



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F18 – 095

DATE: DECEMBER 20, 2018

SUBJECT: FARM – OCTOBER 2018 PARTICIPATION REPORT

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

Please be advised that the October 2018 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

New This Month

Valuation

An actuarial valuation as at September 30, 2018 has been completed since last month’s Participation Report for the FARM private passenger and non-private passenger business segments for all jurisdictions and the results of that valuation have been incorporated into this month’s Participation Report. The valuation was completed by the Facility Association’s internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

The implementation resulted in an estimated overall **\$3.2 million favourable** impact on the month’s net result from operations, subtracting an estimated 1.9 points from the year-to-date Combined Operating Ratio (ending at 82.4%). The impact on the month’s results is summarized in the tables immediately below¹.

| Grand Total | unfav / (fav) | | | | | | ytd EP 173,813 (actual) | | | | | |
|-------------|-----------------------------------|---------|-----------|----------|-------|---------|---------------------------------------------------|---------|-----------|----------|-------|--------|
| | IMPACT in \$000s from changes in: | | | | | | IMPACT unfav / (fav) as % ytd EP from changes in: | | | | | |
| | ultimates & payout patterns | | dsct rate | margins | | | ultimates & payout patterns | | dsct rate | margins | | |
| nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL | nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL | |
| [1] | [2] | [3] | [4] | [5] | [6] | [1] | [2] | [3] | [4] | [5] | [6] | |
| PAYs | 257 | 508 | 765 | (2,741) | - | (1,976) | 0.1% | 0.3% | 0.4% | (1.6%) | - | (1.1%) |
| CAY | (236) | (70) | (306) | (888) | - | (1,194) | (0.1%) | - | (0.2%) | (0.5%) | - | (0.7%) |
| Prem Def | 38 | 27 | 65 | (125) | - | (60) | - | - | - | (0.1%) | - | - |
| TOTAL | 59 | 465 | 524 | (3,754) | - | (3,230) | - | 0.3% | 0.3% | (2.2%) | - | (1.9%) |

Please see “Effect of Quarterly Valuation” on page 5 for additional detail.

¹In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dsct rate” refers to the impact of changes in the selected discount rate applied to projected cashflows; and “apv adj.” refers to “actuarial present value adjustments”.

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Unclaimed Property & Miscellaneous Income

This month’s Participation Report includes **\$252 thousand** related to the re-classification of certain unclaimed property (mainly related to unclaimed return-premium and claims cheques) as abandoned and as a result, distributed to members as a credit to bad debts in accordance with Facility Association’s “Unclaimed Property Guidelines and Procedures”.

Summary of Financial Results

The calendar year-to-date Operating Result is \$31.0 million and the incurred loss ratio to the end of 10 months is 57.8%, as summarized in the table below.

| Amounts in \$000s | October 2018 | October 2017 | Year to date Oct 2018 | Year to Date Oct 2017 |
|------------------------------------------|-------------------------|-----------------|----------------------------------|--------------------------|
| Premium Written | 28,231 | 17,086 | 216,767 | 162,601 |
| Premium Earned | 21,190 | 15,868 | 173,813 | 146,084 |
| Incurred Losses | 11,578 | 2,735 | 100,467 | 81,140 |
| Underwriting & Admin Expense | 5,019 | 3,247 | 42,394 | 35,522 |
| Net Result from Operations | 4,593 | 9,886 | 30,952 | 29,422 |
| <i>Ratios:</i> | | | | |
| Loss ratio - Prior Accident Years | (10.7%) | (50.9%) | (13.5%) | (17.8%) |
| - Current Accident Year | 65.4% | 68.1% | 71.3% | 73.4% |
| <i>Total</i> | 54.7% | 17.2% | 57.8% | 55.6% |
| <i>Underwriting & Admin Expense</i> | 23.9% | 20.6% | 24.6% | 24.4% |
| Combined Operating Ratio | 78.6% | 37.8% | 82.4% | 80.0% |

rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2018 - 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](#)”.

Updated Projection to Year-end 2018

The projected calendar year Net Result from Operations to December 2018 is \$36.6 million and the estimated combined operating ratio to December 2018 is 83.1% as indicated in the table at the top of the next page.

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| FARM 2018 Year-end Projection | Current | Prior Mth | Change | Final 2018 |
|------------------------------------------|-------------------|---------------|---------------|---------------|
| Amounts in \$000s | (Oct 2018) | (Sep 2018) | | Outlook* |
| Premium Written | 243,139 | 233,896 | 9,243 | 182,582 |
| Premium Earned | 213,909 | 211,369 | 2,540 | 181,347 |
| Incurred Losses | 127,933 | 129,275 | (1,342) | 129,462 |
| Underwriting & Admin Expense | 49,394 | 48,476 | 918 | 41,471 |
| Net Result from Operations | 36,582 | 33,618 | 2,964 | 10,414 |
| Ratios: | | | | |
| Loss ratio - Prior Accident Years | (11.4%) | (10.7%) | (0.7%) | (2.9%) |
| - Current Accident Year | 71.2% | 71.8% | (0.6%) | 74.2% |
| <i>Total</i> | 59.8% | 61.1% | (1.4%) | 71.4% |
| Underwriting & Admin Expense | 23.3% | 23.2% | 0.1% | 23.0% |
| Combined Operating Ratio | 83.1% | 84.3% | (1.3%) | 94.4% |

rounding differences may occur

*as posted to FA's website Nov. 10, 2017

This updated projection to the end of the year has improved by \$3.0 million from the projection provided last month (\$33.6 million and 84.3%), mainly due to the impact of the valuation as at September 30, 2018, as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 5). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

| Grand Total | unfav / (fav) projected for full year | | | | | | year EP 213,909 (current projection) | | | | | |
|--------------------|---------------------------------------|------------|------------|----------------|----------|----------------|---------------------------------------------------------|-------------|-------------|---------------|----------|---------------|
| | IMPACT in \$000s from changes in: | | | | | | IMPACT unfav / (fav) as % full year EP from changes in: | | | | | |
| | ultimates & payout patterns | | dsct rate | | margins | | ultimates & payout patterns | | dsct rate | | margins | |
| nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL | nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL | |
| [1] | [2] | [3] | [4] | [5] | [6] | [1] | [2] | [3] | [4] | [5] | [6] | |
| PAYs | 257 | 543 | 800 | (2,579) | - | (1,779) | 0.1% | 0.3% | 0.4% | (1.2%) | - | (0.8%) |
| CAY | (299) | 46 | (253) | (1,060) | - | (1,313) | (0.1%) | - | (0.1%) | (0.5%) | - | (0.6%) |
| Prem Def | 5 | (5) | - | (107) | - | (107) | - | - | - | (0.1%) | - | (0.1%) |
| TOTAL | (37) | 584 | 547 | (3,746) | - | (3,199) | - | 0.3% | 0.3% | (1.8%) | - | (1.5%) |

The updated year-end projections are shown by jurisdiction against the November 10, 2017 Outlook in the table at the top of the next page, with the estimated impact of implementing the *current* valuation in the two far right columns. In particular, with *five* valuations (2017 Q3 & Q4, 2018 Q1, Q2 & Q3) and other changes since August 2017 (the actuals used in the Outlook), **the projected \$10.4 million operating result has been increased to \$36.6 million.**

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| \$000s | Outlook Posted November 10, 2017 | | | Updated Year-end Projection | | | Operating Result Change due to Valuation | |
|-------------------------|----------------------------------|---------------------|--------------|-----------------------------|---------------------|--------------|------------------------------------------------|------------------|
| | Earned Premium | Operating Result | COR | Earned Premium | Operating Result | COR | Month of October | Year-end 2018 |
| Ontario | 44,378 | 4,583 | 89.8% | 65,774 | 23,785 | 64.2% | 2,660 | 2,745 |
| Alberta | 55,194 | 6,965 | 87.5% | 65,271 | 12,685 | 80.8% | 1,272 | 1,249 |
| Newfoundland & Labrador | 30,025 | (3,626) | 112.2% | 28,738 | 3,612 | 87.7% | 345 | 225 |
| New Brunswick | 21,336 | 1,212 | 94.5% | 21,886 | (3,261) | 115.1% | 203 | 245 |
| Nova Scotia | 18,432 | (722) | 104.0% | 20,546 | (1,493) | 107.4% | (350) | (396) |
| Prince Edward Island | 4,470 | 582 | 87.0% | 4,523 | (1,222) | 127.2% | (219) | (197) |
| Yukon | 1,884 | 187 | 90.3% | 1,827 | 13 | 99.5% | (655) | (665) |
| Northwest Territories | 4,453 | 910 | 79.6% | 4,349 | 1,762 | 59.6% | (105) | (85) |
| Nunavut | 1,175 | 324 | 72.6% | 995 | 701 | 29.9% | 79 | 78 |
| TOTAL | 181,347 | 10,414 | 94.4% | 213,909 | 36,582 | 83.1% | 3,230 | 3,199 |

In total, the operating result projection to year-end has increased by \$26.2 million from the Outlook posted November 10, 2017 (to \$36.6 million as shown above). This amount is \$3.2 million higher than it would have been, if not for the implementation of the September 30, 2018 valuation. (The changes before the impact of the September 30, 2018 valuation are attributable to mix of business and other projection assumptions outside of the valuation process, as well as the previous valuations implemented since the valuation used for the Outlook.)

One important change relative to the 2018 Final Outlook has been the increase in the discount rate (the interest rate margin for adverse deviation remained consistent at 25 basis points). Had the 2018 Final Outlook discount rate of 1.27%² still been applicable (rather than the 2.29% applied with this valuation), the operating result would have been *lower* by \$8.1 million (using the current interest rate sensitivity table). That is, the projected Operating Result would have been approximately \$28.5 million (COR of 86.7%) had the discount rate and associated margin remained at the 2018 Final Outlook level.

Current Month Results

The Net Results from Operations in the month of October 2018 was \$4.6 million, down \$5.3 million from the same month last year. This deterioration is composed of a \$8.6 million unfavorable impact stemming from the overall increase in the combined ratio (from 37.8% to 78.6% applied to \$21.2 million in earned premium), offset by a \$3.3 million favourable impact associated with the \$5.3 million increase in earned premium (at a combined ratio of 37.8%).

This month's results moved the year-to-date combined operating ratio from 82.9% at the end of 9 months to 82.4% at the end of 10 months. The 0.5 percentage point decrease is composed of a 0.8 percentage point decrease in the Current Accident Year loss ratio, and a 0.1 percentage point decrease in the expense ratio, offset by a 0.4 percentage point increase in the Prior Accident Years loss ratio.

Variances from Projections

The table at the top of the next page provides a summary of key components of the operating results as

²The 2018 Outlook was based on the June 30, 2017 valuation and the Bank of Canada yield curves at June 30, 2017. Readers can use the interest rate sensitivity tables in Exhibit F of the monthly operational Actuarial Highlights to test for impact of alternate discount rates. For example, page 85 of the October 2018 FARM Actuarial Highlights Exhibit F (page 10 of 10), indicating a 1.27% discount rate would increase indemnity claims liabilities by an estimated \$8.0 million using simple linear interpolation to extend the estimated \$7.9 million impact of a 1.29% discount rate shown in the table by \$161 thousand to account for an extension beyond the table (2 x (7902 – 3874) / 50)).

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compared to the estimates projected last month.

| October 2018 | Actual | Projection | Difference | Difference % |
|--------------------------------------|---------------|-------------------|-------------------|---------------------|
| Premium Written | 28,231 | 20,148 | 8,083 | 40.1% |
| Premium Earned | 21,190 | 19,094 | 2,096 | 11.0% |
| Reported Losses | | | | |
| Paid Losses | 10,870 | 12,090 | (1,220) | (10.1%) |
| Change in Outstanding Losses | 3,238 | (560) | 3,798 | (678.2%) |
| Total Reported Losses | 14,108 | 11,530 | 2,578 | 22.4% |
| Change in IBNR* | (2,240) | 2,016 | (4,256) | |
| Change in Premium Deficiency (DPAC)* | (593) | (163) | (430) | |
| Change in Retro Claims Expense* | (290) | (384) | 94 | |

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM October 2018 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 October 2018, reported indemnity amounts were \$2.5 million higher 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 \$2.6 million*). The Current Accident Year had a \$1.1 million unfavourable variance in reported indemnity, while the Prior Accident Years had an unfavourable variance of \$1.4 million. No 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.

Effect of Quarterly Valuation

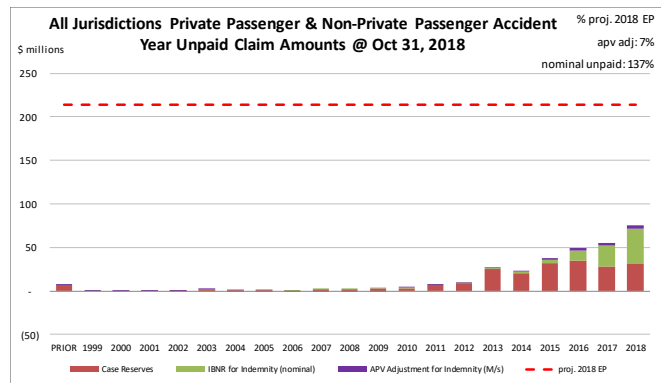
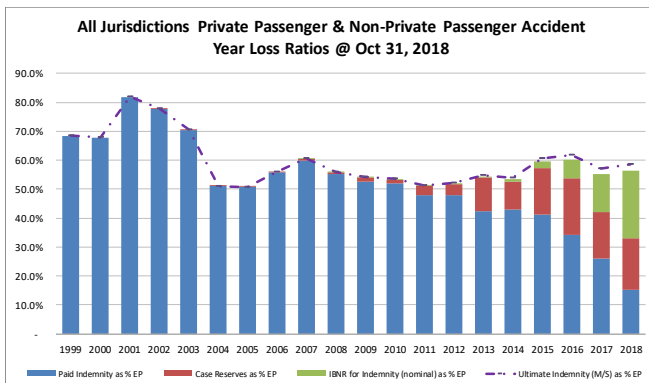
The October 2018 Participation Report reflects the results of an updated valuation as at September 30, 2018, with the associated impacts in relation to the results for October 2018 summarized in the table at the top of the next page.

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Grand Total

| | unfav / (fav) | | | | | | mth EP 21,190 (actual) | | | | | |
|--------------|-----------------------------------|------------|------------|----------------|----------|----------------|---------------------------------------------------|-------------|-------------|----------------|----------|----------------|
| | IMPACT in \$000s from changes in: | | | | | | IMPACT unfav / (fav) as % mth EP from changes in: | | | | | |
| | ultimates & payout patterns | | | dsct rate | margins | | ultimates & payout patterns | | | dsct rate | margins | |
| | nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL | nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL |
| | [1] | [2] | [3] | [4] | [5] | [6] | [1] | [2] | [3] | [4] | [5] | [6] |
| PAYs | 257 | 508 | 765 | (2,741) | - | (1,976) | 1.2% | 2.4% | 3.6% | (12.9%) | - | (9.3%) |
| CAY | (236) | (70) | (306) | (888) | - | (1,194) | (1.1%) | (0.3%) | (1.4%) | (4.2%) | - | (5.6%) |
| Prem Def | 38 | 27 | 65 | (125) | - | (60) | 0.2% | 0.1% | 0.3% | (0.6%) | - | (0.3%) |
| TOTAL | 59 | 465 | 524 | (3,754) | - | (3,230) | 0.3% | 2.2% | 2.5% | (17.7%) | - | (15.2%) |

The charts immediately below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.



The valuation included all jurisdictions and business segments and resulted in updated policy liability cash flow estimates for all jurisdictions that, when applied to the updated risk free yield curve, resulted in a decrease in the selected discount rate from 1.95% to 1.88%. The investment return margin for adverse deviation was left unchanged at 25 basis points, but the selected claims development margins³ were updated (per usual practice, claims development margins are reviewed and updated annually with the June 30 valuation – these were reviewed with this valuation with respect to Ontario and Alberta after feedback from the Actuarial Committee, but ultimately left unchanged by the Appointed Actuary).

The **valuation summary** (in relation to **indemnity only**) is provided in the table at the top of the next page. (Please note that in reference to columns [4] to [9] in that table, the estimated impacts are in relation to a full year estimated earned premium, and are not “year-to-date”.)

³Claims development margins are selected by jurisdiction, business segment, coverage, and accident half-year.

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September 30, 2018 Valuation Summary (Indemnity Only)

Valuation Summary (Nominal Basis)

unfavourable / (favourable)

| Jurisdiction | 2017 & Prior Beginning Indemnity Unpaid (000s) | 2017 & Prior Accident Year Indemnity Change (000s) | % of Beginning Unpaid | 2018 Indemnity Loss Ratio | Change from Prior Valuation | Change against 2018 Earned Prem (000s) | 2019 Indemnity Loss Ratio | Change from Prior Valuation | Change against 2019 Proj Earned Prem (000s) |
|------------------------------------|---------------------------------------------------------|-------------------------------------------------------------|-----------------------------|---------------------------------|-----------------------------------|-------------------------------------------------|---------------------------------|-----------------------------------|------------------------------------------------------|
| | [1] | [2] | [3] | [4] | [5] | [6] | [7] | [8] | [9] |
| Ontario | 76,607 | (626) | (0.8%) | 47.2% | (1.1%) | (701) | 50.5% | 0.0% | - |
| PPV | 32,409 | 90 | 0.3% | 52.2% | (0.4%) | (64) | 53.6% | 0.0% | - |
| Non-PPV | 44,198 | (716) | (1.6%) | 45.6% | (1.3%) | (637) | 49.6% | 0.0% | - |
| Alberta | 59,369 | (341) | (0.6%) | 53.7% | (0.2%) | (152) | 50.9% | (0.1%) | (39) |
| PPV | 11,644 | 92 | 0.8% | 58.1% | 1.0% | 74 | 49.5% | (0.5%) | (39) |
| Non-PPV | 47,725 | (433) | (0.9%) | 53.2% | (0.4%) | (226) | 51.0% | 0.0% | - |
| Newfoundland & Labrador | 37,945 | 126 | 0.3% | 70.0% | 0.2% | 68 | 69.2% | 0.1% | 41 |
| PPV | 26,928 | (221) | (0.8%) | 70.8% | 0.1% | 21 | 71.0% | 0.0% | - |
| Non-PPV | 11,017 | 347 | 3.1% | 68.0% | 0.6% | 47 | 64.5% | 0.5% | 41 |
| New Brunswick | 31,267 | 235 | 0.8% | 62.3% | (0.2%) | (34) | 56.8% | (1.5%) | (331) |
| PPV | 20,128 | (151) | (0.8%) | 65.9% | (0.2%) | (26) | 62.0% | 0.0% | - |
| Non-PPV | 11,139 | 386 | 3.5% | 57.3% | (0.1%) | (9) | 49.6% | (3.5%) | (331) |
| Nova Scotia | 20,446 | 407 | 2.0% | 65.5% | 1.1% | 227 | 67.1% | 1.0% | 229 |
| PPV | 8,544 | (65) | (0.8%) | 72.7% | (1.0%) | (90) | 74.5% | (0.1%) | (10) |
| Non-PPV | 11,902 | 472 | 4.0% | 59.9% | 2.8% | 317 | 61.0% | 2.0% | 239 |
| Prince Edward Island | 6,453 | (47) | (0.7%) | 77.7% | 6.7% | 302 | 52.8% | 2.4% | 106 |
| PPV | 3,352 | (80) | (2.4%) | 50.0% | 5.7% | 146 | 45.0% | 0.0% | - |
| Non-PPV | 3,101 | 33 | 1.1% | 114.8% | 8.1% | 155 | 63.0% | 5.5% | 106 |
| Yukon Territory | 2,619 | 546 | 20.8% | 56.8% | 3.2% | 59 | 51.0% | 0.0% | (0) |
| PPV | 1,605 | 561 | 35.0% | 57.0% | (0.2%) | (1) | 57.0% | (0.1%) | (0) |
| Non-PPV | 1,014 | (15) | (1.5%) | 56.7% | 4.1% | 60 | 49.5% | 0.0% | - |
| Northwest Territories | 3,717 | 205 | 5.5% | 44.6% | (2.0%) | (89) | 43.8% | 0.1% | 3 |
| PPV | 1,810 | 233 | 12.9% | 46.6% | (1.4%) | (42) | 46.1% | 0.1% | 3 |
| Non-PPV | 1,907 | (28) | (1.5%) | 40.3% | (3.4%) | (47) | 39.0% | 0.0% | - |
| Nunavut | 844 | (84) | (10.0%) | 38.9% | 2.1% | 21 | 36.0% | 0.0% | (0) |
| PPV | 337 | (6) | (1.8%) | 46.4% | 17.6% | 37 | 27.0% | (0.1%) | (0) |
| Non-PPV | 507 | (78) | (15.4%) | 36.9% | (2.1%) | (16) | 38.0% | 0.0% | - |
| Total | 239,267 | 421 | 0.2% | 56.2% | (0.1%) | (300) | 54.8% | 0.0% | 10 |

There are differences between the changes in valuation estimates (summarized above), and the impact of implementing the valuation into the operating results (summarized on the next page). For example, differences will emerge due to the differences between data available at September 30, 2018 (used for the valuation) and available for implementation (October 31, 2018).

Finally, column [6] of the valuation summary table above estimates the impact of the change in selected *current* accident year indemnity loss ratio against projected full year 2018 earned premium, whereas the *current* accident year row, second row of column [1] in the implementation impact table at the top of the next page applies the change to 2018 year-to-date earned premium at October 31, 2018.

With this background, the overall **impact of implementing the valuation** on the results of the Month of October 2018 is estimated as **favourable by \$3.8 million**, as summarized in the table at the top of the next page. In that table, column [1] shows indemnity only, and is therefore comparable to the valuation summary table above (column [2] in the valuation summary table is comparable to the first row of column [1] in the table at the top of the next page).

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Implementation Impact - relative to projection for month of October 2018 (negative values are favourable)

| \$000s | indemnity [1] | retroactive claims fee [2] | allowed claims expenses [3] | nominal total [4] | actuarial present value [5] | Grand Total [6] |
|------------------------------------------|------------------|----------------------------------|--------------------------------------|----------------------|--------------------------------------|--------------------|
| prior accident years (1994-2017) | 176 | 81 | - | 257 | (2,233) | (1,976) |
| current accident year claims incurred | (226) | (10) | - | (236) | (958) | (1,194) |
| premium deficiency / (DPAC) | 38 | | | 38 | (98) | (60) |
| TOTAL | (12) | 71 | - | 59 | (3,289) | (3,230) |

An alternate summary of the valuation implementation impact is presented in the table immediately below, including the impact in relation to year-to-date earned premium. In this table, rows “PAYs” and “CAY” (for “Prior Accident Years” and “Current Accident Year” respectively), include the changes in indemnity, retroactive claims fee adjustment provision and the provision for allowed claims adjustment expenses.

| Grand Total | unfav / (fav) | | | | | ytd EP 173,813 (actual) | | | | | | |
|--------------|-----------------------------------|------------|------------|----------------|----------|-------------------------|---------------------------------------------------|-------------|-------------|---------------|----------|---------------|
| | IMPACT in \$000s from changes in: | | | | | | IMPACT unfav / (fav) as % ytd EP from changes in: | | | | | |
| | ultimates & payout patterns | | dsct rate | | argins | | ultimates & payout patterns | | dsct rate | | argins | |
| | nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL | nominal | apv adj. | sub-tot | apv adj. | apv adj. | TOTAL |
| | [1] | [2] | [3] | [4] | [5] | [6] | [1] | [2] | [3] | [4] | [5] | [6] |
| PAYs | 257 | 508 | 765 | (2,741) | - | (1,976) | 0.1% | 0.3% | 0.4% | (1.6%) | - | (1.1%) |
| CAY | (236) | (70) | (306) | (888) | - | (1,194) | (0.1%) | - | (0.2%) | (0.5%) | - | (0.7%) |
| Prem Def | 38 | 27 | 65 | (125) | - | (60) | - | - | - | (0.1%) | - | - |
| TOTAL | 59 | 465 | 524 | (3,754) | - | (3,230) | - | 0.3% | 0.3% | (2.2%) | - | (1.9%) |

The overall impact *prior to* the 41 basis point decrease in the discount rate (to 2.29%) and changes to margins for adverse deviation was unfavourable by \$0.5 million (Total row, column [3] of left table above). This was more than offset by the \$3.8 million favourable impact of the discount rate change (Total row, column [4] of left table above). As there were no updates to the selected margins for investment income and selected margins for adverse claims development deviation, there is no margin change impact (Total row, column [5] of left table above).

As shown in the table⁴ at the top of the next page, management has observed favourable *total* valuation impacts (column [5]) over the last 12 valuation implementations, with 3 valuation implementations being unfavourable over that 12-quarter period. It should be noted that the impacts in column [3] are largely outside of the control of FA (as being related to macroeconomic factors).

⁴The table summarizes the same information as provided in the columns [1], [2], [4], and [5] for the TOTAL row of the summary table on this page, but does so for the most recent 12 valuation implementations.

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FARM juris: ALL,
as at: 2018 Q3

| Valuation | period implemented | unfavourable / (favourable) Valuation Implementation Impact (\$000s) | | | | | \$000s | | |
|--------------------|--------------------|----------------------------------------------------------------------|---------------------------------|--------------------------|------------------------|------------------------------------------|----------------------------------|----------------------------------------------------|------------------------------------------------------|
| | | updated LRs & exp [1] | APVs @ prior assumptions [2] | updated dsct rate [3] | updated margins [4] | Total Impact [5] = sum([1] to [5]) | Booked Policy Liabilities [6] | Total Impact as % Book Liabs [7] = [5] / [6] | Nominal Impact as % Book Liabs [8] = [1] / [6] |
| 2015 Q4 | Mar 2016 | (2,416) | (204) | 586 | - | (2,034) | 467,105 | (0.4%) | (0.5%) |
| 2016 Q1 | May 2016 | 4,360 | 331 | 677 | - | 5,368 | 479,244 | 1.1% | 0.9% |
| 2016 Q2 | Aug 2016 | (7,711) | (630) | 638 | (1,083) | (8,786) | 473,885 | (1.9%) | (1.6%) |
| 2016 Q3 | Oct 2016 | 8,589 | 7,156 | 865 | - | 16,610 | 487,528 | 3.4% | 1.8% |
| 2016 Q4 | Mar 2017 | (10,311) | (613) | (6,322) | - | (17,246) | 439,627 | (3.9%) | (2.3%) |
| 2017 Q1 | May 2017 | 10,636 | 1,177 | 1,138 | - | 12,951 | 456,566 | 2.8% | 2.3% |
| 2017 Q2 | Aug 2017 | (2,319) | (271) | (2,314) | (1,256) | (6,160) | 457,027 | (1.3%) | (0.5%) |
| 2017 Q3 | Oct 2017 | (2,100) | (341) | (5,847) | - | (8,288) | 450,704 | (1.8%) | (0.5%) |
| 2017 Q4 | Mar 2018 | (10,085) | (890) | 153 | - | (10,822) | 419,870 | (2.6%) | (2.4%) |
| 2018 Q1 | May 2018 | (949) | (1,001) | (1,647) | - | (3,597) | 429,713 | (0.8%) | (0.2%) |
| 2018 Q2 | Aug 2018 | (4,126) | 1,450 | 630 | (1,800) | (3,846) | 451,385 | (0.9%) | (0.9%) |
| 2018 Q3 | Oct 2018 | 59 | 465 | (3,754) | - | (3,230) | 463,838 | (0.7%) | - |
| 12-qtrs | - | (16,373) | 6,629 | (15,197) | (4,139) | (29,080) | | | |
| % of total | | 56.3% | (22.8%) | 52.3% | 14.2% | 100.0% | | | |
| Averages | | | | | | | | | |
| 12-qtrs | | (1,364) | 552 | (1,266) | (345) | (2,423) | 456,374 | (0.5%) | (0.3%) |
| 2015 Q4 to 2017 Q1 | | 525 | 1,203 | (403) | (181) | 1,144 | 467,326 | 0.2% | 0.1% |
| 2017 Q2 to 2018 Q3 | | (3,253) | (98) | (2,130) | (509) | (5,991) | 445,423 | (1.3%) | (0.7%) |

The FA valuation approach is focused on providing (i) best estimates on a nominal basis (i.e. the longer term average of nominal changes in column [1] should be close-to-zero); (ii) the nominal changes of any one valuation in relation to policy liabilities⁵, should be “small” (less than 2.5%); and (iii) the valuation results should not indicate bias – that is, we generally anticipate approximately 1/3rd of nominal valuation impacts will be unfavourable, and 2/3rds will be favourable (due to the skewness of the development). On these 3 measures:

- (i) **Best estimate measurement: This objective has not been met**, as the 12-quarter nominal change in column [1] is \$16.4 million favourable. That said, the average favourable impact over the 12 quarters at \$1.4 million (nominal only) represents 0.3% of ending policy liabilities, which we would view as not significant. We do note that the latest 6 valuations have been on average more favourable than the earlier 6 valuations have been unfavourable. At this point, we view this as more process variance, but we do look for a result closer to \$0.
- (ii) **Nominal size measurement: This objective has been met**, as there were no individual valuations showing nominal changes in excess of 2.5% of ending policy liabilities per column [8] in the table above.
- (iii) **Bias evidence measurement: This objective has been met**, as 3 of 12 valuations show unfavourable changes (column [1] of the table above), in line with our expectation (4 of 12).

⁵We also consider changes in nominal estimates relative to beginning claims liabilities, with this metric also ideally being small, but in this case, less than 5.0%. Over time, our view of “small” for each of these metrics may change.

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In summary, while our best estimate measurement has not been met, our remaining two valuation measurements have been met. That said, we continue to look for ways to improve the overall accuracy of the valuation estimates.

Additional detail related to the valuation results and impact is available in the [FARM October 2018 Participation Report – Actuarial Highlights](#). The FARM Actuarial Quarterly Valuation Highlights as at September 30, 2018 are expected to be posted in January 2019.

The actuarial valuation will be updated next as at December 31, 2018 for all jurisdictions and business segments. The results are anticipated to be reflected in the March 2019 Participation Report.

Management Comments

As shown in the table below, the private passenger annualized vehicle counts increased by 11.3% overall in October 2018 relative to October 2017. On a year-to-date basis, exposure counts are up by 0.5%, increasing in Ontario, Alberta and Nova Scotia, with both Ontario and Nova Scotia up more than 25%.

FARM Private Passenger Written Car Years

| # FARM Vehicles Written | | | | | | | | | |
|------------------------------------|------------------------------|--------------|------------|--------------|--|----------------------------------------|---------------|------------|--------------|
| Jurisdiction | Month of October 2018 | | | | | Calendar YTD as of October 2018 | | | |
| | 2018 | 2017 | Chg | % Chg | | 2018 | 2017 | Chg | % Chg |
| Ontario | 276 | 170 | 106 | 62.4% | | 2,636 | 2,044 | 592 | 29.0% |
| Alberta | 180 | 130 | 50 | 38.2% | | 1,425 | 1,321 | 104 | 7.9% |
| Newfoundland & Labrador | 963 | 931 | 31 | 3.4% | | 8,863 | 9,293 | (430) | (4.6%) |
| New Brunswick | 581 | 675 | (94) | (13.9%) | | 5,157 | 5,850 | (692) | (11.8%) |
| Nova Scotia | 655 | 418 | 237 | 56.8% | | 4,416 | 3,521 | 896 | 25.4% |
| Prince Edward Island | 134 | 123 | 11 | 8.7% | | 1,047 | 1,154 | (107) | (9.3%) |
| Yukon | 9 | 16 | (7) | (44.9%) | | 135 | 156 | (21) | (13.7%) |
| Northwest Territories | 180 | 220 | (39) | (17.9%) | | 1,729 | 1,890 | (161) | (8.5%) |
| Nunavut | 19 | 10 | 9 | 89.8% | | 112 | 160 | (48) | (30.1%) |
| All Jurisdictions | 2,996 | 2,692 | 304 | 11.3% | | 25,521 | 25,390 | 131 | 0.5% |

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 October 2018 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 10 months ended October 31, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 10/2018
(thousands of dollars)

| | January | February | March | April | May | June | July | August | September | October | CY2018 YTD | CY2018 12 Months Updated Projections | CY2017 12 Months Actual |
|-----------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|-----------------------------------------------|-------------------------------|
| UNDERWRITING REVENUE: | | | | | | | | | | | | | |
| PREMIUMS WRITTEN | \$14,288 | \$14,220 | \$15,096 | \$18,290 | \$27,753 | \$27,385 | \$25,768 | \$23,645 | \$22,091 | \$28,231 | \$216,767 | \$243,138 | \$184,248 |
| CHANGE IN UNEARNED PREMIUMS | 1,131 | (123) | 675 | (2,949) | (10,948) | (10,008) | (6,928) | (4,049) | (2,714) | (7,041) | (42,954) | (29,231) | (7,762) |
| NET PREMIUMS EARNED | \$15,419 | \$14,097 | \$15,771 | \$15,341 | \$16,805 | \$17,377 | \$18,840 | \$19,596 | \$19,377 | \$21,190 | \$173,813 | \$213,907 | \$176,486 |
| CLAIMS INCURRED | | | | | | | | | | | | | |
| PRIOR ACCIDENT YEARS | | | | | | | | | | | | | |
| UNDISCOUNTED | 21 | 53 | (9,199) | 18 | (1,457) | 4 | 13 | (4,415) | (12) | 271 | (14,703) | (14,698) | (6,309) |
| EFFECT OF DISCOUNTING | 27 | (762) | (1,214) | (289) | (2,830) | (350) | (220) | (216) | (380) | (2,547) | (8,781) | (9,584) | (20,772) |
| DISCOUNTED | 48 | (709) | (10,413) | (271) | (4,287) | (346) | (207) | (4,631) | (392) | (2,276) | (23,484) | (24,282) | (27,081) |
| CURRENT ACCIDENT YEAR | | | | | | | | | | | | | |
| UNDISCOUNTED | 10,750 | 9,918 | 10,451 | 10,539 | 11,827 | 11,924 | 12,871 | 13,491 | 13,255 | 14,162 | 119,188 | 146,406 | 123,688 |
| EFFECT OF DISCOUNTING | 659 | 510 | 515 | 536 | 353 | 500 | 604 | 758 | 636 | (308) | 4,763 | 5,809 | 5,657 |
| DISCOUNTED | 11,409 | 10,428 | 10,966 | 11,075 | 12,180 | 12,424 | 13,475 | 14,249 | 13,891 | 13,854 | 123,951 | 152,215 | 129,345 |
| CLAIMS INCURRED | \$11,457 | \$9,719 | \$553 | \$10,804 | \$7,893 | \$12,078 | \$13,268 | \$9,618 | \$13,499 | \$11,578 | \$100,467 | \$127,933 | \$102,264 |
| UNDERWRITING EXPENSES | | | | | | | | | | | | | |
| OPERATING & SERVICE FEES | 1,470 | 1,464 | 1,544 | 1,875 | 2,861 | 2,807 | 2,651 | 2,518 | 2,261 | 2,941 | 22,392 | 25,063 | 18,983 |
| AGENTS COMMISSIONS | 1,081 | 1,100 | 1,222 | 1,466 | 2,132 | 2,067 | 2,011 | 1,841 | 1,767 | 2,109 | 16,796 | 19,168 | 15,266 |
| DRIVER RECORD ABSTRACTS | 172 | 128 | 159 | 297 | 510 | 303 | 205 | 285 | 132 | 373 | 2,564 | 2,879 | 3,004 |
| BAD DEBTS | (1) | (2) | 1 | (31) | (3) | (2) | (5) | 2 | (1) | (232) | (274) | (45) | (304) |
| PREMIUM DEFICIENCY/(DPAC) | | | | | | | | | | | | | |
| UNDISCOUNTED | 106 | 31 | (237) | (226) | (603) | (797) | (565) | (190) | (266) | (494) | (3,241) | (2,259) | (684) |
| EFFECT OF DISCOUNTING | (44) | (16) | 11 | 18 | (120) | 59 | 29 | (27) | 38 | (99) | (151) | (262) | 398 |
| DISCOUNTED | 62 | 15 | (226) | (208) | (723) | (738) | (536) | (217) | (228) | (593) | (3,392) | (2,521) | (286) |
| UNDERWRITING EXPENSES | \$2,784 | \$2,705 | \$2,700 | \$3,399 | \$4,777 | \$4,437 | \$4,326 | \$4,429 | \$3,931 | \$4,598 | \$38,086 | \$44,544 | \$36,663 |
| NET UNDERWRITING GAIN (LOSS) | \$1,178 | \$1,673 | \$12,518 | \$1,138 | \$4,135 | \$862 | \$1,246 | \$5,549 | \$1,947 | \$5,014 | \$35,260 | \$41,430 | \$37,559 |
| ADMINISTRATIVE EXPENSES | 448 | 435 | 505 | 408 | 501 | 486 | 445 | 529 | 426 | 477 | 4,660 | 5,384 | 5,096 |
| PREMIUM FINANCE FEE | (10) | (9) | (8) | (10) | (9) | (8) | (10) | (9) | (10) | (8) | (91) | (78) | (108) |
| INVESTMENT INCOME | 29 | 26 | 29 | 32 | 35 | 38 | 48 | 73 | 69 | 64 | 443 | 610 | 251 |
| OPERATING RESULTS | \$749 | \$1,255 | \$12,034 | \$752 | \$3,660 | \$406 | \$839 | \$5,084 | \$1,580 | \$4,593 | \$30,952 | \$36,578 | \$32,606 |
| RATIOS: | | | | | | | | | | | | | |
| Claims & Adj Expenses Incurred (Earned) | | | | | | | | | | | | | |
| Prior Accident Years | 0.3% | -5.0% | -66.0% | -1.8% | -25.5% | -2.0% | -1.1% | -23.6% | -2.0% | -10.7% | -13.5% | -11.4% | -15.3% |
| Current Accident Year | 74.0% | 74.0% | 69.5% | 72.2% | 72.5% | 71.5% | 71.5% | 72.7% | 71.7% | 65.4% | 71.3% | 71.2% | 73.3% |
| All Accident Years Combined | 74.3% | 69.0% | 3.5% | 70.4% | 47.0% | 69.5% | 70.4% | 49.1% | 69.7% | 54.7% | 57.8% | 59.8% | 58.0% |
| Underwriting & Admin Exp.(Earned) | 21.0% | 22.3% | 20.3% | 24.8% | 31.4% | 28.3% | 25.3% | 25.3% | 22.5% | 23.9% | 24.6% | 23.3% | 23.7% |
| COMBINED OPERATING RATIO | 95.3% | 91.3% | 23.8% | 95.2% | 78.4% | 97.8% | 95.7% | 74.4% | 92.2% | 78.6% | 82.4% | 83.1% | 81.7% |

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 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 10 months ended October 31, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 10/2018
(thousands of dollars)

| | Alberta | Ontario | NS | PEI | NB | NFLD & LAB | Yukon | NWT | Nunavut | Total | CY2018 12 Months Updated Projections | CY2017 12 Months Actual |
|-----------------------------------------|-----------------|-----------------|------------------|------------------|------------------|-----------------|----------------|----------------|---------------|------------------|-----------------------------------------------|-------------------------------|
| UNDERWRITING REVENUE: | | | | | | | | | | | | |
| PREMIUMS WRITTEN | \$66,447 | \$75,223 | \$20,007 | \$4,044 | \$20,055 | \$24,756 | \$1,654 | \$3,755 | \$826 | \$216,767 | \$243,138 | \$184,248 |
| CHANGE IN UNEARNED PREMIUMS | (13,653) | (22,853) | (3,151) | (277) | (1,970) | (820) | (126) | (107) | 3 | (42,954) | (\$29,231) | (\$7,762) |
| NET PREMIUMS EARNED | \$52,794 | \$52,370 | \$16,856 | \$3,767 | \$18,085 | \$23,936 | \$1,528 | \$3,648 | \$829 | \$173,813 | \$213,907 | \$176,486 |
| CLAIMS INCURRED | | | | | | | | | | | | |
| PRIOR ACCIDENT YEARS | | | | | | | | | | | | |
| UNDISCOUNTED | (3,139) | (11,440) | 228 | 351 | 3,646 | (3,464) | 213 | (686) | (412) | (14,703) | (\$14,698) | (\$6,309) |
| EFFECT OF DISCOUNTING | (1,833) | (3,609) | (517) | (217) | (694) | (1,496) | (128) | (243) | (44) | (8,781) | (\$9,584) | (\$20,772) |
| DISCOUNTED | (4,972) | (15,049) | (289) | 134 | 2,952 | (4,960) | 85 | (929) | (456) | (23,484) | (24,282) | (27,081) |
| CURRENT ACCIDENT YEAR | | | | | | | | | | | | |
| UNDISCOUNTED | 33,503 | 32,198 | 13,304 | 3,479 | 13,681 | 19,560 | 1,047 | 2,010 | 406 | 119,188 | \$146,406 | \$123,688 |
| EFFECT OF DISCOUNTING | 994 | 1,765 | 536 | 202 | 434 | 710 | 43 | 62 | 17 | 4,763 | \$5,809 | \$5,657 |
| DISCOUNTED | 34,497 | 33,963 | 13,840 | 3,681 | 14,115 | 20,270 | 1,090 | 2,072 | 423 | 123,951 | 152,215 | 129,345 |
| CLAIMS INCURRED | \$29,525 | \$18,914 | \$13,551 | \$3,815 | \$17,067 | \$15,310 | \$1,175 | \$1,143 | (\$33) | \$100,467 | \$127,933 | \$102,264 |
| UNDERWRITING EXPENSES | | | | | | | | | | | | |
| OPERATING & SERVICE FEES | 6,645 | 8,126 | 1,999 | 406 | 2,031 | 2,563 | 165 | 376 | 81 | 22,392 | \$25,063 | \$18,983 |
| AGENTS COMMISSIONS | 5,376 | 4,451 | 1,802 | 378 | 1,862 | 2,334 | 147 | 372 | 74 | 16,796 | \$19,168 | \$15,266 |
| DRIVER RECORD ABSTRACTS | 569 | 199 | 674 | 166 | 453 | 422 | 13 | 60 | 8 | 2,564 | \$2,879 | \$3,004 |
| BAD DEBTS | (40) | (121) | (29) | (7) | (20) | (24) | (2) | (10) | (21) | (274) | (\$45) | (\$304) |
| PREMIUM DEFICIENCY/(DPAC) | | | | | | | | | | | | |
| UNDISCOUNTED | (1,145) | (1,440) | (75) | 24 | (166) | (420) | (10) | (10) | 1 | (3,241) | (\$2,259) | (\$684) |
| EFFECT OF DISCOUNTING | 0 | 0 | 137 | 63 | 0 | (351) | 0 | 0 | 0 | (151) | (\$262) | \$398 |
| DISCOUNTED | (1,145) | (1,440) | 62 | 87 | (166) | (771) | (10) | (10) | 1 | (3,392) | (2,521) | (286) |
| UNDERWRITING EXPENSES | \$11,405 | \$11,215 | \$4,508 | \$1,030 | \$4,160 | \$4,524 | \$313 | \$788 | \$143 | \$38,086 | \$44,544 | \$36,663 |
| NET UNDERWRITING GAIN (LOSS) | \$11,864 | \$22,241 | (\$1,203) | (\$1,078) | (\$3,142) | \$4,102 | \$40 | \$1,717 | \$719 | \$35,260 | \$41,430 | \$37,559 |
| ADMINISTRATIVE EXPENSES | 1,318 | 1,570 | 438 | 133 | 434 | 541 | 69 | 106 | 51 | 4,660 | \$5,384 | \$5,096 |
| PREMIUM FINANCE FEE | (27) | (36) | (9) | 0 | (9) | (10) | 0 | 0 | 0 | (91) | (\$78) | (\$108) |
| INVESTMENT INCOME | 121 | 168 | 35 | 10 | 40 | 60 | 2 | 6 | 1 | 443 | \$610 | \$251 |
| OPERATING RESULTS | \$10,640 | \$20,803 | (\$1,615) | (\$1,201) | (\$3,545) | \$3,611 | (\$27) | \$1,617 | \$669 | \$30,952 | \$36,578 | \$32,606 |
| RATIOS: | | | | | | | | | | | | |
| Claims & Adj Expenses Incurred (Earned) | | | | | | | | | | | | |
| Prior Accident Years | -9.4% | -28.7% | -1.7% | 3.6% | 16.3% | -20.7% | 5.6% | -25.5% | -55.0% | -13.5% | -11.4% | -15.3% |
| Current Accident Year | 65.3% | 64.9% | 82.1% | 97.7% | 78.0% | 84.7% | 71.3% | 56.8% | 51.0% | 71.3% | 71.2% | 73.3% |
| All Accident Years Combined | 55.9% | 36.2% | 80.4% | 101.3% | 94.3% | 64.0% | 76.9% | 31.3% | -4.0% | 57.8% | 59.8% | 58.0% |
| Underwriting & Admin Exp.(Earned) | 24.1% | 24.4% | 29.3% | 30.9% | 25.4% | 21.2% | 25.0% | 24.5% | 23.4% | 24.6% | 23.3% | 23.7% |
| COMBINED OPERATING RATIO | 80.0% | 60.6% | 109.7% | 132.2% | 119.7% | 85.2% | 101.9% | 55.8% | 19.4% | 82.4% | 83.1% | 81.7% |

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