



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2020 – 012

DATE: FEBRUARY 27, 2020

**SUBJECT: ONTARIO RISK SHARING POOL
– JANUARY 2020 OPERATIONAL REPORT**

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

Please be advised that the January 2020 Ontario Risk Sharing Pool Operational Report is available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Key Points

- (a) the *January 2020 net operating deficit was \$22 million*, with a COR of 159.9% on earned premium of \$37 million; and
- (b) the *projected 2020 year-end net operating deficit is now \$259 million*, with a COR at 160.8% on earned premium of \$427 million (our Outlook for 2020 was \$297 million of net operating deficit with a COR of 168.9% on earned premium of \$431 million)

Summary of Financial Results

The calendar year-to-date Operating Result is -\$21.9 million and the incurred loss ratio to the end of 1 month is 133.4%, as summarized in the table at the top of the next page.

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Ontario Risk Sharing Pool – January 2020 Operational Report

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

Amounts in \$000s	January 2020	January 2019	Year to date Jan 2020	Year to Date Jan 2019
Premium Written	34,572	22,666	34,572	22,666
Premium Earned	36,501	29,307	36,501	29,307
Incurred Losses	48,712	40,113	48,712	40,113
Underwriting & Admin Expense	9,664	4,271	9,664	4,271
Operating Result	(21,875)	(15,077)	(21,875)	(15,077)
Ratios:				
Loss ratio				
- Prior Accident Years	(7.6%)	(2.3%)	(7.6%)	(2.3%)
- Current Accident Year	141.0%	139.2%	141.0%	139.2%
<i>Total</i>	133.4%	136.9%	133.4%	136.9%
Underwriting & Admin Expense	26.5%	14.6%	26.5%	14.6%
Combined Operating Ratio	159.9%	151.5%	159.9%	151.5%

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.

Updated Projection to Year-end 2020

The projected calendar year Operating Result to December 2020 is -\$259.4 million and the estimated combined operating ratio to December 2020 is 160.8%, as summarized in the table at the top of next page. This updated projection to the end of the year has improved by \$56.4 million from the projection provided last month (see the second and third columns in the table). The improvement is driven by the \$78.6 million decrease in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections. The updated written premium projection reflects information provided by certain members.

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

ON RSP 2020 Yr-end Projection Amounts in \$000s	Current (Jan 2020)	Prior Mth (Dec 2019)	Change	Final 2020 Outlook*
Premium Written	416,164	494,797	(78,633)	468,292
Premium Earned	426,558	457,551	(30,993)	431,430
Incurred Losses	556,594	600,342	(43,748)	564,842
Underwriting & Admin Expense	129,393	173,059	(43,666)	164,023
Net Result from Operations	(259,429)	(315,850)	56,421	(297,435)
Ratios:				
Loss ratio - Prior Accident Years	(5.6%)	(5.3%)	(0.3%)	(5.6%)
- Current Accident Year	136.1%	136.5%	(0.4%)	136.5%
<i>Total</i>	130.5%	131.2%	(0.7%)	130.9%
Underwriting & Admin Expense	30.3%	37.8%	(7.5%)	38.0%
Combined Operating Ratio	160.8%	169.0%	(8.2%)	168.9%

rounding differences may occur

*as posted to FA's website Nov. 5, 2019

Current Month Results

The Ontario Risk Sharing Pool produced a -\$21.9 million Operating Result in the month of January 2020, a \$6.8 million deterioration compared with the same month last year. This deterioration is composed of an approximately \$3.7 million unfavourable impact associated with the \$7.2 million increase in earned premium (at a combined ratio of 151.5%), with the remaining \$3.1 million unfavourable impact stemming from the overall increase in the combined ratio (from 151.5% to 159.9% applied to \$36.5 million in earned premium).

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

January 2020	Actual	Projection	Difference	Difference %
Written Premium	34,572	29,833	4,739	15.9%
Earned Premium	36,501	36,532	(31)	(0.1%)
Reported Losses				
Paid Losses	30,426	29,257	1,169	4.0%
Paid Expenses	1,357	2,168	(811)	(37.4%)
Change in Outstanding Losses	4,980	5,748	(768)	(13.4%)
Total Reported Losses	36,763	37,173	(410)	(1.1%)
Change in IBNR Provision*	11,949	12,278	(329)	
Change in Premium Deficiency (DPAC)*	(694)	(2,534)	1,840	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP January 2020 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 January 2020, reported losses were \$0.4 million lower than projected. The Current Accident Year had a \$2.8 million favourable variance in reported losses, while the Prior Accident Years had a \$2.4 million unfavourable variance. Of all the Prior Accident Years, 2019 had the largest variance in reported losses at \$3.6 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for some specific individual 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 January 2020 Operational Report – Actuarial Highlights](#).

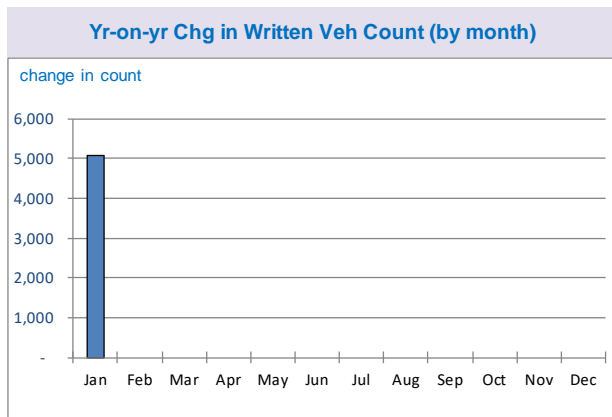
Effect of Quarterly Valuation

The January 2020 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

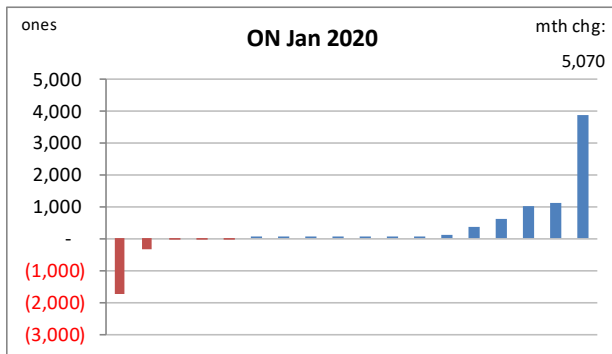
will be updated next as at December 31, 2019 and we anticipate that the results will be reflected in the March 2020 Operational Report.

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 down 7.2% from 2019, being 2.5% 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 January reporting an increase of 5,070 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 3,187 vehicles, indicating a variance of 1,883 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 January than projected.



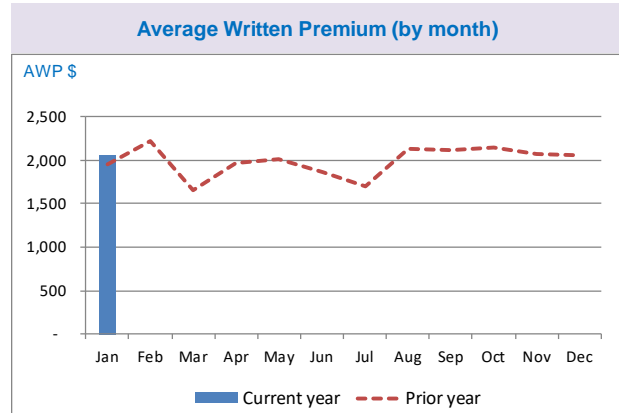
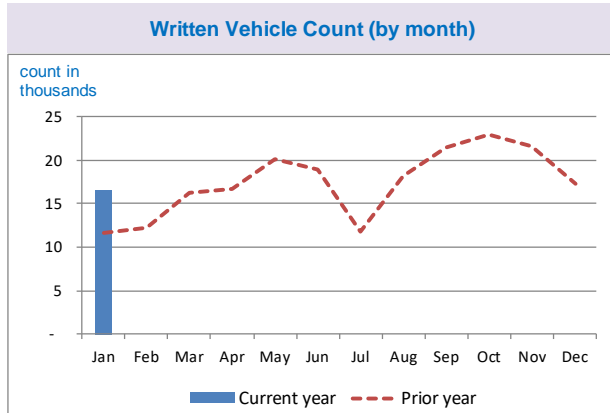
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the pool this month compared to a year ago, while thirteen transferred more¹. Of the 5 member company groups transferring fewer vehicles, 1 member company group accounted for 83% of the total transfer decrease for the “decliner” members.

Of the 13 member company groups transferring more vehicles, 1 member company group accounted for 54% of the total transfer increases for the “grower” members.

¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2019 or 2020. Groups that have not transferred vehicles in these two periods are ignored.

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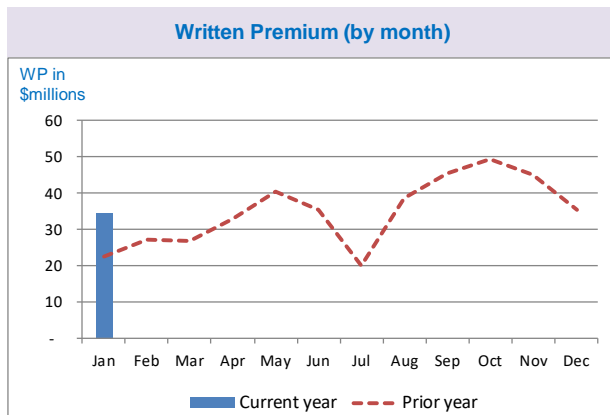
January’s year-on-year change in vehicle count transfers to the pool represents a 43.6% increase from January 2019. Average written premium was up 6.2% in January 2020 compared with the same month in 2019 (see charts immediately below).



	Jan-20	Jan-19	Amt Chg	% Chg
W. Veh curr mth	16,696	11,626	5,070	43.6%

	Jan-20	Jan-19	Amt Chg	% Chg
AWP curr mth	2,071	1,950	121	6.2%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 52.5% for the month compared with the 31.6% increase we projected last month (see chart below).



	Jan-20	Jan-19	Amt Chg	% Chg
WP (\$000s) curr mth	34,572	22,666	11,907	52.5%

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 January 2020 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2020

Risk Sharing Pool - Ontario

Operating Results for the 1 Month Ended January 31, 2020 (Discounted basis)

Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Net Premiums Written	\$34,572	\$34,572	\$416,164	\$419,790
Decrease (Increase) in Unearned Premiums	1,929	1,929	10,394	(60,036)
Net Premiums Earned	\$36,501	\$36,501	\$426,558	\$359,754
Claims Incurred:				
Prior Accident Years:				
Undiscounted	\$102	\$102	\$102	(\$78,927)
Effect of Discounting	(2,874)	(2,874)	(24,138)	(16,000)
Discounted	(\$2,772)	(\$2,772)	(\$24,036)	(\$94,927)
Current Accident Year:				
Undiscounted	\$45,573	\$45,573	\$533,925	\$444,417
Effect of Discounting	5,911	5,911	46,705	38,828
Discounted	\$51,484	\$51,484	\$580,630	\$483,245
Claims Incurred	\$48,712	\$48,712	\$556,594	\$388,318
Underwriting Expenses:				
Expense Allowance	\$10,247	\$10,247	\$123,197	\$123,090
Change in UPDR/DPAC:				
Undiscounted	(447)	(447)	5,052	11,983
Effect of Discounting	(247)	(247)	(551)	11,538
Discounted	(694)	(694)	4,501	23,521
Underwriting Expenses	\$9,553	\$9,553	\$127,698	\$146,611
Net Underwriting Gain (Loss)	(\$21,764)	(\$21,764)	(\$257,734)	(\$175,175)
Administrative Expenses	\$111	\$111	\$1,695	\$1,624
Operating Result	(\$21,875)	(\$21,875)	(\$259,429)	(\$176,799)
Ratios:				
Claims & Expenses Incurred (Earned)				
Prior Accident Years	-7.6%	-7.6%	-5.6%	-26.4%
Current Accident Year	141.0%	141.0%	136.1%	134.3%
All Accident Years Combined	133.4%	133.4%	130.5%	107.9%
Underwriting & Administrative Expenses (Earned)	26.5%	26.5%	30.3%	41.2%
Combined Operating Ratio	159.9%	159.9%	160.8%	149.1%

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