

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 096

DATE: DECEMBER 20, 2018

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

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

Please be advised that the November 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 -\$150.7 million and the incurred loss ratio to the end of 11 months is 114.6%, as summarized in the table below.

Amounts in \$000s	November 2018	November 2017	Year to date Nov 2018	Year to Date Nov 2017
Premium Written	23,660	24,640	323,173	341,741
Premium Earned	28,690	30,341	323,422	343,147
Incurred Losses	37,191	38,272	370,738	342,849
Underwriting & Admin Expense	5,349	6,174	103,429	106,869
Operating Result	(13,850)	(14,105)	(150,745)	(106,571)
Ratios:				
Loss ratio - Prior Accident Years	(4.3%)	(5.2%)	(22.0%)	(32.7%)
- Current Accident Year	134.0%	131.4%	136.6%	132.7%
<i>Total</i>	129.7%	126.2%	114.6%	100.0%
Underwriting & Admin Expense	18.6%	20.3%	32.0%	31.1%
Combined Operating Ratio	148.3%	146.5%	146.6%	131.1%

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.

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Updated Projection to Year-end 2018

The projected calendar year Operating Result to December 2018 is -\$164.9 million and the estimated combined operating ratio to December 2018 is 146.8%, as summarized in the table below. This updated projection to the end of the year has improved by \$8.7 million from the projection provided last month (-\$173.6 million and 149.0%). This improvement is driven by a \$12.6 million decrease in the projected written premium for the year.

ON RSP 2018 Yr-end Projection Amounts in \$000s	Current (Nov 2018)	Prior Mth (Oct 2018)	Change	Final 2018 Outlook*
Premium Written	347,240	359,830	(12,590)	413,190
Premium Earned	352,744	354,211	(1,467)	382,147
Incurred Losses	408,774	410,992	(2,218)	487,967
Underwriting & Admin Expense	108,838	116,819	(7,981)	147,584
Net Result from Operations	(164,868)	(173,600)	8,732	(253,404)
Ratios:				
Loss ratio - Prior Accident Years	(20.5%)	(20.4%)	(0.1%)	(7.5%)
- Current Accident Year	136.4%	136.4%	0.0%	135.2%
<i>Total</i>	115.9%	116.0%	(0.1%)	127.7%
Underwriting & Admin Expense	30.9%	33.0%	(2.1%)	38.6%
Combined Operating Ratio	146.8%	149.0%	(2.2%)	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 -\$13.9 million Operating Result in the month of November 2018, a \$0.3 million improvement compared with the same month last year. This improvement is composed of a \$0.8 million favourable impact associated with the \$1.7 million decrease in earned premium (at a combined ratio of 146.5%), offset by a \$0.5 million unfavourable impact stemming from the overall increase in the combined ratio (from 146.5% to 148.3% applied to \$28.7 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 146.5% at the end of 10 months to 146.6% at the end of 11 months. The 0.1 percentage point increase is composed of a 1.7 percentage point increase in the Prior Accident Year loss ratio, offset by a 0.3 percentage point decrease in the Current Accident Year loss ratio, and further offset by a 1.3 percentage point decrease in the expense ratio.

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.

November 2018	Actual	Projection	Difference	Difference %
Written Premium	23,660	32,881	(9,221)	(28.0%)
Earned Premium	28,690	29,244	(554)	(1.9%)
Reported Losses				
Paid Losses	35,312	30,785	4,527	14.7%
Paid Expenses	1,675	2,124	(449)	(21.1%)
Change in Outstanding Losses	(592)	1,130	(1,722)	(152.4%)
Total Reported Losses	36,395	34,039	2,356	6.9%
Change in IBNR Provision*	796	4,151	(3,355)	
Change in Premium Deficiency (DPAC)*	(1,894)	1,437	(3,331)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP November 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 November 2018, reported losses were \$2.4 million higher than projected. The Current Accident Year had a \$2.5 million favourable variance in reported losses, while the Prior Accident Years had an approximately \$4.9 million unfavourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$2.5 million unfavourable, followed by Accident Year 2015 at \$1.7 million unfavourable, and Accident Year 2009 at \$1.5 million unfavourable. 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 some specific individual 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

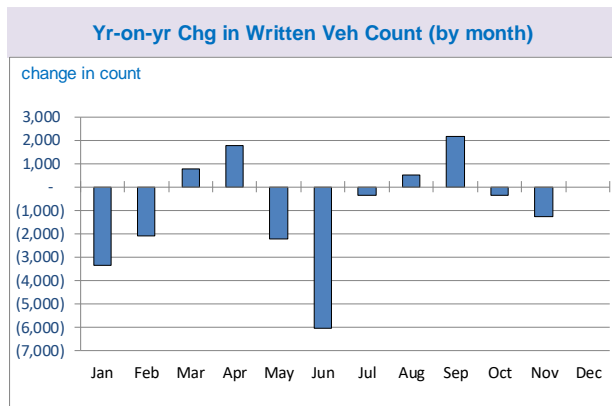
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

Effect of Quarterly Valuation

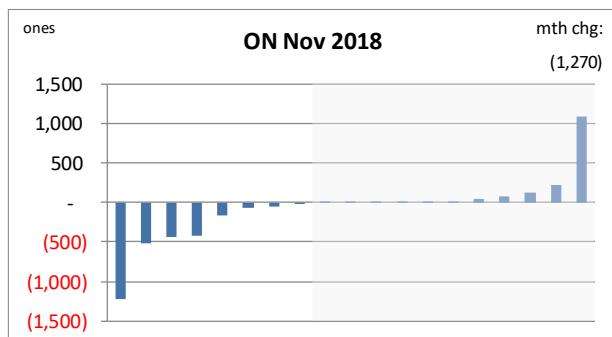
The November 2018 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2018). The actuarial valuation will be updated next as at December 31, 2018 and we anticipate that the results will be reflected in the March 2019 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 down 4.9% from 2017, being 2.5% of the 2017 industry private passenger vehicle count (excluding farmers) and industry farmers private passenger vehicle count. There is the potential for the transferred vehicle count to change dramatically and quickly if member companies choose to take full advantage of their transfer limits.



The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with November reporting a decrease of 1,270 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 2,856 vehicles, indicating a variance of 4,126 from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the pool in November than projected.

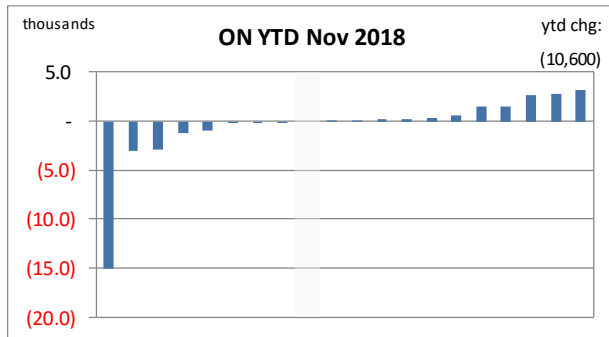


The chart on the left shows the overall change in the month, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eleven transferred more¹. Of the 8 member company groups transferring fewer vehicles, 1 member company group accounted for 43% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 1 member company group accounted for

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

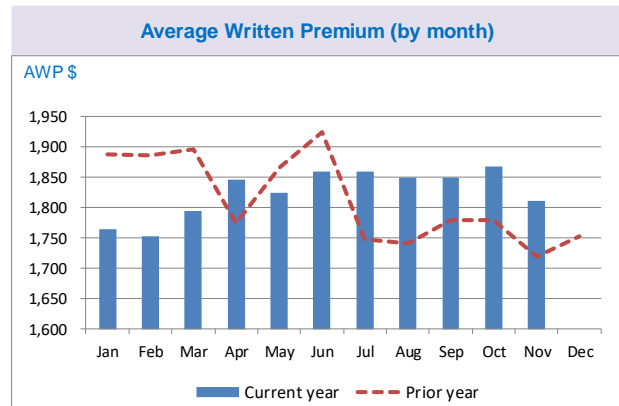
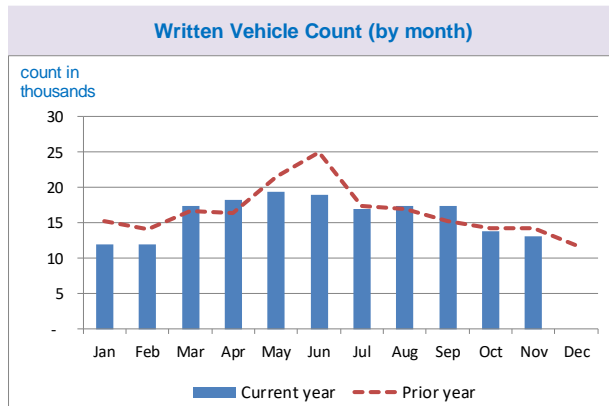
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67% of the total transfer increases for the “grower” members.



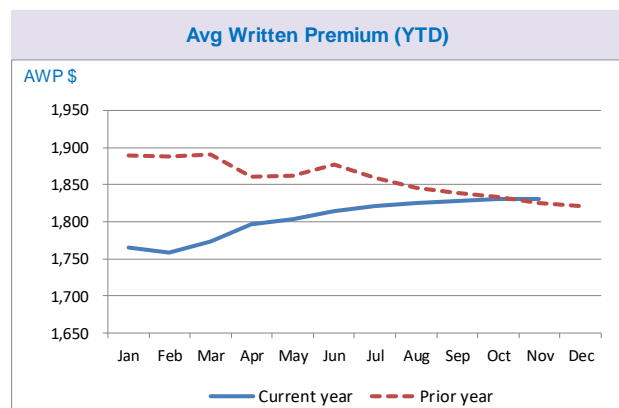
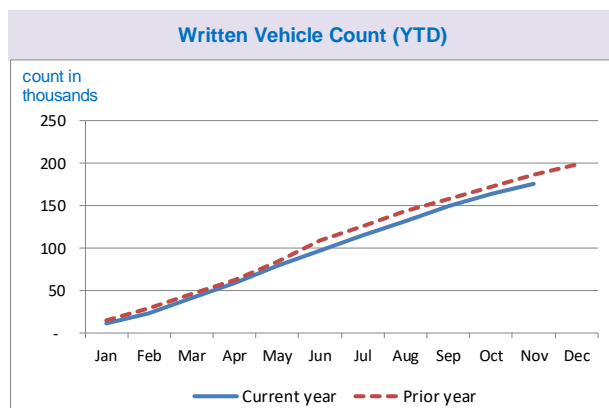
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

November’s year-on-year change in vehicle count transfers to the pool represents an 8.9% decrease from November 2017, and counts were down 5.7% year-to-date. Average written premium was up 5.3% in November 2018 compared with the same month in 2017, and was up 0.3% year-to-date (see charts immediately below).



	Nov-18	Nov-17	Amt Chg	% Chg
W. Veh curr mth	13,056	14,326	(1,270)	-8.9%

	Nov-18	Nov-17	Amt Chg	% Chg
AWP curr mth	1,812	1,720	92	5.3%

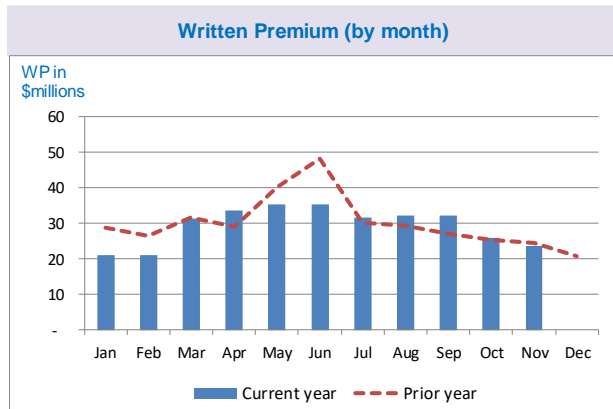


	Nov-18	Nov-17	Amt Chg	% Chg
W. Vehicles YTD	176,637	187,238	(10,600)	-5.7%

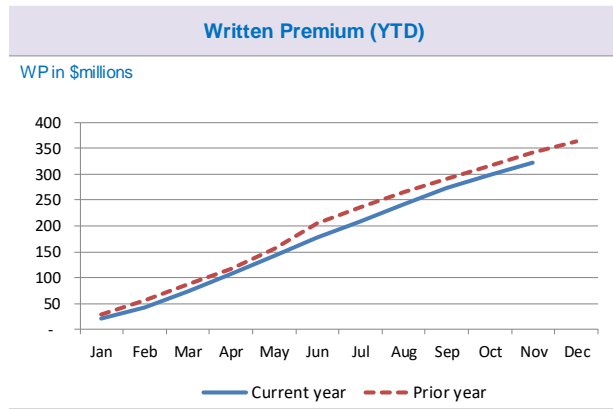
	Nov-18	Nov-17	Amt Chg	% Chg
Avg W. Prem YTD	1,830	1,825	5	0.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 4.0% for the month compared with the 33.4% increase we projected last month, and was down 5.4% year-to-date (see charts at the top of the next page).

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	Nov-18	Nov-17	Amt Chg	% Chg
WP (\$000s) curr mth	23,659	24,640	(981)	-4.0%



	Nov-18	Nov-17	Amt Chg	% Chg
WP (\$000s) YTD	323,171	341,742	(18,571)	-5.4%

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

David J. Simpson, M.B.A., FCIP, C. Dir.
 President & CEO

Related links:

[Ontario RSP November 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Ontario

Operating Results for the 11 Months Ended November 30, 2018 (Discounted basis)

Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	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	\$32,224	\$32,142	\$25,915	\$23,660	\$323,173	\$347,240	\$362,505
Decrease (Increase) in Unearned Premiums	9,392	6,076	(1,234)	(\$4,240)	(\$4,919)	(\$6,145)	(\$1,979)	(\$2,737)	(\$3,090)	\$4,095	\$5,030	249	5,504	11,153
Net Premiums Earned	\$30,420	\$27,100	\$30,135	\$29,381	\$30,389	\$29,135	\$29,623	\$29,487	\$29,052	\$30,010	\$28,690	\$323,422	\$352,744	\$373,658
Claims Incurred:														
Prior Accident Years:														
Undiscounted	(\$355)	(\$265)	(\$18,967)	(\$100)	\$5,608	(\$41)	(\$47)	(\$10,627)	(\$17)	(\$2,815)	(\$34)	(\$27,660)	(\$27,660)	(\$47,673)
Effect of Discounting	(1,690)	(2,018)	1,563	(1,955)	(7,643)	(1,616)	(1,170)	(22,806)	(861)	(4,050)	(1,212)	(43,458)	(44,686)	(66,431)
Discounted	(\$2,045)	(\$2,283)	(\$17,404)	(\$2,055)	(\$2,035)	(\$1,657)	(\$1,217)	(\$33,433)	(\$878)	(\$6,865)	(\$1,246)	(\$71,118)	(\$72,346)	(\$114,104)
Current Accident Year:														
Undiscounted	\$37,624	\$33,465	\$40,131	\$37,097	\$38,045	\$36,669	\$37,282	\$38,985	\$36,768	\$39,462	\$36,473	\$412,001	\$449,242	\$455,722
Effect of Discounting	4,409	3,028	3,679	3,403	2,260	2,837	2,910	(934)	2,356	3,943	1,964	29,855	31,878	39,948
Discounted	\$42,033	\$36,493	\$43,810	\$40,500	\$40,305	\$39,506	\$40,192	\$38,051	\$39,124	\$43,405	\$38,437	\$441,856	\$481,120	\$495,670
Claims Incurred	\$39,988	\$34,210	\$26,406	\$38,445	\$38,270	\$37,849	\$38,975	\$4,618	\$38,246	\$36,540	\$37,191	\$370,738	\$408,774	\$381,566
Underwriting Expenses:														
Expense Allowance	\$6,354	\$6,376	\$9,366	\$9,971	\$10,685	\$10,562	\$9,453	\$9,678	\$9,613	\$7,772	\$7,149	\$96,979	\$104,174	\$110,765
Change in UPDR/DPAC:														
Undiscounted	(2,100)	(1,273)	6,072	1,589	525	1,876	826	1,513	956	(706)	(1,354)	7,924	6,545	6,769
Effect of Discounting	(1,151)	(734)	974	589	(816)	759	268	(2,599)	331	225	(540)	(2,694)	(3,256)	(8,538)
Discounted	(3,251)	(2,007)	7,046	2,178	(291)	2,635	1,094	(1,086)	1,287	(481)	(1,894)	5,230	3,289	(\$1,769)
Underwriting Expenses	\$3,103	\$4,369	\$16,412	\$12,149	\$10,394	\$13,197	\$10,547	\$8,592	\$10,900	\$7,291	\$5,255	\$102,209	\$107,463	\$108,996
Net Underwriting Gain (Loss)	(\$12,671)	(\$11,479)	(\$12,683)	(\$21,213)	(\$18,275)	(\$21,911)	(\$19,899)	\$16,277	(\$20,094)	(\$13,821)	(\$13,756)	(\$149,525)	(\$163,493)	(\$116,904)
Administrative Expenses	\$82	\$124	\$128	\$102	\$127	\$95	\$109	\$130	\$103	\$126	\$94	\$1,220	\$1,375	\$1,430
Operating Result	(\$12,753)	(\$11,603)	(\$12,811)	(\$21,315)	(\$18,402)	(\$22,006)	(\$20,008)	\$16,147	(\$20,197)	(\$13,947)	(\$13,850)	(\$150,745)	(\$164,868)	(\$118,334)
Ratios:														
Claims & Expenses Incurred (Earned)														
Prior Accident Years	-6.7%	-8.4%	-57.8%	-7.0%	-6.7%	-5.7%	-4.1%	-113.4%	-3.0%	-22.9%	-4.3%	-22.0%	-20.5%	-30.5%
Current Accident Year	138.2%	134.7%	145.4%	137.8%	132.6%	135.6%	135.7%	129.0%	134.7%	144.6%	134.0%	136.6%	136.4%	132.7%
All Accident Years Combined	131.5%	126.3%	87.6%	130.8%	125.9%	129.9%	131.6%	15.6%	131.7%	121.7%	129.7%	114.6%	115.9%	102.2%
Underwriting & Administrative Expenses (Earned)	10.5%	16.6%	54.9%	41.7%	34.6%	45.6%	36.0%	29.6%	37.9%	24.7%	18.6%	32.0%	30.9%	29.6%
Combined Operating Ratio	142.0%	142.9%	142.5%	172.5%	160.5%	175.5%	167.6%	45.2%	169.6%	146.4%	148.3%	146.6%	146.8%	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