



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
ONTARIO RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F2020 – 006

DATE: JANUARY 30, 2020

SUBJECT: ONTARIO RISK SHARING POOL
– DECEMBER 2019 OPERATIONAL REPORT

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

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

Key Points

- (a) the **2019 year-end net operating deficit was \$177 million** with the addition of \$21 million in deficit generated in December, resulting in a year-to-date COR of 149.1% on earned premium of \$360 million;
- (b) in **comparison with the final Outlook for 2019**, the **Ontario RSP** finished the year with a **net operating deficit \$90.0 million (33.7%) lower (i.e. better) than expected** and the combined ratio 18.9 points lower than expected, primarily as a result of prior accident year effects;
- (c) the **projected 2020 year-end net operating deficit is now \$316 million**, with a COR at 169.0% on earned premium of \$458 million (our Outlook for 2020 was \$261 million of net operating deficit with a COR of 165.2% on earned premium of \$401 million); and
- (d) as per the usual quarterly process for the Ontario RSP, member share ratios have been updated to reflect member usage of the RSP.

New This Month

Quarterly Sharing Update

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

Summary of Financial Results

The calendar year-to-date Operating Result is -\$176.8 million and the incurred loss ratio to the end of 12 months is 107.9%, as summarized in the table below.

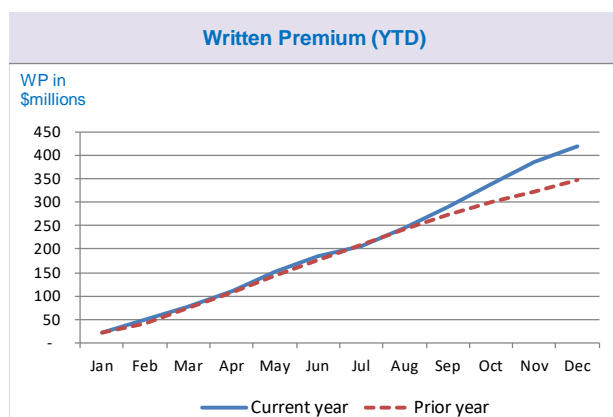
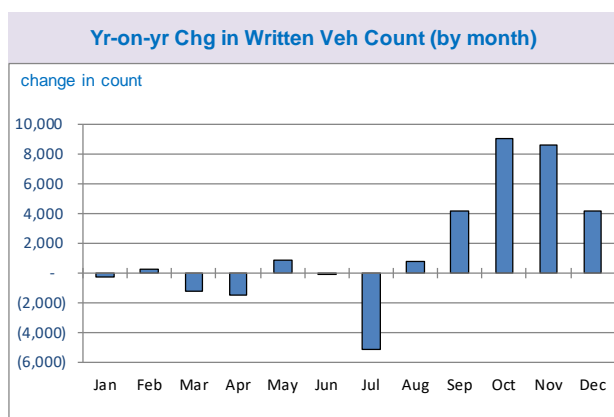
ON RSP Summary of Financial Results (for month and year-to-date)

Amounts in \$000s	December 2019	December 2018	Year to date Dec 2019	Year to Date Dec 2018
Premium Written	35,592	24,583	419,790	347,756
Premium Earned	35,669	29,200	359,754	352,622
Incurred Losses	45,464	38,144	388,318	408,882
Underwriting & Admin Expense	11,624	5,911	148,235	109,340
Operating Result	(21,419)	(14,855)	(176,799)	(165,600)
Ratios:				
Loss ratio - Prior Accident Years	(4.5%)	(4.6%)	(26.4%)	(20.5%)
- Current Accident Year	131.9%	135.2%	134.3%	136.5%
<i>Total</i>	127.4%	130.6%	107.9%	116.0%
Underwriting & Admin Expense	32.6%	20.2%	41.2%	31.0%
Combined Operating Ratio	160.0%	150.8%	149.1%	147.0%

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.

2019 finished with written premium up \$72 million (21%) but earned premium was up only \$7 million (2%), as growth in transfer counts really only started in September (see by month changes in written annualized vehicle counts in the left chart below, and the year-to-date written premium by month in the right chart below). As a result of the increase in written premium, unearned premium also increased.



Because the Ontario RSP operates at a deficit, increases in unearned premium result in increases in premium deficiency, which will increase the underwriting & administrative expense ratio relative to earned premium (as evident in the financial results table on the previous page).

The increase in the premium deficiency was the primary cause of the \$11 million (7%) deterioration of the net operating deficit for 2019 from 2018. The prior accident years were more favourable during 2019 than they were in 2018 (by \$21 million or 5.9 points of earned premium), and current accident year, while \$2 million higher in amount than 2018, was 2.2 points of earned premium lower than 2018.

Compared with the Ontario RSP projections found in the Risk Sharing Pools' Final Outlook for 2019 ([F18-077](#) posted October 18, 2018), 2019 finished with written premium \$5 million (1%) lower than expected, and earned premium \$33 million (8%) lower than expected. The 2019 net operating deficit of \$177 million was \$90 million (34%) lower than expected and the combined ratio was 18.9 points lower than expected as shown in table below. (We don't explicitly show in the table the differences between the current/final result for 2019 and the Outlook, but they can be derived by comparing the first column and the last column). Both the prior accident years and current accident year performed better-than-expected (in both amount and points of earned premium), but the late increase in written premium also generated higher than expected unearned premium (by \$12 million), resulting in an adverse relative impact of the premium deficiency on the underwriting & administrative expense.

ON RSP 2019 Yr-end Projection Amounts in \$000s	Current (Dec 2019)	Prior Mth (Nov 2019)	Change	Final 2019 Outlook*
Premium Written	419,790	410,112	9,678	424,778
Premium Earned	359,754	359,613	141	392,210
Incurred Losses	388,318	388,563	(245)	514,677
Underwriting & Admin Expense	148,240	141,493	6,747	144,373
Net Result from Operations	(176,804)	(170,443)	(6,361)	(266,840)
Ratios:				
Loss ratio - Prior Accident Years	(26.4%)	(26.5%)	0.1%	(4.6%)
- Current Accident Year	134.3%	134.5%	(0.2%)	135.8%
<i>Total</i>	107.9%	108.0%	(0.1%)	131.2%
Underwriting & Admin Expense	41.2%	39.3%	1.9%	36.8%
Combined Operating Ratio	149.1%	147.3%	1.8%	168.0%

rounding differences may occur

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

Updated Projection to Year-end 2020

An Outlook had been prepared to provide Members with an estimate of Ontario RSP operating results for calendar year 2020 based on the actuarial valuation at June 30, 2019, and reflecting actual experience to date as detailed in the August 2019 Operational Report. This Outlook was posted on November 5, 2019 (please refer to Bulletin [F19-082](#)), and projected a Net Result from Operations for 2020 of -\$261.4 million, and a combined operating ratio of 165.2%. Projections

for 2020 have been updated each month since, as per our usual practice (although until this month, the bulletins have focused on projections to the end of 2019 compared with the previous Outlook).

The projected calendar year Operating Result to December 2020 is now -\$315.9 million (a \$54.5 million deterioration relative to the Outlook) and the estimated combined operating ratio to December 2020 is 169.0% (a 3.8 point deterioration relative to the Outlook). The deterioration is composed of an estimated \$36.9 million unfavourable impact associated with the \$56.6 million increase in projected earned premium (at a combined ratio of 165.2%) and a \$17.4 million unfavourable impact stemming from the overall increase in the combined ratio (from 165.2% to 169.0% applied to \$457.6 million in projected earned premium). The remaining \$0.2 million difference is due to other assumption updates.

Current Month Results

The Ontario Risk Sharing Pool produced a -\$21.0 million Operating Result in the month of December 2019, a \$6.6 million deterioration compared with the same month last year. This deterioration is composed of an approximately \$3.3 million unfavourable impact associated with the \$6.5 million increase in earned premium (at a combined ratio of 150.8%), with the remaining \$3.3 million unfavourable impact stemming from the overall increase in the combined ratio (from 150.8% to 160.0% applied to \$35.7 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 148.0% at the end of 11 months to 149.1% at the end of 12 months. The 1.1 percentage point increase is composed of a 2.4 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.3 percentage point decrease in the Current Accident Year loss ratio and a 1.0 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.

Bulletin F2020–006
Ontario Risk Sharing Pool – December 2019 Operational Report

ON RSP Summary of Actual vs Projected variances

December 2019	Actual	Projection	Difference	Difference %
Written Premium	35,592	25,914	9,678	37.3%
Earned Premium	35,669	35,527	142	0.4%
Reported Losses				
Paid Losses	35,041	30,661	4,380	14.3%
Paid Expenses	1,478	3,285	(1,807)	(55.0%)
Change in Outstanding Losses	839	4,525	(3,686)	(81.5%)
Total Reported Losses	37,358	38,471	(1,113)	(2.9%)
Change in IBNR Provision*	8,106	7,238	868	
Change in Premium Deficiency (DPAC)*	1,041	(2,574)	3,615	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP December 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 December 2019, reported losses were \$1.1 million lower than projected. The Current Accident Year had a \$0.2 million favourable variance in reported losses, while the Prior Accident Years had a \$0.9 million favourable variance. Of all the Prior Accident Years, 2018 had the largest variance in reported losses at \$5.2 million favourable, followed by 2016 at \$4.4 million unfavourable, 2017 at \$1.4 million favourable, 2012 at \$1.4 million unfavourable, and 2015 at \$1.2 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

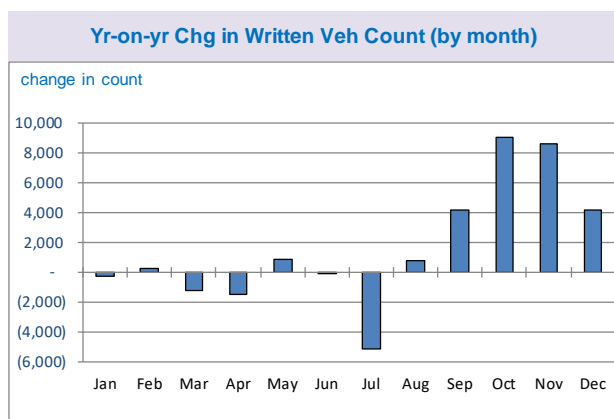
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

Effect of Quarterly Valuation

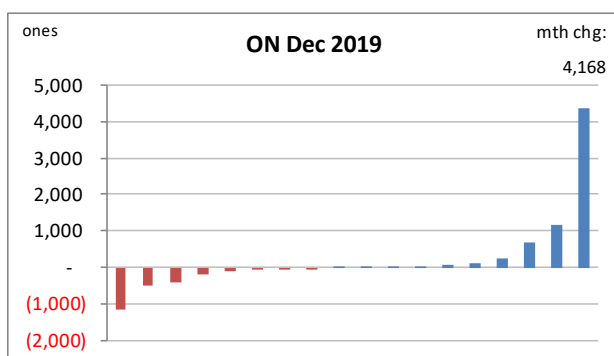
The December 2019 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2019). The actuarial valuation will be updated next as at December 31, 2019 and we anticipate that the results will be reflected in the March 2020 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 2020 vehicle count up 4.2% from 2019, being 2.8% of the 2018 industry private passenger vehicle count (excluding farmers) and industry farmers private passenger vehicle count (as we don't have an industry count yet for 2019, we continue to use the 2018 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 December reporting an increase of 4,168 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 71 vehicles, indicating a variance of 4,239 vehicles from the actual transfers. This variance was mainly due to three member company groups transferring a greater number of vehicles to the RSP in December than projected.

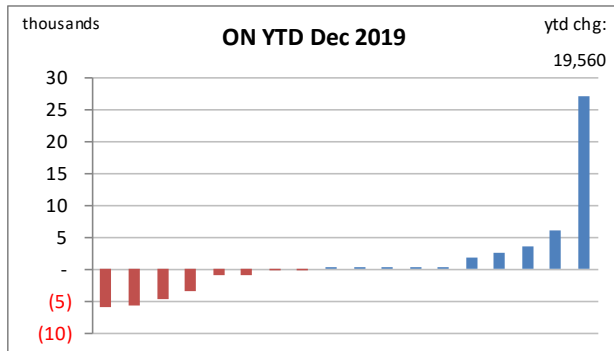


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while ten transferred more¹. Of the 8 member company groups transferring fewer vehicles, 1 member company

group accounted for 48% of the total transfer decrease for the “decliner” members. Of the 10

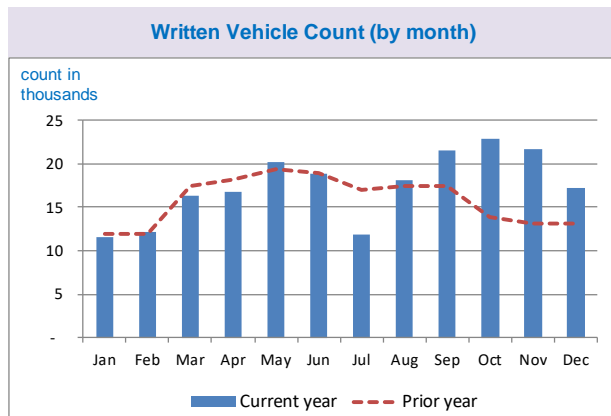
¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2018 or 2019. Groups that have not transferred vehicles in these two periods are ignored.

member company groups transferring more vehicles, 1 member company group accounted for 66% of the total transfer increases for the “grower” members.

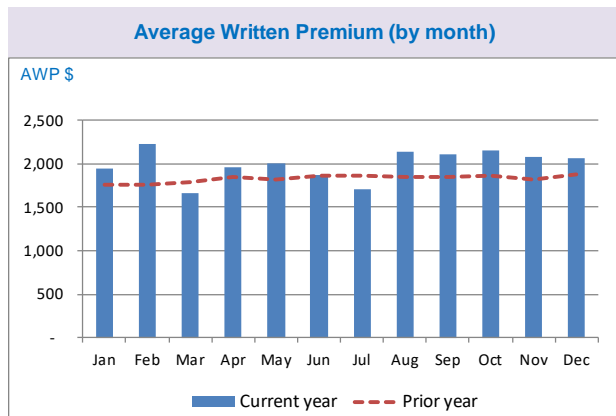


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

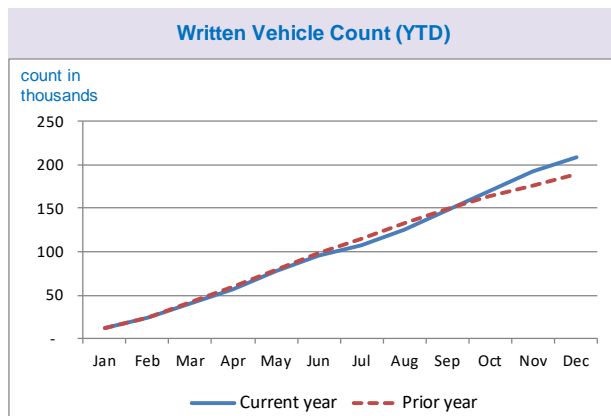
December’s year-on-year change in vehicle count transfers to the pool represents a 31.9% increase from December 2018, and vehicle counts were up 10.3% year-to-date. Average written premium was up 9.8% in December 2019 compared with the same month in 2018, and was up 9.4% year-to-date (see charts immediately below).



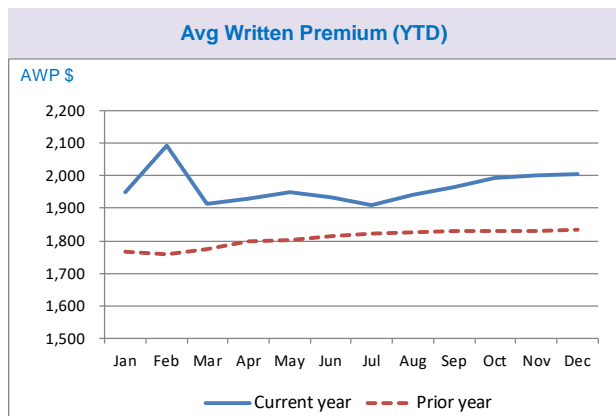
	Dec-19	Dec-18	Amt Chg	% Chg
W. Veh curr mth	17,249	13,081	4,168	31.9%



	Dec-19	Dec-18	Amt Chg	% Chg
AWP curr mth	2,063	1,879	184	9.8%

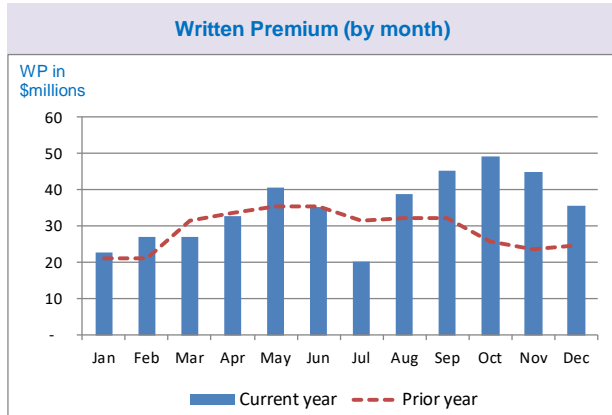


	Dec-19	Dec-18	Amt Chg	% Chg
W. Vehicles YTD	209,278	189,718	19,560	10.3%

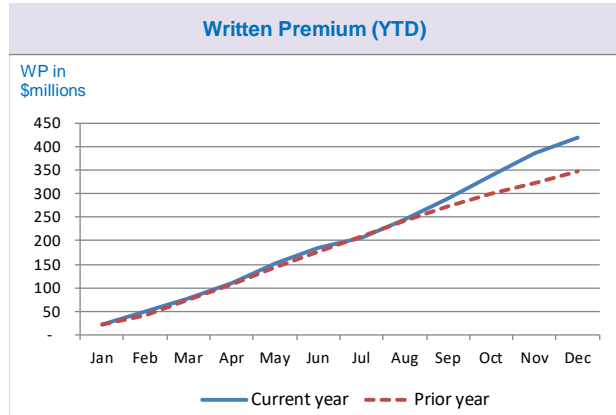


	Dec-19	Dec-18	Amt Chg	% Chg
Avg W. Prem YTD	2,006	1,833	173	9.4%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 44.8% for the month compared with the 5.4% increase we projected last month, and was up 20.7% year-to-date (see charts below).



	Dec-19	Dec-18	Amt Chg	% Chg
WP (\$000s) curr mth	35,592	24,583	11,009	44.8%



	Dec-19	Dec-18	Amt Chg	% Chg
WP (\$000s) YTD	419,789	347,754	72,035	20.7%

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 December 2019 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - Ontario

Operating Results for the 12 Months Ended December 31, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2019 YTD	CY2020 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Net Premiums Written	\$22,666	\$27,186	\$26,913	\$32,790	\$40,607	\$35,385	\$20,133	\$38,779	\$45,425	\$49,304	\$45,010	\$35,592	\$419,790	\$494,797	\$347,756
Decrease (Increase) in Unearned Premiums	6,641	2,079	(2,630)	(\$4,851)	(\$10,947)	(\$8,186)	\$9,860	(\$8,760)	(\$15,034)	(\$16,596)	(\$11,689)	\$77	(60,036)	(37,246)	4,866
Net Premiums Earned	\$29,307	\$29,265	\$24,283	\$27,939	\$29,660	\$27,199	\$29,993	\$30,019	\$30,391	\$32,708	\$33,321	\$35,669	\$359,754	\$457,551	\$352,622
Claims Incurred:															
Prior Accident Years:															
Undiscounted	\$346	\$3,446	(\$23,095)	(\$441)	\$4,769	(\$1,648)	(\$189)	(\$56,479)	(\$33)	(\$5,531)	(\$59)	(\$13)	(\$78,927)	\$0	(\$27,680)
Effect of Discounting	(1,015)	(1,367)	9,238	(1,477)	10,662	(1,883)	(1,882)	(21,796)	(1,158)	(2,257)	(1,486)	(1,579)	(16,000)	(24,238)	(44,774)
Discounted	(\$669)	\$2,079	(\$13,857)	(\$1,918)	\$15,431	(\$3,531)	(\$2,071)	(\$78,275)	(\$1,191)	(\$7,788)	(\$1,545)	(\$1,592)	(\$94,927)	(\$24,238)	(\$72,454)
Current Accident Year:															
Undiscounted	\$36,918	\$33,768	\$36,284	\$35,970	\$38,699	\$36,401	\$38,463	\$27,765	\$37,414	\$38,289	\$40,812	\$43,634	\$444,417	\$572,854	\$449,107
Effect of Discounting	3,864	2,750	3,491	2,878	5,120	3,264	3,473	1,766	3,294	2,293	3,213	3,422	38,828	51,726	32,229
Discounted	\$40,782	\$36,518	\$39,775	\$38,848	\$43,819	\$39,665	\$41,936	\$29,531	\$40,708	\$40,582	\$44,025	\$47,056	\$483,245	\$624,580	\$481,336
Claims Incurred	\$40,113	\$38,597	\$25,918	\$36,930	\$59,250	\$36,134	\$39,865	(\$48,744)	\$39,517	\$32,794	\$42,480	\$45,464	\$388,318	\$600,342	\$408,882
Underwriting Expenses:															
Expense Allowance	\$6,664	\$7,928	\$8,089	\$9,715	\$12,040	\$10,408	\$5,564	\$11,335	\$13,276	\$14,491	\$13,159	\$10,421	\$123,090	\$146,461	\$104,488
Change in UPDR/DPAC:															
Undiscounted	(1,786)	(485)	896	1,598	4,151	2,678	(2,428)	(5,782)	4,172	4,265	3,754	950	11,983	18,820	6,686
Effect of Discounting	(711)	(215)	1,989	598	4,474	1,149	(1,300)	355	2,039	1,472	1,597	91	11,538	5,798	(3,188)
Discounted	(2,497)	(700)	2,885	2,196	8,625	3,827	(3,728)	(5,427)	6,211	5,737	5,351	1,041	23,521	24,618	3,498
Underwriting Expenses	\$4,167	\$7,228	\$10,974	\$11,911	\$20,665	\$14,235	\$1,836	\$5,908	\$19,487	\$20,228	\$18,510	\$11,462	\$146,611	\$171,079	\$107,986
Net Underwriting Gain (Loss)	(\$14,973)	(\$16,560)	(\$12,609)	(\$20,902)	(\$50,255)	(\$23,170)	(\$11,708)	\$72,855	(\$28,613)	(\$20,314)	(\$27,669)	(\$21,257)	(\$175,175)	(\$313,870)	(\$164,246)
Administrative Expenses	\$104	\$131	\$90	\$109	\$112	\$100	\$139	\$110	\$107	\$131	\$329	\$162	\$1,624	\$1,980	\$1,354
Operating Result	(\$15,077)	(\$16,691)	(\$12,699)	(\$21,011)	(\$50,367)	(\$23,270)	(\$11,847)	\$72,745	(\$28,720)	(\$20,445)	(\$27,998)	(\$21,419)	(\$176,799)	(\$315,850)	(\$165,600)
Ratios:															
Claims & Expenses Incurred (Earned)															
Prior Accident Years	-2.3%	7.1%	-57.1%	-6.9%	52.0%	-13.0%	-6.9%	-260.8%	-3.9%	-23.8%	-4.6%	-4.5%	-26.4%	-5.3%	-20.5%
Current Accident Year	139.2%	124.8%	163.8%	139.0%	147.7%	145.8%	139.8%	98.4%	133.9%	124.1%	132.1%	131.9%	134.3%	136.5%	136.5%
All Accident Years Combined	136.9%	131.9%	106.7%	132.1%	199.7%	132.8%	132.9%	-162.4%	130.0%	100.3%	127.5%	127.4%	107.9%	131.2%	116.0%
Underwriting & Administrative Expenses (Earned)	14.6%	25.1%	45.6%	43.0%	70.1%	52.7%	6.6%	20.0%	64.5%	62.2%	56.5%	32.6%	41.2%	37.8%	31.0%
Combined Operating Ratio	151.5%	157.0%	152.3%	175.1%	269.8%	185.5%	139.5%	-142.4%	194.5%	162.5%	184.0%	160.0%	149.1%	169.0%	147.0%

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