

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2020 – 020

DATE: MARCH 30, 2020

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

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

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

Key Points

- (a) The *2020 year-to-date net operating deficit was \$43 million*, with a COR of 160.3% on earned premium of \$71 million;
- (b) The *projected 2020 year-end net operating deficit is now \$267 million*, with a COR at 161.0% on earned premium of \$438 million (our Outlook for 2020 was \$261 million of net operating deficit with a COR of 165.2% on earned premium of \$401 million). However, our projections do NOT taken into account any specific impacts that might arise due to the COVID-19 pandemic (FA is still in the process of considering impacts);
- (c) The written vehicle count and written premium transferred in February were significantly higher than projected; updated estimates were received from key member companies and included in this month's projection; and
- (d) With the current situation of covid-19, we were still able to release our member statements on time as a result of our continuous effort in ensuring the timeliness of member reporting.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$42.9 million and the incurred loss ratio to the end of 2 months is 132.7% as summarized in the table at the top of the next page.

Bulletin F2020–020
Ontario Risk Sharing Pool – February 2020 Operational Report

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

Amounts in \$000s	February 2020	February 2019	Year to date Feb 2020	Year to Date Feb 2019
Premium Written	33,748	27,186	68,320	49,852
Premium Earned	34,671	29,265	71,172	58,572
Incurred Losses	45,729	38,597	94,441	78,710
Underwriting & Admin Expense	9,962	7,359	19,626	11,630
Operating Result	(21,020)	(16,691)	(42,895)	(31,768)
Ratios:				
Loss ratio - Prior Accident Years	(7.5%)	7.1%	(7.5%)	2.4%
- Current Accident Year	139.4%	124.8%	140.2%	132.0%
<i>Total</i>	131.9%	131.9%	132.7%	134.4%
Underwriting & Admin Expense	28.7%	25.1%	27.6%	19.9%
Combined Operating Ratio	160.6%	157.0%	160.3%	154.3%

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 2020” attached to this bulletin.

Updated Projection to Year-end 2020

PLEASE NOTE: our projections have NOT been adjusted in any way to reflect COVID-19 pandemic impacts. Such impacts are under investigation and will be reflected in future projections as deemed appropriate.

The projected calendar year Operating Result to December 2020 is -\$267.1 million and the estimated combined operating ratio to December 2020 is 161.0%, as summarized in the table at the top of next page. This updated projection to the end of the year has deteriorated by \$7.7 million from the projection provided last month (see the second and third columns in the table). The deterioration is driven by the \$11.8 million increase 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.

Bulletin F2020–020
Ontario Risk Sharing Pool – February 2020 Operational Report

*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 (Feb 2020)	Prior Mth (Jan 2020)	Change	Final 2020 Outlook*
Premium Written	427,991	416,164	11,827	416,066
Premium Earned	437,867	426,558	11,309	400,999
Incurred Losses	571,807	556,594	15,213	523,840
Underwriting & Admin Expense	133,157	129,393	3,764	138,522
Net Result from Operations	(267,097)	(259,429)	(7,668)	(261,363)
Ratios:				
Loss ratio - Prior Accident Years	(5.6%)	(5.6%)	-	(5.9%)
- Current Accident Year	136.2%	136.1%	0.1%	136.6%
<i>Total</i>	130.6%	130.5%	0.1%	130.7%
Underwriting & Admin Expense	30.4%	30.3%	0.1%	34.5%
Combined Operating Ratio	161.0%	160.8%	0.2%	165.2%

rounding differences may occur

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

Current Month Results

The Ontario Risk Sharing Pool produced a -\$21.0 million Operating Result in the month of February 2020, a \$4.3 million deterioration compared with the same month last year. This deterioration is composed of an approximately \$3.1 million unfavourable impact associated with the \$5.4 million increase in earned premium (at a combined ratio of 157.0%), with the remaining \$1.2 million unfavourable impact stemming from the overall increase in the combined ratio (from 157.0% to 160.6% applied to \$34.7 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 159.9% at the end of 1 month to 160.3% at the end of 2 months. The 0.4 percentage point increase is composed of a 1.1 percentage point increase in the expense ratio, a 0.1 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.8 percentage point decrease in the Current 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.

Bulletin F2020–020
Ontario Risk Sharing Pool – February 2020 Operational Report

ON RSP Summary of Actual vs Projected variances

February 2020	Actual	Projection	Difference	Difference %
Written Premium	33,748	18,709	15,039	80.4%
Earned Premium	34,671	33,808	863	2.6%
Reported Losses				
Paid Losses	28,830	25,557	3,273	12.8%
Paid Expenses	1,474	2,715	(1,241)	(45.7%)
Change in Outstanding Losses	494	5,549	(5,055)	(91.1%)
Total Reported Losses	30,798	33,821	(3,023)	(8.9%)
Change in IBNR Provision*	14,931	11,143	3,788	
Change in Premium Deficiency (DPAC)*	(214)	(5,728)	5,514	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP February 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 February 2020, reported losses were \$3.0 million lower than projected. The Current Accident Year had a \$1.2 million unfavourable variance in reported losses, while the Prior Accident Years had a \$4.2 million favourable variance. Of all the Prior Accident Years, 2018 had the largest variance in reported losses at \$1.8 million favourable, followed by 2019 at \$1.3 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 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 February 2020 Operational Report – Actuarial Highlights](#).

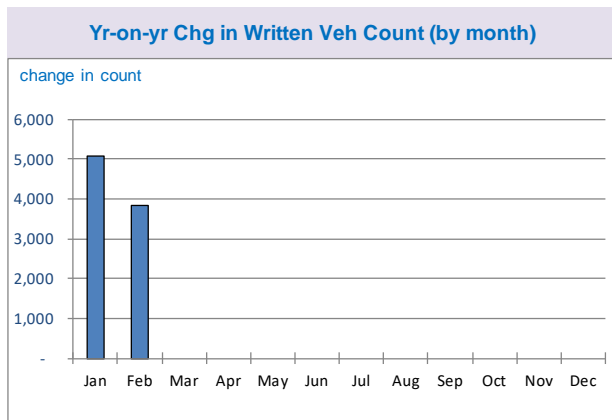
Effect of Quarterly Valuation

The February 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.

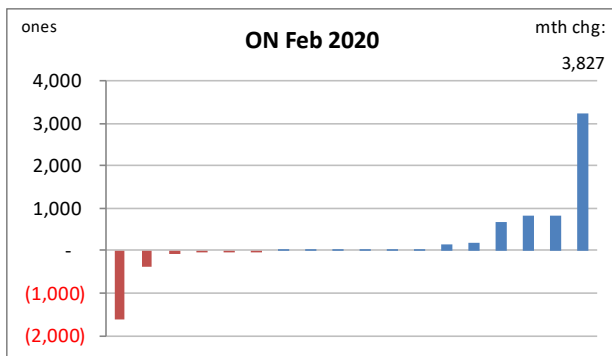
Management Comments

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 5.4% 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 February reporting an increase of 3,827 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 2,887 vehicles, indicating a variance of 6,714 vehicles from the actual transfers. This variance was mainly due to two member company groups transferring a greater number of vehicles to the RSP in February than projected. These two member companies have

provided updated estimates, which we have already included in this month's projection.

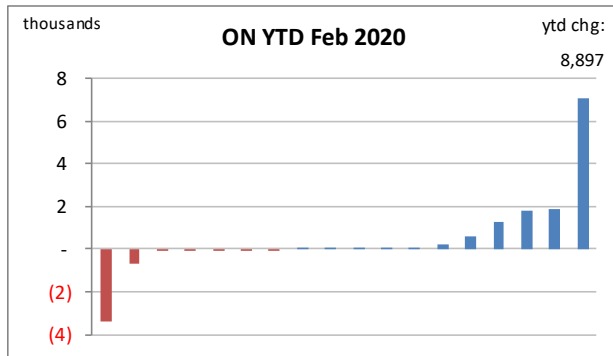


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Six member company groups transferred fewer vehicles to the pool this month compared to a year ago, while twelve transferred more¹. Of the 6 member company groups transferring fewer vehicles, 1 member company group accounted for 78% of the total transfer decrease for the “decliner” members. Of the 12 member company groups transferring more vehicles, 1 member company group accounted

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.

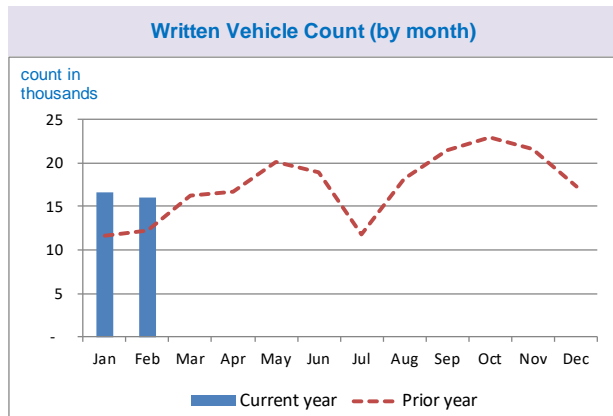
Bulletin F2020-020
Ontario Risk Sharing Pool – February 2020 Operational Report

for 54% of the total transfer increases for the “grower” members.

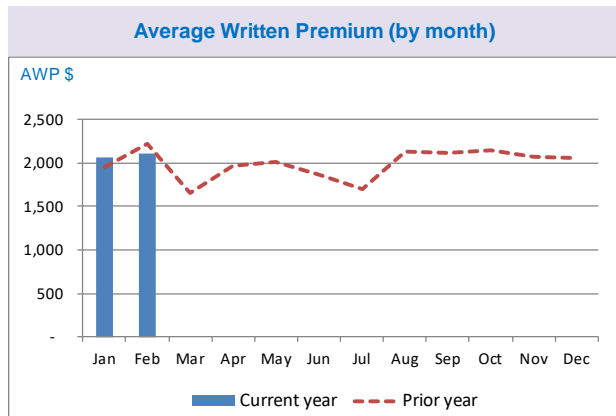


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

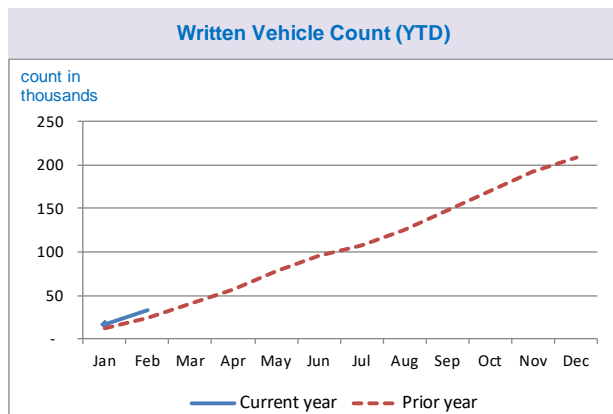
February’s vehicle count transfers to the pool represents a 31.3% increase from February 2019, and counts were up 37.3% year-to-date. Average written premium was down 5.5% in February 2020 compared with the same month in 2019, and was down slightly year-to-date (see charts immediately below).



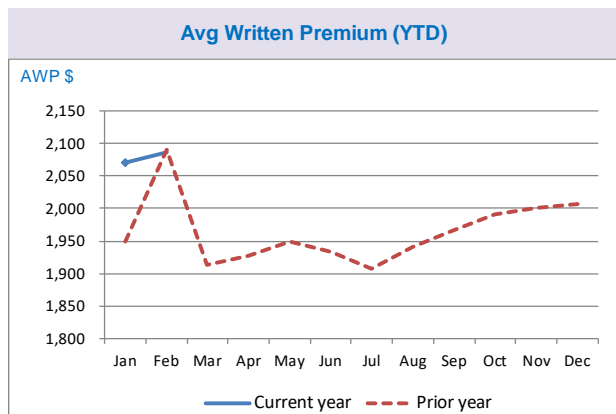
	Feb-20	Feb-19	Amt Chg	% Chg
W. Veh curr mth	16,053	12,226	3,827	31.3%



	Feb-20	Feb-19	Amt Chg	% Chg
AWP curr mth	2,102	2,224	(122)	-5.5%



	Feb-20	Feb-19	Amt Chg	% Chg
W. Vehicles YTD	32,749	23,852	8,897	37.3%

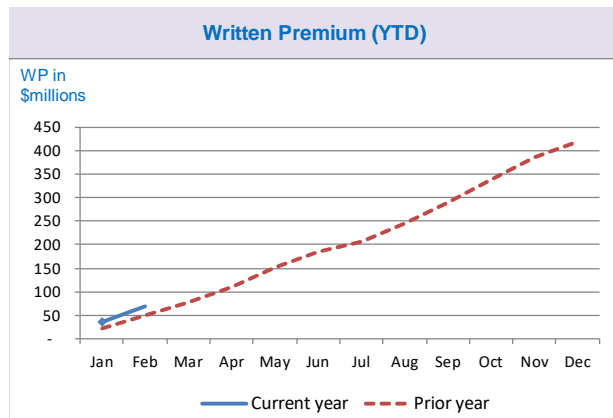
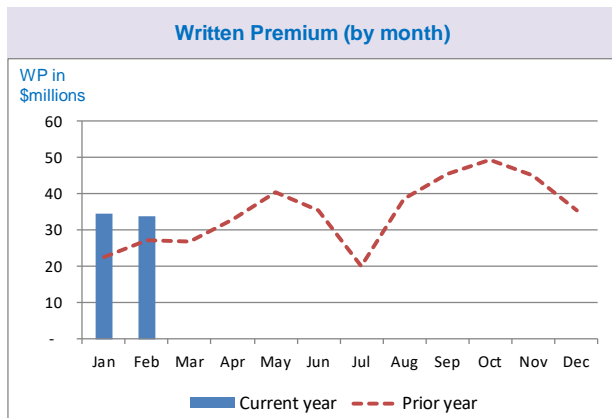


	Feb-20	Feb-19	Amt Chg	% Chg
Avg W. Prem YTD	2,086	2,090	(4)	-0.2%

As a result of the movements in transfer vehicle counts and average written premium, the

Bulletin F2020-020
Ontario Risk Sharing Pool – February 2020 Operational Report

transferred premium was up 24.1% for the month compared with the 31.2% decrease we projected last month, and was up 37.0% year-to-date (see charts below).



	Feb-20	Feb-19	Amt Chg	% Chg
WP (\$000s) curr mth	33,748	27,186	6,562	24.1%

	Feb-20	Feb-19	Amt Chg	% Chg
WP (\$000s) YTD	68,320	49,851	18,469	37.0%

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 February 2020 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2020

Risk Sharing Pool - Ontario

Operating Results for the 2 Months Ended February 29, 2020 (Discounted basis)

EXHIBIT 1

Source: Monthly Operational Report

(thousands of dollars)

	January	February	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Net Premiums Written	\$34,572	\$33,748	\$68,320	\$427,991	\$419,790
Decrease (Increase) in Unearned Premiums	1,929	923	2,852	9,876	(60,036)
Net Premiums Earned	\$36,501	\$34,671	\$71,172	\$437,867	\$359,754
Claims Incurred:					
Prior Accident Years:					
Undiscounted	\$102	(\$383)	(\$281)	(\$281)	(\$78,927)
Effect of Discounting	(2,874)	(2,208)	(5,082)	(24,372)	(16,000)
Discounted	(\$2,772)	(\$2,591)	(\$5,363)	(\$24,653)	(\$94,927)
Current Accident Year:					
Undiscounted	\$45,573	\$43,809	\$89,382	\$548,483	\$444,417
Effect of Discounting	5,911	4,511	10,422	47,977	38,828
Discounted	\$51,484	\$48,320	\$99,804	\$596,460	\$483,245
Claims Incurred	\$48,712	\$45,729	\$94,441	\$571,807	\$388,318
Underwriting Expenses:					
Expense Allowance	\$10,247	\$10,010	\$20,257	\$126,722	\$123,090
Change in UPDR/DPAC:					
Undiscounted	(447)	(108)	(555)	5,203	11,983
Effect of Discounting	(247)	(106)	(353)	(482)	11,538
Discounted	(694)	(214)	(908)	4,721	23,521
Underwriting Expenses	\$9,553	\$9,796	\$19,349	\$131,443	\$146,611
Net Underwriting Gain (Loss)	(\$21,764)	(\$20,854)	(\$42,618)	(\$265,383)	(\$175,175)
Administrative Expenses	\$111	\$166	\$277	\$1,714	\$1,624
Operating Result	(\$21,875)	(\$21,020)	(\$42,895)	(\$267,097)	(\$176,799)
Ratios:					
Claims & Expenses Incurred (Earned)					
Prior Accident Years	-7.6%	-7.5%	-7.5%	-5.6%	-26.4%
Current Accident Year	141.0%	139.4%	140.2%	136.2%	134.3%
All Accident Years Combined	133.4%	131.9%	132.7%	130.6%	107.9%
Underwriting & Administrative Expenses (Earned)	26.5%	28.7%	27.6%	30.4%	41.2%
Combined Operating Ratio	159.9%	160.6%	160.3%	161.0%	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