



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F19 – 012

DATE: FEBRUARY 27, 2019

SUBJECT: FARM – DECEMBER 2018 PARTICIPATION REPORT

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

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

Summary of Financial Results

The calendar year-to-date Operating Result is \$36.5 million and the incurred loss ratio to the end of 12 months is 59.7%, as summarized in the table below.

Amounts in \$000s	December 2018	December 2017	Year to date Dec 2018	Year to Date Dec 2017
Premium Written	15,655	9,309	254,047	184,248
Premium Earned	21,595	15,243	216,381	176,486
Incurred Losses	14,428	10,571	129,192	102,264
Underwriting & Admin Expense	3,992	2,939	50,711	41,616
Net Result from Operations	3,175	1,733	36,478	32,606
Ratios:				
Loss ratio - Prior Accident Years	(3.2%)	(3.2%)	(11.4%)	(15.3%)
- Current Accident Year	70.0%	72.6%	71.1%	73.3%
<i>Total</i>	66.8%	69.4%	59.7%	58.0%
Underwriting & Admin Expense	18.9%	19.4%	23.7%	23.7%
Combined Operating Ratio	85.7%	88.8%	83.4%	81.7%

rounding differences may occur

Compared with the Final FARM Outlook for 2018 (F17-085 posted Nov. 10, 2017), 2018 finished with written premium \$71.5 million (39.1%) higher than expected, and earned premium \$35.0 million (19.3%) higher than expected. The net operating surplus at \$36.5 million was \$26.1 million (250.3%) higher than expected and the combined ratio was 11.0 points lower than expected.

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar

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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 2019

A 2019 Outlook was prepared to provide members with an estimate of Facility Association Residual Market operating results for calendar year 2019 based on the actuarial valuation at June 30, 2018, and reflecting actual experience to date as detailed in the August 2018 Participation Report. This 2019 Outlook was posted on November 30, 2018 (please refer to Bulletin [F18-092](#)), and projected a Net Result from Operations for 2019 of \$20.5 million, and a combined operating ratio of 91.7%.

The projected calendar year Operating Results to December 2019 is now \$24.2 million (a \$3.7 million improvement relative to the 2019 Outlook) and the projected combined operating ratio to December 2019 is 91.3% (a 0.4 point improvement relative to the 2019 Outlook). The changes reflect updates over the four share months released after the August 2018 results (including this month), and include the impact of a valuation (the September 2018 valuation was implemented in the October 2018 Participation Reports). The improvement included a \$2.3 million favourable impact due to the \$27.7 million increase in projected earned premium (at a combined ratio of 91.7%), with \$1.1 million favourable impact from the decrease in the combined ratio (from 91.7% to 91.3%, applied to this month’s \$267.1 million projected earned premium). The remaining \$0.3 favourable impact is due to other projected updates.

The table below summarizes our current projection (i.e. as at December 2018) for the 2019 full year with our projection from last month and the Final 2019 Outlook.

FARM 2019 Year-end Projection	Current	Prior Mth		Final 2019
Amounts in \$000s	(Dec 2018)	(Nov 2018)	Change	Outlook*
Premium Written	283,790	299,346	(15,556)	245,869
Premium Earned	267,074	280,009	(12,935)	239,409
Incurred Losses	181,265	190,585	(9,320)	164,659
Underwriting & Admin Expense	61,624	64,608	(2,983)	54,223
Net Result from Operations	24,185	24,817	(631)	20,528
Ratios:				
Loss ratio - Prior Accident Years	(1.5%)	(1.0%)	(0.5%)	(1.5%)
- Current Accident Year	69.4%	69.1%	0.3%	70.2%
<i>Total</i>	67.9%	68.1%	(0.2%)	68.8%
Underwriting & Admin Expense	23.4%	23.5%	(0.1%)	22.9%
Combined Operating Ratio	91.3%	91.6%	(0.3%)	91.7%

rounding differences may occur

*as posted to FA's website Nov. 30, 2018

Current Month Results

The Net Results from Operations in the month of December 2018 was \$3.2 million, up \$1.4 million from the same month last year. This improvement is composed of a \$0.7 million favourable impact associated

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with the \$6.4 million increase in earned premium (at a combined ratio of 88.8%), with the remaining \$0.7 million favorable impact stemming from the overall decrease in the combined ratio (from 88.8% to 85.7% applied to \$21.6 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 83.1% at the end of 11 months to 83.4% at the end of 12 months. The 0.3 percentage point increase is composed of a 0.9 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio, further offset by a 0.5 percentage point decrease in the expense ratio.

Variances from Projections

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

December 2018	Actual	Projection	Difference	Difference %
Premium Written	15,655	23,818	(8,163)	(34.3%)
Premium Earned	21,595	21,380	215	1.0%
Reported Losses				
Paid Losses	17,137	16,465	672	4.1%
Change in Outstanding Losses	(3,160)	(2,097)	(1,063)	50.7%
Total Reported Losses	13,977	14,368	(391)	(2.7%)
Change in IBNR*	332	433	(101)	
Change in Premium Deficiency (DPAC)*	432	(298)	730	
Change in Retro Claims Expense*	119	(243)	362	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM December 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 December 2018, reported indemnity amounts were \$0.1 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 -\$0.4 million*). The Current Accident Year had a \$1.1 million unfavourable variance in reported indemnity, while the Prior Accident Years had a favourable variance of \$1.0 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.

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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 for the most recent accident years back to 1994 (for accident years 1993 and earlier, IBNR is held at \$0). This is consistent with management’s investigation into reported claims variances, concluding they were random and not necessarily indicative of a trend.

Effect of Quarterly Valuation

The December 2018 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at September 30, 2018 for all jurisdictions and business segments. The actuarial valuation will be updated next as at December 31, 2018 for all jurisdictions and business segments, and the results of that valuation 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 decreased by 12.1% overall in December 2018 relative to December 2017. On a year-to-date basis, exposure counts are up by 1.5%, 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 December 2018				Calendar YTD as of December 2018			
	2018	2017	Chg	% Chg	2018	2017	Chg	% Chg
Ontario	154	127	27	21.2%	3,036	2,342	695	29.7%
Alberta	68	71	(4)	(4.9%)	1,693	1,532	162	10.6%
Newfoundland & Labrador	431	527	(95)	(18.1%)	10,072	10,580	(509)	(4.8%)
New Brunswick	236	313	(77)	(24.5%)	5,939	6,647	(707)	(10.6%)
Nova Scotia	244	195	50	25.5%	5,196	4,011	1,185	29.5%
Prince Edward Island	50	77	(27)	(34.8%)	1,205	1,326	(121)	(9.1%)
Yukon	4	8	(5)	(55.0%)	150	167	(17)	(10.0%)
Northwest Territories	89	130	(41)	(31.7%)	1,949	2,146	(197)	(9.2%)
Nunavut	2	6	(4)	(68.7%)	129	176	(47)	(26.7%)
All Jurisdictions	1,278	1,453	(175)	(12.1%)	29,369	28,926	444	1.5%

Rounding differences may occur

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

Saskia Matheson
President & CEO

Related link:

[FARM December 2018 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
 Operating Results for the 12 months ended December 31, 2018 (Discounted Basis)
 Source: Monthly (Accident Year) Member Participation Report as at 12/2018
 (thousands of dollars)

	January	February	March	April	May	June	July	August	September	October	November	December	CY2018 YTD	CY2019 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	\$21,625	\$15,655	\$254,047	\$283,790	\$184,248
CHANGE IN UNEARNED PREMIUMS	1,131	(123)	675	(2,949)	(10,948)	(10,008)	(6,928)	(4,049)	(2,714)	(7,041)	(652)	5,940	(37,666)	(16,716)	(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	\$20,973	\$21,595	\$216,381	\$267,074	\$176,486
CLAIMS INCURRED															
PRIOR ACCIDENT YEARS															
UNDISCOUNTED	21	53	(9,199)	18	(1,457)	4	13	(4,415)	(12)	271	7	13	(14,683)	0	(6,309)
EFFECT OF DISCOUNTING	27	(762)	(1,214)	(289)	(2,830)	(350)	(220)	(216)	(380)	(2,547)	(395)	(707)	(9,883)	(3,989)	(20,772)
DISCOUNTED	48	(709)	(10,413)	(271)	(4,287)	(346)	(207)	(4,631)	(392)	(2,276)	(388)	(694)	(24,566)	(3,989)	(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	14,196	14,575	147,959	178,175	123,688
EFFECT OF DISCOUNTING	659	510	515	536	353	500	604	758	636	(308)	489	547	5,799	7,079	5,657
DISCOUNTED	11,409	10,428	10,966	11,075	12,180	12,424	13,475	14,249	13,891	13,854	14,685	15,122	153,758	185,254	129,345
CLAIMS INCURRED	\$11,457	\$9,719	\$553	\$10,804	\$7,893	\$12,078	\$13,268	\$9,618	\$13,499	\$11,578	\$14,297	\$14,428	\$129,192	\$181,265	\$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	2,206	1,620	26,218	29,165	18,983
AGENTS COMMISSIONS	1,081	1,100	1,222	1,466	2,132	2,067	2,011	1,841	1,767	2,109	1,726	1,164	19,686	22,704	15,266
DRIVER RECORD ABSTRACTS	172	128	159	297	510	303	205	285	132	373	118	411	3,093	3,609	3,004
BAD DEBTS	(1)	(2)	1	(31)	(3)	(2)	(5)	2	(1)	(232)	(3)	(2)	(279)	0	(304)
PREMIUM DEFICIENCY/(DPAC)															
UNDISCOUNTED	106	31	(237)	(226)	(603)	(797)	(565)	(190)	(266)	(494)	(134)	487	(2,888)	(1,022)	(684)
EFFECT OF DISCOUNTING	(44)	(16)	11	18	(120)	59	29	(27)	38	(99)	(43)	(55)	(249)	145	398
DISCOUNTED	62	15	(226)	(208)	(723)	(738)	(536)	(217)	(228)	(593)	(177)	432	(3,137)	(877)	(286)
UNDERWRITING EXPENSES	\$2,784	\$2,705	\$2,700	\$3,399	\$4,777	\$4,437	\$4,326	\$4,429	\$3,931	\$4,598	\$3,870	\$3,625	\$45,581	\$54,601	\$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	\$2,806	\$3,542	\$41,608	\$31,208	\$37,559
ADMINISTRATIVE EXPENSES	448	435	505	408	501	486	445	529	426	477	536	460	5,656	7,951	5,096
PREMIUM FINANCE FEE	(10)	(9)	(8)	(10)	(9)	(8)	(10)	(9)	(10)	(8)	(11)	(8)	(110)	0	(108)
INVESTMENT INCOME	29	26	29	32	35	38	48	73	69	64	92	101	636	929	251
OPERATING RESULTS	\$749	\$1,255	\$12,034	\$752	\$3,660	\$406	\$839	\$5,084	\$1,580	\$4,593	\$2,351	\$3,175	\$36,478	\$24,186	\$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%	-1.8%	-3.2%	-11.4%	-1.5%	-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%	70.0%	70.0%	71.1%	69.4%	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%	68.2%	66.8%	59.7%	67.9%	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%	21.0%	18.9%	23.7%	23.4%	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%	89.2%	85.7%	83.4%	91.3%	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 12 months ended December 31, 2018 (Discounted Basis)

Source: Monthly (Accident Year) Member Participation Report as at 12/2018

(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2019 12 Months Updated Projections	CY2017 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$82,892	\$85,210	\$23,070	\$4,547	\$23,172	\$28,045	\$1,860	\$4,308	\$943	\$254,047	\$283,790	\$184,248
CHANGE IN UNEARNED PREMIUMS	(16,069)	(18,728)	(2,393)	(8)	(1,190)	642	(23)	51	52	(37,666)	(\$16,716)	(\$7,762)
NET PREMIUMS EARNED	\$66,823	\$66,482	\$20,677	\$4,539	\$21,982	\$28,687	\$1,837	\$4,359	\$995	\$216,381	\$267,074	\$176,486
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(3,140)	(11,417)	228	350	3,646	(3,465)	213	(685)	(413)	(14,683)	\$0	(\$6,309)
EFFECT OF DISCOUNTING	(2,049)	(4,052)	(644)	(222)	(849)	(1,641)	(132)	(250)	(44)	(9,883)	(\$3,989)	(\$20,772)
DISCOUNTED	(5,189)	(15,469)	(416)	128	2,797	(5,106)	81	(935)	(457)	(24,566)	(3,989)	(27,081)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	42,387	40,818	16,339	4,205	16,622	23,441	1,261	2,399	487	147,959	\$178,175	\$123,688
EFFECT OF DISCOUNTING	1,246	2,208	614	241	521	830	42	77	20	5,799	\$7,079	\$5,657
DISCOUNTED	43,633	43,026	16,953	4,446	17,143	24,271	1,303	2,476	507	153,758	185,254	129,345
CLAIMS INCURRED	\$38,444	\$27,557	\$16,537	\$4,574	\$19,940	\$19,165	\$1,384	\$1,541	\$50	\$129,192	\$181,265	\$102,264
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	8,290	9,204	2,306	457	2,358	2,893	185	432	93	26,218	\$29,165	\$18,983
AGENTS COMMISSIONS	6,602	5,089	2,086	427	2,153	2,655	164	426	84	19,686	\$22,704	\$15,266
DRIVER RECORD ABSTRACTS	690	246	805	206	544	509	15	70	8	3,093	\$3,609	\$3,004
BAD DEBTS	(40)	(122)	(29)	(7)	(20)	(28)	(2)	(10)	(21)	(279)	\$0	(\$304)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	(1,348)	(1,184)	10	3	(96)	(284)	(1)	7	5	(2,888)	(\$1,022)	(\$684)
EFFECT OF DISCOUNTING	0	0	129	0	0	(378)	0	0	0	(249)	\$145	\$398
DISCOUNTED	(1,348)	(1,184)	139	3	(96)	(662)	(1)	7	5	(3,137)	(877)	(286)
UNDERWRITING EXPENSES	\$14,194	\$13,233	\$5,307	\$1,086	\$4,939	\$5,367	\$361	\$925	\$169	\$45,581	\$54,601	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$14,185	\$25,692	(\$1,167)	(\$1,121)	(\$2,897)	\$4,155	\$92	\$1,893	\$776	\$41,608	\$31,208	\$37,559
ADMINISTRATIVE EXPENSES	1,723	1,821	529	157	518	634	83	128	63	5,656	\$7,951	\$5,096
PREMIUM FINANCE FEE	(33)	(46)	(9)	0	(10)	(12)	0	0	0	(110)	\$0	(\$108)
INVESTMENT INCOME	175	241	51	15	57	84	4	7	2	636	\$929	\$251
OPERATING RESULTS	\$12,604	\$24,066	(\$1,654)	(\$1,263)	(\$3,368)	\$3,593	\$13	\$1,772	\$715	\$36,478	\$24,186	\$32,606
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Years	-7.8%	-23.3%	-2.0%	2.8%	12.7%	-17.8%	4.4%	-21.4%	-45.9%	-11.4%	-1.5%	-15.3%
Current Accident Year	65.3%	64.7%	82.0%	98.0%	78.0%	84.6%	70.9%	56.8%	51.0%	71.1%	69.4%	73.3%
All Accident Years Combined	57.5%	41.4%	80.0%	100.8%	90.7%	66.8%	75.3%	35.4%	5.1%	59.7%	67.9%	58.0%
Underwriting & Admin Exp.(Earned)	23.8%	22.6%	28.2%	27.4%	24.8%	20.9%	24.2%	24.2%	23.3%	23.7%	23.4%	23.7%
COMBINED OPERATING RATIO	81.3%	64.0%	108.2%	128.2%	115.5%	87.7%	99.5%	59.6%	28.4%	83.4%	91.3%	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