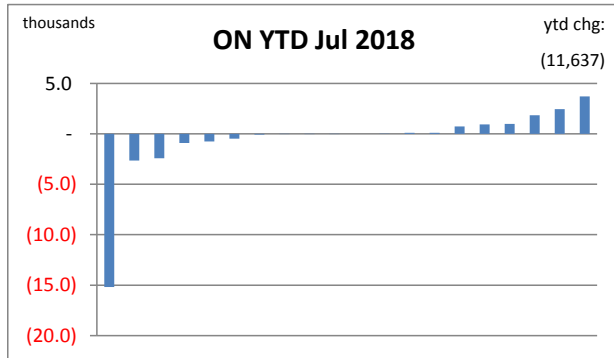


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eleven transferred more<sup>1</sup>, and one remained the same. Of the 8 member company groups transferring

<sup>1</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.

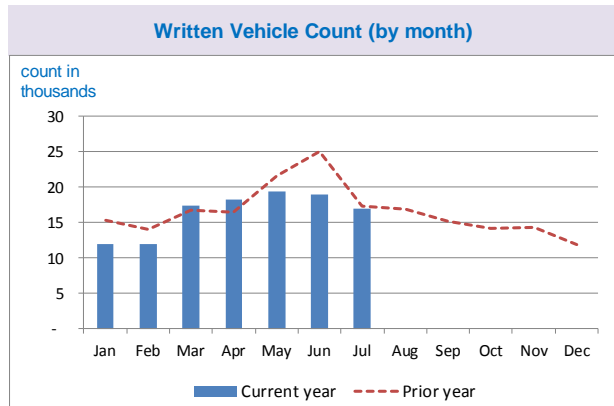
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fewer vehicles, 3 member company groups accounted for 85% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 2 member company groups accounted for 84% of the total transfer increases for the “grower” members.

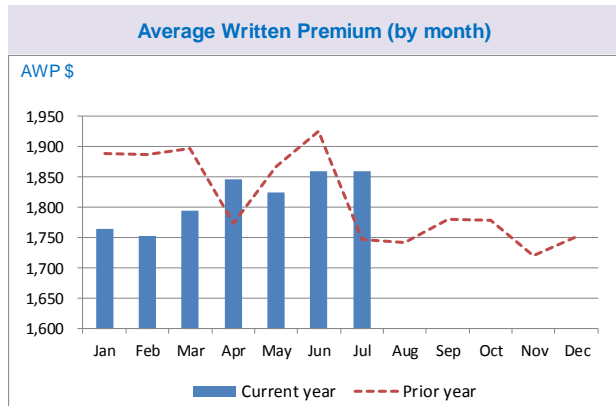


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

July’s year-on-year change in vehicle count transfers to the pool represents a 2.1% decrease from July 2017, and counts were down 9.2% year-to-date. Average written premium was up 6.4% in July 2018 compared with the same month in 2017, but was down 2.0% year-to-date (see charts immediately below and at the top of the next page).

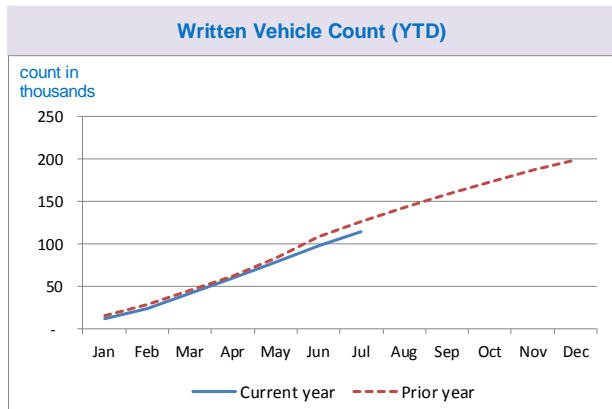


	Jul-18	Jul-17	Amt Chg	% Chg
W. Veh curr mth	16,989	17,356	(366)	-2.1%

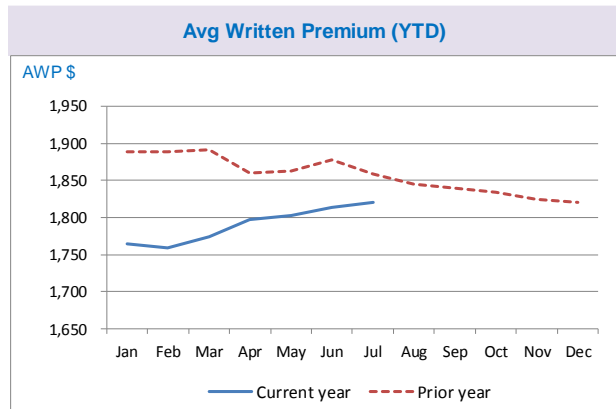


	Jul-18	Jul-17	Amt Chg	% Chg
AWP curr mth	1,860	1,748	112	6.4%

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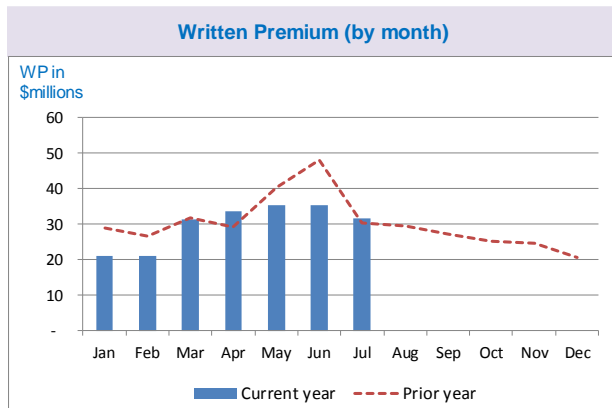


	Jul-18	Jul-17	Amt Chg	% Chg
W. Vehicles YTD	114,907	126,544	(11,637)	-9.2%

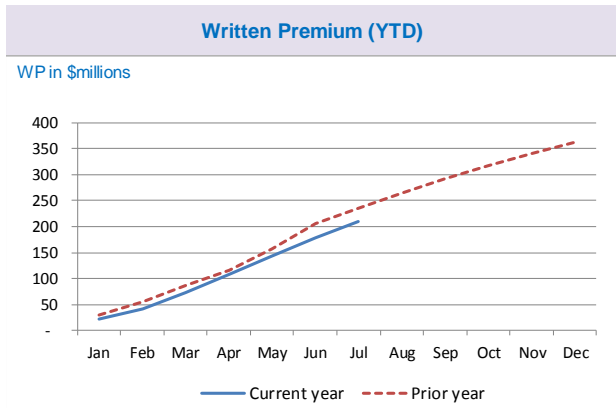


	Jul-18	Jul-17	Amt Chg	% Chg
Avg W. Prem YTD	1,821	1,859	(38)	-2.0%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 4.2% for the month compared with the 28.5% increase we projected last month, but was down 11.1% year-to-date (see charts immediately below).



	Jul-18	Jul-17	Amt Chg	% Chg
WP (\$000s) curr mth	31,602	30,336	1,266	4.2%



	Jul-18	Jul-17	Amt Chg	% Chg
WP (\$000s) YTD	209,231	235,230	(25,999)	-11.1%

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 July 2018 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2018**  
**Risk Sharing Pool - Ontario**  
**Operating Results for the 7 Months Ended July 31, 2018 (Discounted basis)**  
**Source: Monthly Operational Report**  
**(thousands of dollars)**

EXHIBIT 1

	January	February	March	April	May	June	July	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Net Premiums Written	\$21,028	\$21,024	\$31,369	\$33,621	\$35,308	\$35,280	\$31,602	\$209,232	\$393,302	\$362,505
Decrease (Increase) in Unearned Premiums	9,392	6,076	(1,234)	(\$4,240)	(\$4,919)	(\$6,145)	(\$1,979)	(3,049)	(32,114)	11,153
<b>Net Premiums Earned</b>	<b>\$30,420</b>	<b>\$27,100</b>	<b>\$30,135</b>	<b>\$29,381</b>	<b>\$30,389</b>	<b>\$29,135</b>	<b>\$29,623</b>	<b>\$206,183</b>	<b>\$361,188</b>	<b>\$373,658</b>
<b>Claims Incurred:</b>										
Prior Accident Years:										
Undiscounted	(\$355)	(\$265)	(\$18,967)	(\$100)	\$5,608	(\$41)	(\$47)	(\$14,167)	(\$14,167)	(\$47,673)
Effect of Discounting	(1,690)	(2,018)	1,563	(1,955)	(7,643)	(1,616)	(1,170)	(14,529)	(22,215)	(66,431)
Discounted	(\$2,045)	(\$2,283)	(\$17,404)	(\$2,055)	(\$2,035)	(\$1,657)	(\$1,217)	(\$28,696)	(\$36,382)	(\$114,104)
Current Accident Year:										
Undiscounted	\$37,624	\$33,465	\$40,131	\$37,097	\$38,045	\$36,669	\$37,282	\$260,313	\$455,155	\$455,722
Effect of Discounting	4,409	3,028	3,679	3,403	2,260	2,837	2,910	22,526	36,086	39,948
Discounted	\$42,033	\$36,493	\$43,810	\$40,500	\$40,305	\$39,506	\$40,192	\$282,839	\$491,241	\$495,670
<b>Claims Incurred</b>	<b>\$39,988</b>	<b>\$34,210</b>	<b>\$26,406</b>	<b>\$38,445</b>	<b>\$38,270</b>	<b>\$37,849</b>	<b>\$38,975</b>	<b>\$254,143</b>	<b>\$454,859</b>	<b>\$381,566</b>
<b>Underwriting Expenses:</b>										
Expense Allowance	\$6,354	\$6,376	\$9,366	\$9,971	\$10,685	\$10,562	\$9,453	\$62,767	\$117,804	\$110,765
Change in UPDR/DPAC:										
Undiscounted	(2,100)	(1,273)	6,072	1,589	525	1,876	826	7,515	17,659	6,769
Effect of Discounting	(1,151)	(734)	974	589	(816)	759	268	(111)	3,608	(8,538)
Discounted	(3,251)	(2,007)	7,046	2,178	(291)	2,635	1,094	7,404	21,267	(\$1,769)
<b>Underwriting Expenses</b>	<b>\$3,103</b>	<b>\$4,369</b>	<b>\$16,412</b>	<b>\$12,149</b>	<b>\$10,394</b>	<b>\$13,197</b>	<b>\$10,547</b>	<b>\$70,171</b>	<b>\$139,071</b>	<b>\$108,996</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$12,671)</b>	<b>(\$11,479)</b>	<b>(\$12,683)</b>	<b>(\$21,213)</b>	<b>(\$18,275)</b>	<b>(\$21,911)</b>	<b>(\$19,899)</b>	<b>(\$118,131)</b>	<b>(\$232,742)</b>	<b>(\$116,904)</b>
<b>Administrative Expenses</b>	<b>\$82</b>	<b>\$124</b>	<b>\$128</b>	<b>\$102</b>	<b>\$127</b>	<b>\$95</b>	<b>\$109</b>	<b>\$767</b>	<b>\$1,679</b>	<b>\$1,430</b>
<b>Operating Result</b>	<b>(\$12,753)</b>	<b>(\$11,603)</b>	<b>(\$12,811)</b>	<b>(\$21,315)</b>	<b>(\$18,402)</b>	<b>(\$22,006)</b>	<b>(\$20,008)</b>	<b>(\$118,898)</b>	<b>(\$234,421)</b>	<b>(\$118,334)</b>
<b>Ratios:</b>										
<b>Claims &amp; Expenses Incurred (Earned)</b>										
Prior Accident Years	-6.7%	-8.4%	-57.8%	-7.0%	-6.7%	-5.7%	-4.1%	-13.9%	-10.1%	-30.5%
Current Accident Year	138.2%	134.7%	145.4%	137.8%	132.6%	135.6%	135.7%	137.2%	136.0%	132.7%
All Accident Years Combined	131.5%	126.3%	87.6%	130.8%	125.9%	129.9%	131.6%	123.3%	125.9%	102.2%
Underwriting & Administrative Expenses (Earned)	10.5%	16.6%	54.9%	41.7%	34.6%	45.6%	36.0%	34.4%	39.0%	29.6%
<b>Combined Operating Ratio</b>	<b>142.0%</b>	<b>142.9%</b>	<b>142.5%</b>	<b>172.5%</b>	<b>160.5%</b>	<b>175.5%</b>	<b>167.6%</b>	<b>157.7%</b>	<b>164.9%</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