



TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F19 – 034
DATE: MAY 30, 2019
SUBJECT: FARM – MARCH 2019 PARTICIPATION REPORT

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

Please be advised that the March 2019 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

New This Month

Retroactive Claims Fees Adjustments

FARM Servicing Carrier compensation is largely formula driven and the relevant formulas are specified in the Facility Association Plan of Operation. Annually, claims handling compensation is adjusted via retroactive claims fees adjustments based on changes in FARM indemnity loss ratios. Settlement with Servicing Carriers is performed for the final and interim adjustments in accordance with the Facility Association Plan of Operation and Chapter 7 (*Servicing Carrier Claims Expense Allowance – Retroactive Adjustment*) of the Facility Association Accounting & Statistical Manual available via links below:

[Accounting & Statistical Manual](#)

[Plan of Operation](#)

Servicing Carrier claims expense allowance retroactive adjustments were calculated and taken into account for this month’s Participation Report, with accident year 2013 receiving final payment/(recovery), accident year 2016 receiving 2nd interim payment/(recovery), and accident year 2018 receiving 1st interim payment/(recovery). The payments/(recoveries) and changes in provision are summarized in the table immediately below. As indicated, the retroactive claims fees adjustments incurred have little impact on the operational results, as unpaid balances are updated monthly to remain current.

FARM March 2019 Retroactive Claims Fees Adjustments Summary

\$000s	Accident Year 2018	Accident Year 2016	Accident Year 2013	TOTAL
Retro Adj Paid	(1,879)	194	218	(1,468)
unpaid @ Feb 28	(1,924)	191	62	(1,671)
unpaid @ Mar 31	(262)	(72)	-	(334)
change:	1,662	(263)	(62)	1,337
incurred:	(217)	(69)	156	(131)

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Valuation

An actuarial valuation as at December 31, 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 **\$1.6 million unfavourable** impact on the month’s net result from operations, adding an estimated 2.4 points to the year-to-date Combined Operating Ratio (ending at 92.0%). The impact on the month’s results is summarized in the tables immediately below¹.

2018 Q4 FARM Valuation Implementation Impact (\$000s) – Impact on Year-to-date Results

Grand Total	unfav / (fav)					ytd EP 65,658 (actual)						
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:					
	ultimates & payout patterns		dsct rate	margins		TOTAL	ultimates & payout patterns		dsct rate	margins		TOTAL
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	(859)	457	(402)	2,740	-	2,338	(1.3%)	0.7%	(0.6%)	4.2%	-	3.6%
CAY	(585)	(54)	(639)	323	-	(316)	(0.9%)	(0.1%)	(1.0%)	0.5%	-	(0.5%)
Prem Def	(184)	(274)	(458)	42	-	(416)	(0.3%)	(0.4%)	(0.7%)	0.1%	-	(0.6%)
TOTAL	(1,628)	129	(1,499)	3,105	-	1,606	(2.5%)	0.2%	(2.3%)	4.7%	-	2.4%

Please see “Effect of Quarterly Valuation” on page 6 for additional detail.

Summary of Financial Results

The calendar year-to-date Operating Result is \$5.5 million and the incurred loss ratio to the end of 3 months is 71.6%, as summarized in the table at the top of the next page.

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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FARM Summary of Financial Results (for month and year-to-date)

Amounts in \$000s	March 2019	March 2018	Year to date Mar 2019	Year to Date Mar 2018
Premium Written	23,354	15,096	64,996	43,604
Premium Earned	23,101	15,771	65,658	45,287
Incurred Losses	19,022	553	47,026	21,729
Underwriting & Admin Expense	4,615	3,184	13,176	9,520
Net Result from Operations	(536)	12,034	5,456	14,038
Ratios:				
Loss ratio - Prior Accident Years	14.1%	(66.0%)	2.7%	(24.5%)
- Current Accident Year	68.3%	69.5%	68.9%	72.4%
<i>Total</i>	82.4%	3.5%	71.6%	47.9%
Underwriting & Admin Expense	20.2%	20.3%	20.4%	21.1%
Combined Operating Ratio	102.6%	23.8%	92.0%	69.0%

rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2019 - 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

The projected calendar year Net Result from Operations to December 2019 is \$28.0 million and the estimated combined operating ratio to December 2019 is 90.4% as indicated in the table at the top of the next page.

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FARM Summary of Projected Year-end Financial Results (current month's projection, prior month's projection, and Outlook posted last fall)

FARM 2019 Year-end Projection	Current	Prior Mth	Change	Final 2019
Amounts in \$000s	(Mar 2019)	(Feb 2019)		Outlook*
Premium Written	301,108	293,333	7,775	245,869
Premium Earned	283,084	276,455	6,630	239,409
Incurred Losses	191,337	188,092	3,244	164,659
Underwriting & Admin Expense	63,716	63,522	194	54,223
Net Result from Operations	28,032	24,841	3,191	20,528
Ratios:				
Loss ratio - Prior Accident Years	(1.2%)	(1.3%)	0.1%	(1.5%)
- Current Accident Year	68.8%	69.4%	(0.6%)	70.2%
<i>Total</i>	67.6%	68.1%	(0.4%)	68.8%
Underwriting & Admin Expense	22.8%	23.2%	(0.4%)	22.9%
Combined Operating Ratio	90.4%	91.3%	(0.8%)	91.7%

rounding differences may occur

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

This updated projection to the end of the year has improved by \$3.2 million from the projection provided last month (see table above), of which \$1.0 million is due to the impact of the valuation as at December 31, 2018, as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 6). Remaining differences were driven by changes in projected premium volumes by jurisdiction and business segment, and the associated impacts on claims and expense projections.

2018 Q4 FARM Valuation Implementation Impact (\$000s) – Impact on Year-end Projected Results

Grand Total	unfav / (fav) projected for full year					year EP 283,084 (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	(859)	376	(483)	2,239	-	1,756	(0.3%)	0.1%	(0.2%)	0.8%	-	0.6%
CAY	(2,611)	(53)	(2,664)	1,139	-	(1,525)	(0.9%)	-	(0.9%)	0.4%	-	(0.5%)
Prem Def	(649)	(621)	(1,270)	45	-	(1,225)	(0.2%)	(0.2%)	(0.4%)	-	-	(0.4%)
TOTAL	(4,119)	(298)	(4,417)	3,423	-	(994)	(1.5%)	(0.1%)	(1.6%)	1.2%	-	(0.4%)

The updated year-end projections are shown by jurisdiction against the November 30, 2018 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 *two* valuations (2018 Q3 & Q4) and other changes since August 2018 (the actuals used in the Outlook), **the projected \$20.5 million operating result has been increased to \$28.0 million**, with \$1.0 million of the \$7.5 million improvement being attributed to the 2018 Q4 valuation implementation. (The changes before the impact of the 2018 Q4 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.)

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2018 Q4 FARM Valuation Implementation Impact (\$000s) – Impact on Year-end Projected Results by Jurisdiction favourable / (*unfavourable*) – note that favourable / (*unfavourable*) are switched relative to prior tables, as this table shows operating results, not changes in ultimate

\$000s	Outlook Posted November 30, 2018			Updated Year-end Projection			Operating Result Change due to Valuation	
	Earned Premium	Operating Result	COR	Earned Premium	Operating Result	COR	Month of March	Year-end 2019
Ontario	83,379	9,719	88.6%	98,751	18,803	81.3%	3,389	5,480
Alberta	71,083	11,405	84.2%	91,988	12,371	86.8%	(2,554)	(2,852)
Newfoundland & Labrador	28,625	(1,408)	105.2%	29,800	(1,458)	105.2%	(972)	(65)
New Brunswick	22,596	1,035	95.5%	24,576	524	98.1%	49	(720)
Nova Scotia	21,915	(1,986)	109.2%	26,274	(3,676)	114.2%	(1,282)	(575)
Prince Edward Island	4,484	322	93.0%	4,598	(4)	100.5%	(224)	(240)
Yukon	1,869	257	86.7%	1,889	(12)	100.8%	(253)	(252)
Northwest Territories	4,546	915	80.1%	4,234	1,201	71.9%	270	242
Nunavut	913	269	71.0%	974	284	71.1%	(29)	(24)
TOTAL	239,409	20,528	91.7%	283,084	28,032	90.4%	(1,606)	994

Another important change relative to the 2019 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 2019 Final Outlook discount rate of 1.88%² still been applicable (rather than the 1.95% applied with this valuation), the operating result would have been *lower* by \$0.4 million (using the current interest rate sensitivity table). That is, the projected Operating Result would have been approximately \$27.6 million (COR of 90.2%) had the discount rate and associated margin remained at the 2019 Final Outlook level.

Current Month Results

The Net Results from Operations in the month of March 2019 was -\$0.5 million, down \$12.6 million from the same month last year. This deterioration is composed of an \$18.2 million unfavourable impact stemming from the overall increase in the combined ratio (from 23.8% to 102.6% applied to \$23.1 million in earned premium), partially offset by a \$5.6 million favourable impact associated with the \$7.3 million increase in earned premium (at a prior combined ratio of 23.8%).

This month's results moved the year-to-date combined operating ratio from 86.3% at the end of 2 months to 92.0% at the end of 3 months. The 5.7 percentage point increase is composed of a 6.2 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.4 percentage point decrease in the Current Accident Year loss ratio, further offset by a 0.1 percentage point decrease in the expense ratio.

Variations 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.

²The 2019 Outlook was based on the June 30, 2018 valuation and the Bank of Canada yield curves at June 30, 2018. Readers can use the interest rate sensitivity tables in Exhibit F of the monthly operational Actuarial Highlights to test for the impact of alternate discount rates. For example, page 82 of the March 2019 FARM Actuarial Highlights Exhibit F (page 10 of 10), indicating a 1.88% discount rate would increase indemnity claims liabilities by an estimated \$0.4 million using simple linear interpolation ((2,752 x 7 + 0 x 43) / 50).

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FARM Summary of Actual vs Projected variances

March 2019	Actual	Projection	Difference	Difference %
Premium Written	23,354	18,281	5,073	27.8%
Premium Earned	23,101	22,427	674	3.0%
Reported Losses				
Paid Losses	13,411	11,308	2,103	18.6%
Change in Outstanding Losses	1,648	1,083	565	52.2%
Total Reported Losses	15,059	12,391	2,668	21.5%
Change in IBNR*	2,300	1,508	792	
Change in Premium Deficiency (DPAC)*	(391)	296	(687)	
Change in Retro Claims Expense*	1,663	1,143	520	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM March 2019 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 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 March 2019, reported indemnity amounts were \$1.3 million higher than projected (*allowed claims expenses are included in the table immediately above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows \$2.7 million*). The Current Accident Year had a \$2.5 million unfavourable variance in reported indemnity, while the Prior Accident Years had a favourable variance of \$1.2 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 (variances were spread across jurisdictions and business segments).

Effect of Quarterly Valuation

The March 2019 Participation Report reflects the results of an updated valuation as at December 31, 2018, with the associated impacts in relation to the results for March 2019 summarized in the table at the top of the next page.

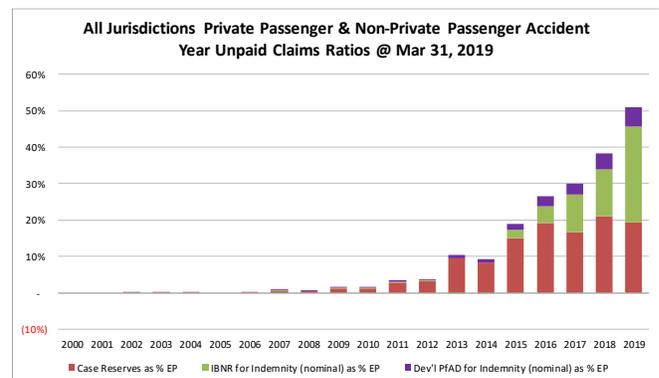
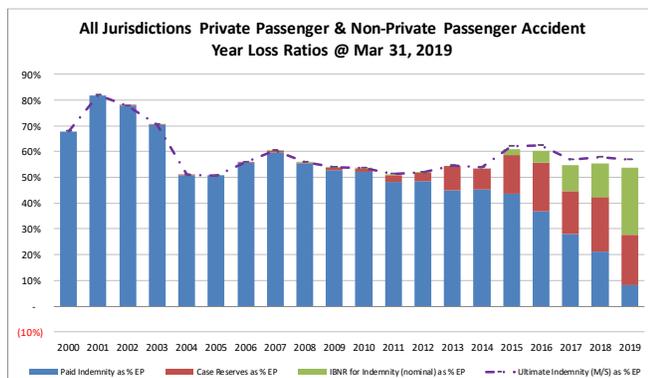
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2018 Q4 FARM Valuation Implementation Impact (\$000s) – Impact on Month’s Results

Grand Total	unfav / (fav)						mth EP 23,101 (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	(859)	457	(402)	2,740	-	2,338	(3.7%)	2.0%	(1.7%)	11.9%	-	10.1%
CAY	(585)	(54)	(639)	323	-	(316)	(2.5%)	(0.2%)	(2.8%)	1.4%	-	(1.4%)
Prem Def	(184)	(274)	(458)	42	-	(416)	(0.8%)	(1.2%)	(2.0%)	0.2%	-	(1.8%)
TOTAL	(1,628)	129	(1,499)	3,105	-	1,606	(7.0%)	0.6%	(6.5%)	13.4%	-	7.0%

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

FARM Indemnity Only Accident Year Ultimate Loss Ratios and Claims Liabilities (% EP)



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 2.29% to 1.95%. The investment return margin for adverse deviation was left unchanged at 25 basis points, and the selected claims development margins³ were also left unchanged (per usual practice, claims development margins are reviewed and updated annually with the June 30 valuation).

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 [7] 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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2018 Q4 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	73,919	(343)	(0.5%)	42.2%	(4.9%)	(3,290)	47.7%	(2.7%)	(2,589)
PPV	31,771	(181)	(0.6%)	50.9%	(1.3%)	(209)	50.5%	(3.1%)	(628)
Non-PPV	42,148	(162)	(0.4%)	39.5%	(6.1%)	(3,081)	47.0%	(2.6%)	(1,962)
Alberta	55,460	1,850	3.3%	53.2%	(0.5%)	(341)	51.2%	0.4%	386
PPV	11,685	(888)	(7.6%)	58.3%	0.2%	15	49.0%	(0.5%)	(47)
Non-PPV	43,775	2,738	6.3%	52.6%	(0.6%)	(356)	51.5%	0.5%	433
Newfoundland & Labrador	35,436	691	1.9%	70.7%	0.7%	209	66.2%	(3.1%)	(918)
PPV	24,497	450	1.8%	71.2%	0.4%	83	67.5%	(3.5%)	(759)
Non-PPV	10,939	241	2.2%	69.6%	1.6%	125	62.5%	(2.0%)	(159)
New Brunswick	30,148	(1,057)	(3.5%)	64.6%	2.3%	512	59.8%	3.1%	776
PPV	19,281	(211)	(1.1%)	68.9%	3.0%	383	66.0%	4.0%	571
Non-PPV	10,867	(846)	(7.8%)	58.7%	1.4%	129	51.5%	1.9%	205
Nova Scotia	19,665	238	1.2%	69.2%	3.5%	726	67.2%	(0.5%)	(118)
PPV	7,823	(536)	(6.9%)	77.7%	5.0%	463	72.0%	(2.5%)	(314)
Non-PPV	11,842	774	6.5%	62.2%	2.3%	262	62.5%	1.5%	196
Prince Edward Island	6,201	90	1.5%	79.1%	1.0%	43	53.9%	0.5%	22
PPV	3,145	(50)	(1.6%)	53.6%	3.6%	93	45.0%	0.0%	-
Non-PPV	3,056	140	4.6%	112.3%	(2.5%)	(49)	64.0%	1.0%	22
Yukon Territory	1,958	(71)	(3.6%)	71.0%	14.2%	261	50.6%	(0.4%)	(7)
PPV	1,493	36	2.4%	59.2%	2.2%	8	63.5%	6.5%	24
Non-PPV	465	(107)	(23.0%)	74.0%	17.3%	253	47.5%	(2.0%)	(31)
Northwest Territories	2,598	(192)	(7.4%)	42.5%	(2.1%)	(92)	44.0%	0.3%	12
PPV	1,496	(66)	(4.4%)	44.3%	(2.3%)	(68)	47.5%	1.4%	41
Non-PPV	1,102	(126)	(11.4%)	38.6%	(1.7%)	(24)	37.0%	(2.0%)	(30)
Nunavut	752	50	6.6%	36.0%	(2.9%)	(28)	35.0%	(1.1%)	(10)
PPV	331	(52)	(15.7%)	48.0%	1.6%	3	28.0%	1.0%	2
Non-PPV	421	102	24.2%	32.9%	(4.0%)	(32)	36.5%	(1.5%)	(12)
Total	226,137	1,256	0.6%	55.2%	(0.9%)	(2,000)	53.7%	(0.9%)	(2,446)

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 December 31, 2018 (used for the valuation) and available for implementation (March 31, 2019). Further, as the valuation is “as at December 31, 2018) but the implementation applies to March 2019 statements, accident year 2018 was considered the “current accident year” in the valuation (and changes reflected in columns [4] to [6] in the table above), accident year 2018 is considered a “prior accident year” for the purposes of implementation (where accident year 2019 is considered the “current accident year”). As a result, the “prior accident year” impacts for implementation purposes (first row, column [1] in the implementation table on the next page) would be comparable to the sum of columns [2] and [6] of the table above.

Finally, column [9] of the valuation summary table above estimates the impact of the change in selected future accident year indemnity loss ratio against projected full year 2019 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 2019 year-to-date earned premium at March 31, 2019. With this background, the overall **impact of implementing the valuation** on the results of the Month of March 2019 is estimated as **unfavourable by \$1.6 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

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table at the top of the previous page (sum of column [2] and [6] in the valuation summary table is comparable to the first row of column [1] in the table below).

Implementation Impact - relative to projection for month of March 2019 (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 (1994-2018)	(710)	(149)	-	(859)	3,197	2,338
current accident year claims incurred	(523)	(62)	-	(585)	269	(316)
premium deficiency / (DPAC)	(184)			(184)	(232)	(416)
TOTAL	(1,417)	(211)	-	(1,628)	3,234	1,606

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.

2018 Q4 FARM Valuation Implementation Impact (\$000s) – Impact on Year-to-date Results

Grand Total	unfav / (fav)						ytd EP 65,658 (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	(859)	457	(402)	2,740	-	2,338	(1.3%)	0.7%	(0.6%)	4.2%	-	3.6%		
CAY	(585)	(54)	(639)	323	-	(316)	(0.9%)	(0.1%)	(1.0%)	0.5%	-	(0.5%)		
Prem Def	(184)	(274)	(458)	42	-	(416)	(0.3%)	(0.4%)	(0.7%)	0.1%	-	(0.6%)		
TOTAL	(1,628)	129	(1,499)	3,105	-	1,606	(2.5%)	0.2%	(2.3%)	4.7%	-	2.4%		

The overall impact *prior to* the 34 basis point decrease in the discount rate (from 2.29% to 1.95%) and changes to margins for adverse deviation was favourable by \$1.5 million (Total row, column [3] of left table above). This was more than offset by the \$3.1 million unfavourable 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 4 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 Valuation Implementation Impacts (\$000s) – most recent 12 valuations

FARM juris: ALL,
as at: 2018 Q4

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]
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%)	-
2018 Q4	Mar 2019	(1,628)	129	3,105	-	1,606	469,304	0.3%	(0.3%)
12-qtrs	-	(15,585)	6,962	(12,678)	(4,139)	(25,440)			
% of total		61.3%	(27.4%)	49.8%	16.3%	100.0%			
Averages									
12-qtrs		(1,299)	580	(1,057)	(345)	(2,120)	456,558	(0.5%)	(0.3%)
2016 Q1 to 2017 Q2		541	1,192	(886)	(390)	456	465,646	0.1%	0.1%
2017 Q3 to 2018 Q4		(3,138)	(31)	(1,227)	(300)	(4,696)	447,469	(1.0%)	(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 \$15.6 million favourable. That said, the average favourable impact over the 12 quarters at \$1.3 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.

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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(iii) **Bias evidence measurement: This objective has been met**, as 4 of 12 valuations show unfavourable changes (column [1] of the table above), in line with our expectation (4 of 12).

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 March 2019 Participation Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights FARM as at December 31, 2018 are expected to be posted during the month of June 2019.

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

Management Comments

As shown in the table below, the private passenger annualized vehicle counts increased by 20.4% overall in March 2019 relative to March 2018. On a year-to-date basis, exposure counts are up by 25.5%, increasing in all jurisdictions except Yukon, Northwest Territories and Nunavut.

FARM Private Passenger Written Car Years

# FARM Vehicles Written									
Jurisdiction	Month of March 2019					Calendar YTD as of March 2019			
	2019	2018	Chg	% Chg		2019	2018	Chg	% Chg
Ontario	436	208	228	109.7%		1,088	537	551	102.6%
Alberta	106	143	(37)	(26.0%)		381	335	46	13.6%
Newfoundland & Labrador	824	720	104	14.4%		2,153	1,939	214	11.1%
New Brunswick	550	521	29	5.6%		1,467	1,368	98	7.2%
Nova Scotia	550	373	177	47.5%		1,552	874	678	77.6%
Prince Edward Island	93	86	6	7.2%		265	250	15	6.0%
Yukon	8	14	(6)	(43.8%)		24	33	(9)	(28.2%)
Northwest Territories	160	197	(37)	(18.7%)		415	511	(95)	(18.7%)
Nunavut	12	12	(0)	(1.4%)		17	18	(0)	(2.4%)
All Jurisdictions	2,737	2,273	464	20.4%		7,363	5,865	1,497	25.5%

Rounding differences may occur

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

Saskia Matheson
 President & CEO

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Related link:

[FARM March 2019 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 3 months ended March 31, 2019 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 03/2019
(thousands of dollars)

	January	February	March	CY2019 YTD	CY2019 12 Months Updated Projections	CY2018 12 Months Actual
UNDERWRITING REVENUE:						
PREMIUMS WRITTEN	\$24,756	\$16,886	\$23,354	\$64,996	\$301,107	\$254,047
CHANGE IN UNEARNED PREMIUMS	(2,287)	3,202	(253)	662	(18,023)	(37,666)
NET PREMIUMS EARNED	\$22,469	\$20,088	\$23,101	\$65,658	\$283,084	\$216,381
CLAIMS INCURRED						
PRIOR ACCIDENT YEARS						
UNDISCOUNTED	458	(1,493)	625	(410)	(1,877)	(14,683)
EFFECT OF DISCOUNTING	(150)	(286)	2,624	2,188	(1,581)	(9,883)
DISCOUNTED	308	(1,779)	3,249	1,778	(3,458)	(24,566)
CURRENT ACCIDENT YEAR						
UNDISCOUNTED	14,604	13,486	14,854	42,944	186,167	147,959
EFFECT OF DISCOUNTING	761	624	919	2,304	8,628	5,799
DISCOUNTED	15,365	14,110	15,773	45,248	194,795	153,758
CLAIMS INCURRED	\$15,673	\$12,331	\$19,022	\$47,026	\$191,337	\$129,192
UNDERWRITING EXPENSES						
OPERATING & SERVICE FEES	2,547	1,746	2,406	6,699	30,973	26,218
AGENTS COMMISSIONS	1,875	1,261	1,822	4,958	23,926	19,686
DRIVER RECORD ABSTRACTS	102	246	435	783	3,697	3,093
BAD DEBTS	(2)	(4)	(2)	(8)	(6)	(279)
PREMIUM DEFICIENCY/(DPAC)						
UNDISCOUNTED	(143)	283	(171)	(31)	(1,705)	(2,888)
EFFECT OF DISCOUNTING	3	(5)	(220)	(222)	(378)	(249)
DISCOUNTED	(140)	278	(391)	(253)	(2,083)	(3,137)
UNDERWRITING EXPENSES	\$4,382	\$3,527	\$4,270	\$12,179	\$56,507	\$45,581
NET UNDERWRITING GAIN (LOSS)	\$2,414	\$4,230	(\$191)	\$6,453	\$35,240	\$41,608
ADMINISTRATIVE EXPENSES	400	419	391	1,210	7,941	5,656
PREMIUM FINANCE FEE	(9)	(8)	(9)	(26)	(17)	(110)
INVESTMENT INCOME	106	78	55	239	750	636
OPERATING RESULTS	\$2,111	\$3,881	(\$536)	\$5,456	\$28,032	\$36,478
RATIOS:						
Claims & Adj Expenses Incurred (Earned)						
Prior Accident Years	1.4%	-8.9%	14.1%	2.7%	-1.2%	-11.4%
Current Accident Year	68.4%	70.2%	68.3%	68.9%	68.8%	71.1%
All Accident Years Combined	69.8%	61.3%	82.4%	71.6%	67.6%	59.7%
Underwriting & Admin Exp.(Earned)	21.3%	19.6%	20.2%	20.4%	22.8%	23.7%
COMBINED OPERATING RATIO	91.1%	80.9%	102.6%	92.0%	90.4%	83.4%

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 2019
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 3 months ended March 31, 2019 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 03/2019
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2019 12 Months Updated Projections	CY2018 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$19,627	\$24,812	\$6,369	\$831	\$5,352	\$6,588	\$267	\$987	\$163	\$64,996	\$301,107	\$254,047
CHANGE IN UNEARNED PREMIUMS	2,266	(2,634)	(445)	278	448	426	186	53	84	662	(\$18,023)	(\$37,666)
NET PREMIUMS EARNED	\$21,893	\$22,178	\$5,924	\$1,109	\$5,800	\$7,014	\$453	\$1,040	\$247	\$65,658	\$283,084	\$216,381
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	1,632	(3,727)	1,117	154	(599)	1,026	228	(287)	46	(410)	(\$1,877)	(\$14,683)
EFFECT OF DISCOUNTING	583	792	158	9	278	267	58	31	12	2,188	(\$1,581)	(\$9,883)
DISCOUNTED	2,215	(2,935)	1,275	163	(321)	1,293	286	(256)	58	1,778	(3,458)	(24,566)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	13,219	13,664	4,768	729	4,200	5,413	279	563	109	42,944	\$186,167	\$147,959
EFFECT OF DISCOUNTING	574	975	236	46	181	254	16	18	4	2,304	\$8,628	\$5,799
DISCOUNTED	13,793	14,639	5,004	775	4,381	5,667	295	581	113	45,248	194,795	153,758
CLAIMS INCURRED	\$16,008	\$11,704	\$6,279	\$938	\$4,060	\$6,960	\$581	\$325	\$171	\$47,026	\$191,337	\$129,192
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	1,963	2,680	637	82	535	660	26	99	17	6,699	\$30,973	\$26,218
AGENTS COMMISSIONS	1,522	1,522	576	81	516	606	24	97	14	4,958	\$23,926	\$19,686
DRIVER RECORD ABSTRACTS	171	69	207	57	135	120	6	17	1	783	\$3,697	\$3,093
BAD DEBTS	(4)	0	1	0	0	(5)	0	0	0	(8)	(\$6)	(\$279)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	194	(157)	(199)	24	31	48	16	5	7	(31)	(\$1,705)	(\$2,888)
EFFECT OF DISCOUNTING	0	0	51	0	0	(273)	0	0	0	(222)	(\$378)	(\$249)
DISCOUNTED	194	(157)	(148)	24	31	(225)	16	5	7	(253)	(2,083)	(3,137)
UNDERWRITING EXPENSES	\$3,846	\$4,114	\$1,273	\$244	\$1,217	\$1,156	\$72	\$218	\$39	\$12,179	\$56,507	\$45,581
NET UNDERWRITING GAIN (LOSS)	\$2,039	\$6,360	(\$1,628)	(\$73)	\$523	(\$1,102)	(\$200)	\$497	\$37	\$6,453	\$35,240	\$41,608
ADMINISTRATIVE EXPENSES	319	450	127	31	105	129	13	24	12	1,210	\$7,941	\$5,656
PREMIUM FINANCE FEE	(7)	(12)	(3)	0	(1)	(3)	0	0	0	(26)	(\$17)	(\$110)
INVESTMENT INCOME	72	77	21	7	24	33	1	3	1	239	\$750	\$636
OPERATING RESULTS	\$1,785	\$5,975	(\$1,737)	(\$97)	\$441	(\$1,201)	(\$212)	\$476	\$26	\$5,456	\$28,032	\$36,478
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Years	10.1%	-13.2%	21.5%	14.7%	-5.5%	18.4%	63.1%	-24.6%	23.5%	2.7%	-1.2%	-11.4%
Current Accident Year	63.0%	66.0%	84.5%	69.9%	75.5%	80.8%	65.1%	55.9%	45.7%	68.9%	68.8%	71.1%
All Accident Years Combined	73.1%	52.8%	106.0%	84.6%	70.0%	99.2%	128.2%	31.3%	69.2%	71.6%	67.6%	59.7%
Underwriting & Admin Exp.(Earned)	19.0%	20.6%	23.6%	24.8%	22.8%	18.3%	18.8%	23.3%	20.6%	20.4%	22.8%	23.7%
COMBINED OPERATING RATIO	92.1%	73.4%	129.6%	109.4%	92.8%	117.5%	147.0%	54.6%	89.8%	92.0%	90.4%	83.4%

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