



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F19 – 057**

**DATE: JULY 30, 2019**

**SUBJECT: ONTARIO RISK SHARING POOL  
– JUNE 2019 OPERATIONAL REPORT**

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

Please be advised that the June 2019 Ontario Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

### **New This Month**

#### *Annual Update of Member Sharing Ratios*

The June 2019 Operational Report reflects the annual update of member sharing ratios for Accident Years 2017, 2018, 2019 and 2020. Please refer to Bulletin [F19-052](#) for additional information.

#### *Quarterly Sharing Update*

An update of the "Member's Usage" of the Ontario Risk Sharing Pool ("RSP") was performed since the release of the May 2019 Operational Report, bringing members' sharing current to the second quarter 2019. The usage update is reflected in the June 2019 Operational Report.

### **Summary of Financial Results**

The calendar year-to-date Operating Result is -\$139.1 million and the incurred loss ratio to the end of 6 months is 141.3%, as summarized in the table at the top of the next page.

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*ON RSP Summary of Financial Results (for month and year-to-date)*

<b>Amounts in \$000s</b>	<b>June 2019</b>	June 2018	<b>Year to date Jun 2019</b>	Year to Date Jun 2018
Premium Written	35,385	35,280	185,547	177,630
Premium Earned	27,199	29,135	167,653	176,560
Incurred Losses	36,134	37,849	236,942	215,168
Underwriting & Admin Expense	14,335	13,292	69,826	60,282
<b>Operating Result</b>	<b>(23,270)</b>	<b>(22,006)</b>	<b>(139,115)</b>	<b>(98,890)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	<b>(13.0%)</b>	<b>(5.7%)</b>	<b>(1.5%)</b>	<b>(15.6%)</b>
- Current Accident Year	145.8%	135.6%	142.8%	137.4%
<i>Total</i>	<b>132.8%</b>	<b>129.9%</b>	<b>141.3%</b>	<b>121.8%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>52.7%</b>	<b>45.6%</b>	<b>41.6%</b>	<b>34.1%</b>
<b>Combined Operating Ratio</b>	<b>185.5%</b>	<b>175.5%</b>	<b>182.9%</b>	<b>155.9%</b>

*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 2019” attached to this bulletin.

The June 2019 Prior Accident Years loss ratio at -13.0% is unusual for a month where there is no valuation implementation. In fact, last month’s projection for this ratio was -6.3%, indicating a variance of 6.7 points. This variance was driven by activity during the month resulting in risks with exposure in the Prior Accident Years being removed due to ineligibility, with the result that the earned premium associated with Prior Accident Years was -\$1.6 million for the month. As our booking process applies the Appointed Actuary’s approved accident year loss ratio to accident year earned premium, the negative earned premium resulted in a reduction of booked claims liabilities, reducing them by \$1.9 million relative to what would have been booked had the Prior Accident Years earned premium not changed during the month. The reduction in Prior Accident Years earned premium also had a minor impact on the current accident year claims ratio (as it is measured against the calendar month’s earned premium, which was reduced as discussed earlier).

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$272.3 million and the estimated combined operating ratio to December 2019 is 175.6%, as summarized in the table at the top of the next page. This updated projection to the end of the year has deteriorated by \$1.2 million from the projection provided last month (see the second and third columns in the table). This deterioration is driven by the \$1.3 million increase in the projected written premium for the year.

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

<b>ON RSP 2019 Yr-end Projection</b> <b>Amounts in \$000s</b>	<b>Current</b> <b>(Jun 2019)</b>	<b>Prior Mth</b> <b>(May 2019)</b>	<b>Change</b>	<b>Final 2019</b> <b>Outlook*</b>
Premium Written	390,559	389,258	1,301	424,778
Premium Earned	360,256	357,588	2,668	392,210
Incurred Losses	493,294	489,333	3,961	514,677
Underwriting & Admin Expense	139,310	139,437	(128)	144,373
<b>Net Result from Operations</b>	<b>(272,348)</b>	<b>(271,182)</b>	<b>(1,165)</b>	<b>(266,840)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - <i>Prior Accident Years</i>	<b>(3.9%)</b>	<b>(3.4%)</b>	<b>(0.5%)</b>	<b>(4.6%)</b>
- <i>Current Accident Year</i>	140.8%	140.3%	0.5%	135.8%
<i>Total</i>	<b>136.9%</b>	<b>136.9%</b>	<b>0.0%</b>	<b>131.2%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>38.7%</b>	<b>39.0%</b>	<b>(0.3%)</b>	<b>36.8%</b>
<b>Combined Operating Ratio</b>	<b>175.6%</b>	<b>175.9%</b>	<b>(0.3%)</b>	<b>168.0%</b>

*rounding differences may occur*

\*as posted to FA's website Oct. 18, 2018

*Current Month Results*

The Ontario Risk Sharing Pool produced a -\$23.3 million Operating Result in the month of June 2019, a \$1.3 million deterioration compared with the same month last year. This deterioration is composed of a \$2.7 million unfavourable impact associated with the overall increase in the combined ratio (from 175.5% to 185.5% applied to \$27.2 million in earned premium), offset by an approximately \$1.4 million favourable impact associated with the \$1.9 million decrease in earned premium (at a combined ratio of 175.5%).

This month's results moved the year-to-date combined operating ratio from 182.5% at the end of 5 months to 182.9% at the end of 6 months. The 0.4 percentage point increase is composed of a 0.6 percentage point increase in the Current Accident Year loss ratio and a 2.1 percentage point increase in the expense ratio, offset by a 2.3 percentage point decrease in the Prior Accident Year 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 compared to the estimates projected last month.

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*ON RSP Summary of Actual vs Projected variances*

June 2019	Actual	Projection	Difference	Difference %
Written Premium	35,385	30,583	4,802	15.7%
Earned Premium	27,199	28,910	(1,711)	(5.9%)
Reported Losses				
Paid Losses	27,503	30,251	(2,748)	(9.1%)
Paid Expenses	1,433	2,246	(813)	(36.2%)
Change in Outstanding Losses	(8,669)	2,232	(10,901)	(488.4%)
<b>Total Reported Losses</b>	<b>20,267</b>	<b>34,729</b>	<b>(14,462)</b>	<b>(41.6%)</b>
Change in IBNR Provision*	15,867	3,206	12,661	
Change in Premium Deficiency (DPAC)*	3,827	1,051	2,776	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP June 2019 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 June 2019, reported losses were \$14.5 million lower than projected. The Current Accident Year had a \$3.3 million favourable variance in reported losses, and the Prior Accident Years had an \$11.2 million favourable variance. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$3.4 million favourable, followed by Accident Year 2018 at a \$3.2 million favourable, Accident Year 2014 at a \$1.8 million favourable, Accident Year 2016 at a \$1.3 million favourable and Accident Year 2012 at a \$1.0 million favourable. 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 the 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*

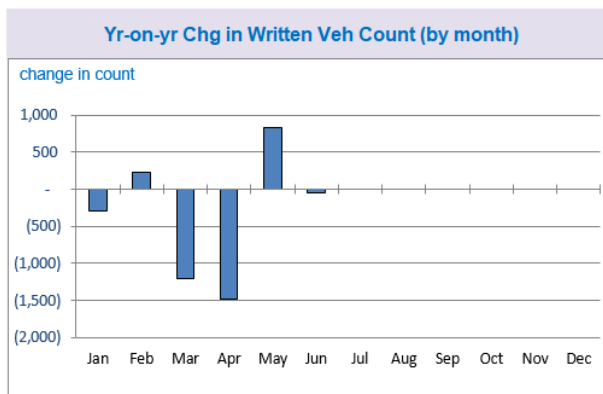
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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. IBNR is discussed in more detail in the [Ontario RSP June 2019 Operational Report – Actuarial Highlights](#).

**Effect of Quarterly Valuation**

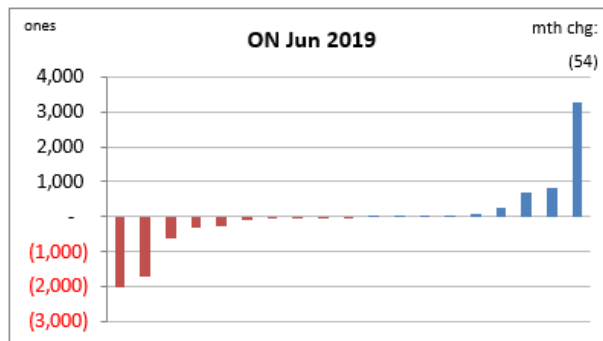
The June 2019 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2019). The actuarial valuation will be updated next as at June 30, 2019 and we anticipate that the results will be reflected in the August 2019 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 2019 vehicle count up 5.0% from 2018, being 2.6% of the 2018 industry private passenger vehicle count (excluding farmers) and the 2017 industry farmers private passenger vehicle count (as we don't have an industry count for farmers yet for 2018, we continue to use the 2017 count as a proxy). There is the potential for the transferred vehicle count to change dramatically and quickly if member companies choose to take full advantage of their transfer limits.



The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with June reporting a decrease of 54 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 2,776 vehicles, indicating a variance of 2,722 from the actual transfers. This variance was mainly due to two member company groups transferring a greater number of vehicles to the RSP in June than projected.



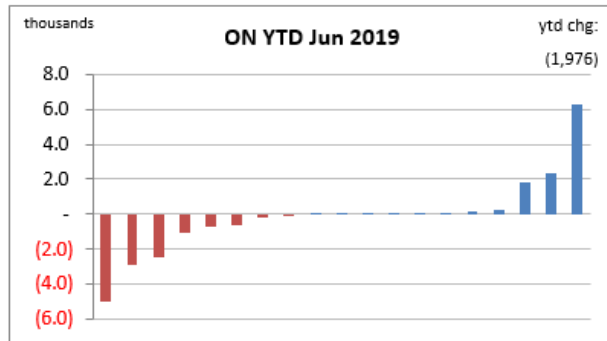
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Ten member company groups transferred fewer vehicles to the pool this month compared to a year ago, while nine transferred more<sup>1</sup>. Of the 10 member company groups transferring fewer vehicles, 2 member company groups accounted for 72% of

the total transfer decrease for the “decliner” members. Of the 9 member company groups transferring more vehicles, 1 member company group accounted for 64% of the total transfer

<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2018 or 2019. Groups that have not transferred vehicles in these two periods are ignored.

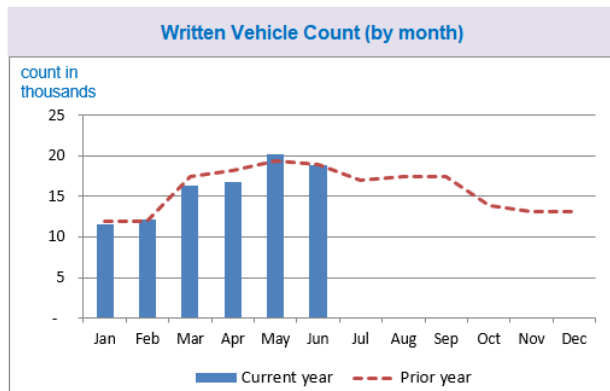
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increases for the “grower” members.

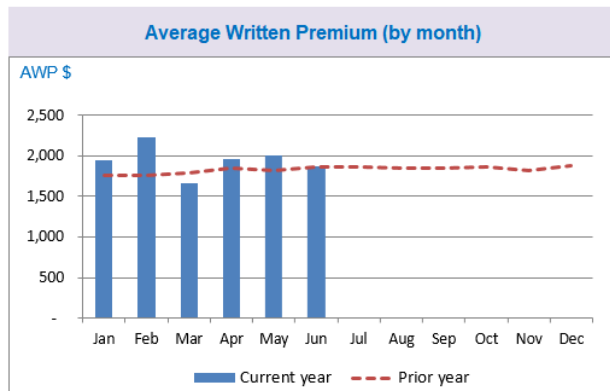


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

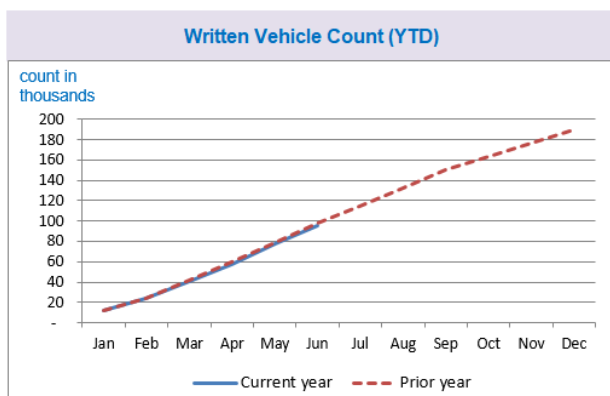
June’s year-on-year change in vehicle count transfers to the pool represents a 0.3% decrease from June 2018, and counts were down 2.0% year-to-date. Average written premium was up 0.6% in June 2019 compared with the same month in 2018, and was up 6.6% year-to-date (see charts immediately below).



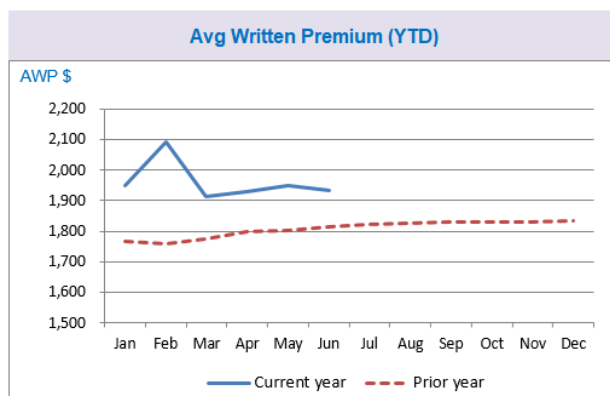
	Jun-19	Jun-18	Amt Chg	% Chg
W. Veh curr mth	18,923	18,977	(54)	-0.3%



	Jun-19	Jun-18	Amt Chg	% Chg
AWP curr mth	1,870	1,859	11	0.6%

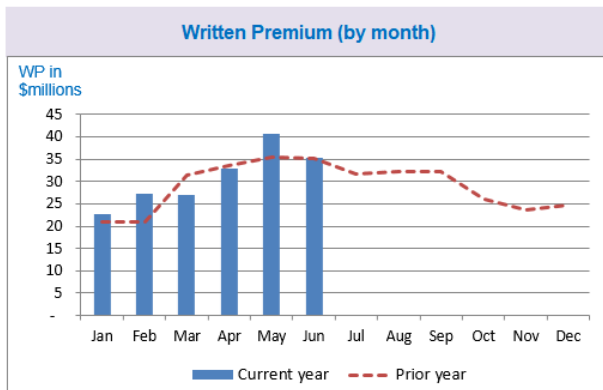


	Jun-19	Jun-18	Amt Chg	% Chg
W. Vehicles YTD	95,942	97,918	(1,976)	-2.0%

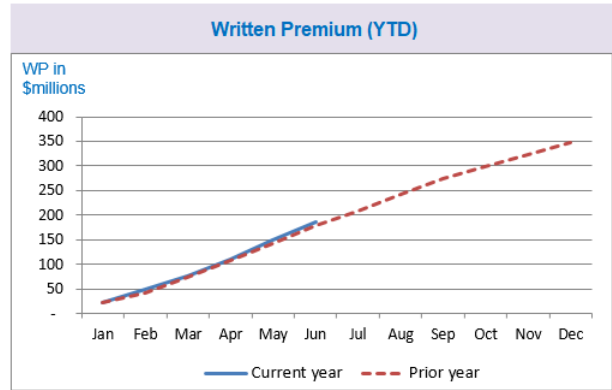


	Jun-19	Jun-18	Amt Chg	% Chg
Avg W. Prem YTD	1,934	1,814	120	6.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 0.3% for the month compared with the 13.3% decrease we projected last month, and was up 4.5% year-to-date (see charts immediately below).



	Jun-19	Jun-18	Amt Chg	% Chg
WP (\$000s) curr mth	35,385	35,280	106	0.3%



	Jun-19	Jun-18	Amt Chg	% Chg
WP (\$000s) YTD	185,546	177,630	7,917	4.5%

Should you require any further information, please call Shawn Doherty, Senior Vice President Actuarial & CFO at (416) 644-4968.

Saskia Matheson  
President & CEO

**Related links:**

[Ontario RSP June 2019 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2019**

Risk Sharing Pool - Ontario

Operating Results for the 6 Months Ended June 30, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Net Premiums Written	\$22,666	\$27,186	\$26,913	\$32,790	\$40,607	\$35,385	\$185,547	\$390,559	\$347,756
Decrease (Increase) in Unearned Premiums	6,641	2,079	(2,630)	(\$4,851)	(\$10,947)	(\$8,186)	(17,894)	(30,303)	4,866
<b>Net Premiums Earned</b>	<b>\$29,307</b>	<b>\$29,265</b>	<b>\$24,283</b>	<b>\$27,939</b>	<b>\$29,660</b>	<b>\$27,199</b>	<b>\$167,653</b>	<b>\$360,256</b>	<b>\$352,622</b>
<b>Claims Incurred:</b>									
Prior Accident Years:									
Undiscounted	\$346	\$3,446	(\$23,095)	(\$441)	\$4,769	(\$1,648)	(\$16,623)	(\$16,623)	(\$27,680)
Effect of Discounting	(1,015)	(1,367)	9,238	(1,477)	10,662	(1,883)	14,158	2,721	(44,774)
Discounted	(\$669)	\$2,079	(\$13,857)	(\$1,918)	\$15,431	(\$3,531)	(\$2,465)	(\$13,902)	(\$72,454)
Current Accident Year:									
Undiscounted	\$36,918	\$33,768	\$36,284	\$35,970	\$38,699	\$36,401	\$218,040	\$463,799	\$449,107
Effect of Discounting	3,864	2,750	3,491	2,878	5,120	3,264	21,367	43,397	32,229
Discounted	\$40,782	\$36,518	\$39,775	\$38,848	\$43,819	\$39,665	\$239,407	\$507,196	\$481,336
<b>Claims Incurred</b>	<b>\$40,113</b>	<b>\$38,597</b>	<b>\$25,918</b>	<b>\$36,930</b>	<b>\$59,250</b>	<b>\$36,134</b>	<b>\$236,942</b>	<b>\$493,294</b>	<b>\$408,882</b>
<b>Underwriting Expenses:</b>									
Expense Allowance	\$6,664	\$7,928	\$8,089	\$9,715	\$12,040	\$10,408	\$54,844	\$114,299	\$104,488
Change in UPDR/DPAC:									
Undiscounted	(1,786)	(485)	896	1,598	4,151	2,678	7,052	14,090	6,686
Effect of Discounting	(711)	(215)	1,989	598	4,474	1,149	7,284	9,345	(3,188)
Discounted	(2,497)	(700)	2,885	2,196	8,625	3,827	14,336	23,435	3,498
<b>Underwriting Expenses</b>	<b>\$4,167</b>	<b>\$7,228</b>	<b>\$10,974</b>	<b>\$11,911</b>	<b>\$20,665</b>	<b>\$14,235</b>	<b>\$69,180</b>	<b>\$137,734</b>	<b>\$107,986</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$14,973)</b>	<b>(\$16,560)</b>	<b>(\$12,609)</b>	<b>(\$20,902)</b>	<b>(\$50,255)</b>	<b>(\$23,170)</b>	<b>(\$138,469)</b>	<b>(\$270,772)</b>	<b>(\$164,246)</b>
<b>Administrative Expenses</b>	<b>\$104</b>	<b>\$131</b>	<b>\$90</b>	<b>\$109</b>	<b>\$112</b>	<b>\$100</b>	<b>\$646</b>	<b>\$1,576</b>	<b>\$1,354</b>
<b>Operating Result</b>	<b>(\$15,077)</b>	<b>(\$16,691)</b>	<b>(\$12,699)</b>	<b>(\$21,011)</b>	<b>(\$50,367)</b>	<b>(\$23,270)</b>	<b>(\$139,115)</b>	<b>(\$272,348)</b>	<b>(\$165,600)</b>
<b>Ratios:</b>									
<b>Claims &amp; Expenses Incurred (Earned)</b>									
Prior Accident Years	-2.3%	7.1%	-57.1%	-6.9%	52.0%	-13.0%	-1.5%	-3.9%	-20.5%
Current Accident Year	139.2%	124.8%	163.8%	139.0%	147.7%	145.8%	142.8%	140.8%	136.5%
All Accident Years Combined	136.9%	131.9%	106.7%	132.1%	199.7%	132.8%	141.3%	136.9%	116.0%
Underwriting & Administrative Expenses (Earned)	14.6%	25.1%	45.6%	43.0%	70.1%	52.7%	41.6%	38.7%	31.0%
<b>Combined Operating Ratio</b>	<b>151.5%</b>	<b>157.0%</b>	<b>152.3%</b>	<b>175.1%</b>	<b>269.8%</b>	<b>185.5%</b>	<b>182.9%</b>	<b>175.6%</b>	<b>147.0%</b>

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facility Association premium dollars invested directly by members.

Rounding difference may apply