



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F2020 – 057**

**DATE: AUGUST 28, 2020**

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

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

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

### **Key Points**

- (a) The loss ratios currently being used include an initial assessment of the incurred impacts associated with the COVID-19 pandemic, with a further review and assessment to be included with the RSP 2020 Q2 actuarial valuation update (as at June 2020);
- (b) The **2020 year-to-date net operating deficit was \$47 million**, with a COR of 118.6% on earned premium of \$253 million; and
- (c) The **projected 2020 year-end net operating deficit is now \$159 million**, with a COR of 136.1% on earned premium of \$441 million (our Outlook for 2020 was \$261 million of net operating deficit with a COR of 165.2% on earned premium of \$401 million).

### **Summary of Financial Results**

The calendar year-to-date Operating Result is -\$47.0 million and the incurred loss ratio to the end of seven months is 101.2% as summarized in the following table.

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

<b>Amounts in \$000s</b>	<b>July 2020</b>	July 2019	<b>Year to date Jul 2020</b>	Year to Date Jul 2019
Premium Written	33,615	20,133	237,795	205,680
Premium Earned	34,645	29,993	252,626	197,646
Incurred Losses	41,599	39,865	255,757	276,807
Underwriting & Admin Expense	11,159	1,975	43,879	71,801
<b>Operating Result</b>	<b>(18,113)</b>	<b>(11,847)</b>	<b>(47,010)</b>	<b>(150,962)</b>
<b>Ratios:</b>				
<b>Loss ratio</b>				
- Prior Accident Years	(7.7%)	(6.9%)	(25.2%)	(2.3%)
- Current Accident Year	127.8%	139.8%	126.4%	142.3%
<i>Total</i>	<b>120.1%</b>	<b>132.9%</b>	<b>101.2%</b>	<b>140.0%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>32.2%</b>	<b>6.6%</b>	<b>17.4%</b>	<b>36.3%</b>
<b>Combined Operating Ratio</b>	<b>152.3%</b>	<b>139.5%</b>	<b>118.6%</b>	<b>176.3%</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 2020” attached to this bulletin.

Updated Projection to Year-end 2020

The projected calendar year Operating Result to December 2020 is -\$159.1 million and the estimated combined operating ratio to December 2020 is 136.1%, as summarized in the following table. This updated projection to the end of the year has improved by \$2.6 million from the projection provided last month (see the second and third columns in the table). The improvement is driven by the \$4.4 million decrease in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections.

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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 2020 Yr-end Projection</b> Amounts in \$000s	<b>Current</b> <b>(Jul 2020)</b>	Prior Mth (Jun 2020)	<b>Change</b>	Final 2020 Outlook*
Premium Written	452,564	456,929	(4,365)	416,066
Premium Earned	440,630	442,481	(1,851)	400,999
Incurred Losses	469,890	471,753	(1,863)	523,840
Underwriting & Admin Expense	129,845	132,401	(2,556)	138,522
<b>Net Result from Operations</b>	<b>(159,105)</b>	<b>(161,673)</b>	<b>2,568</b>	<b>(261,363)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(17.1%)	(16.9%)	(0.2%)	(5.9%)
- Current Accident Year	123.7%	123.5%	0.2%	136.6%
<i>Total</i>	<b>106.6%</b>	<b>106.6%</b>	-	<b>130.7%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>29.5%</b>	<b>29.9%</b>	<b>(0.4%)</b>	<b>34.5%</b>
<b>Combined Operating Ratio</b>	<b>136.1%</b>	<b>136.5%</b>	<b>(0.4%)</b>	<b>165.2%</b>

*rounding differences may occur*

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

Current Month Results

The Ontario Risk Sharing Pool produced a -\$18.1 million Operating Result in the month of July 2020, a \$6.3 million deterioration compared with the same month last year. This deterioration is composed of a \$1.8 million unfavourable impact associated with the \$4.7 million increase in earned premium (at a prior combined ratio of 139.5%), and an approximately \$4.5 million unfavourable impact stemming from the overall increase in the combined ratio (from 139.5% to 152.3% applied to \$34.6 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 113.2% at the end of six months to 118.6% at the end of seven months. The 5.4 percentage point increase is composed of a 2.8 percentage point increase in the Prior Accident Years loss ratio, a 0.2 percentage point increase in the Current Accident Year loss ratio, and a 2.4 percentage point increase in the expense ratio.

Variances from Projections

The following table 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*

<b>July 2020</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premium	33,615	38,164	(4,549)	(11.9%)
Earned Premium	34,645	37,325	(2,680)	(7.2%)
<b>Reported Losses</b>				
Paid Losses	22,663	26,289	(3,626)	(13.8%)
Paid Expenses	1,464	2,961	(1,497)	(50.6%)
Change in Outstanding Losses	(97)	618	(715)	(115.7%)
<b>Total Reported Losses</b>	<b>24,030</b>	<b>29,868</b>	<b>(5,838)</b>	<b>(19.5%)</b>
Change in IBNR Provision*	17,569	14,588	2,981	
Change in Premium Deficiency (DPAC)*	1,453	2,159	(706)	

(Amounts in \$000's)

rounding differences may occur

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 July 2020, reported losses were \$5.8 million lower than projected. The Current Accident Year had an approximately \$5.7 million favourable variance in reported losses, and the Prior Accident Years had a \$0.1 million favourable variance. Of all the Prior Accident Years, 2018 had the largest variance in reported losses at \$1.4 million unfavourable, followed by 2019 at \$1.0 million favourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

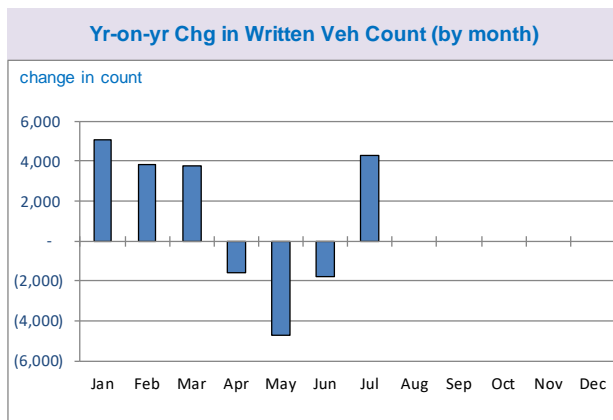
The variances for claims activity were beyond the set thresholds for some specific individual Accident Years for the month. Management investigated the claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. With respect to the Current Accident Year, we attribute the lower than projected reported losses to a reduction in written premium and physical damage claims experience in relation to the COVID-19 pandemic impact. All other variances were within the set thresholds for the month.

**Booking IBNR**

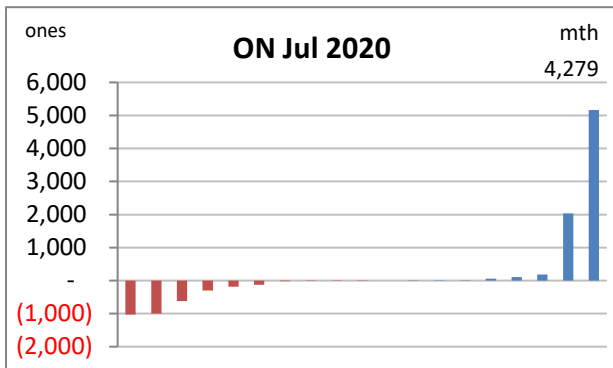
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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.

### 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 0.1% from 2019, being 2.6% of the 2019 industry private passenger vehicle count (including farmers) (as we don't have an industry farmers private passenger count yet for 2019, we continue to use the 2018 farmer 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 July reporting an increase of 4,279 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 6,033 vehicles, indicating a variance of 1,754 vehicles from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the RSP in July than projected.



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. Ten member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eight transferred more<sup>1</sup>; one member company group had no change. Of the 10 member company groups

transferring fewer vehicles, 3 member company groups accounted for 81% of the total transfer decrease for the “decliner” members. Of the 8 member company groups transferring more vehicles, 1 member company group accounted for 68% of the total transfer increases for the “grower” members.

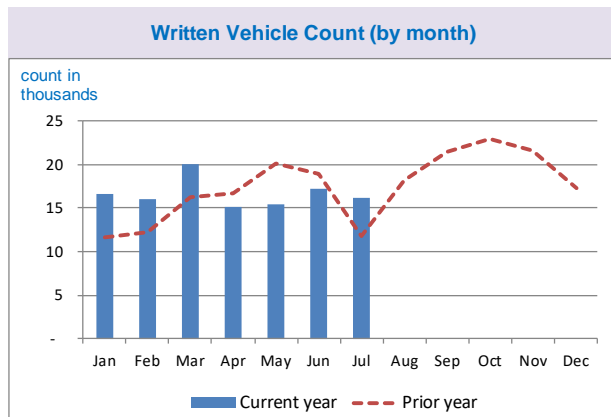
<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2019 or 2020. Groups that have not transferred vehicles in these two periods are ignored.

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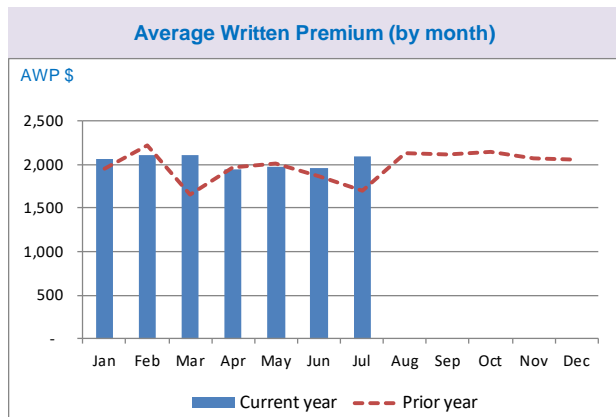


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

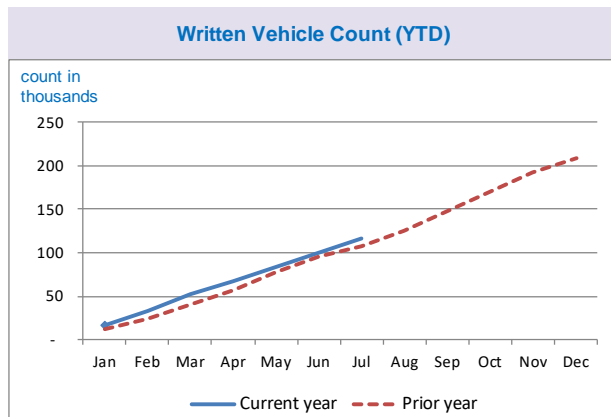
July's vehicle count transfers to the pool represents a 36.2% increase from July 2019, and counts were up 8.2% year-to-date. Average written premium was up 22.6% in July 2020 compared with the same month in 2019, and was up 6.9% year-to-date (see the following charts).



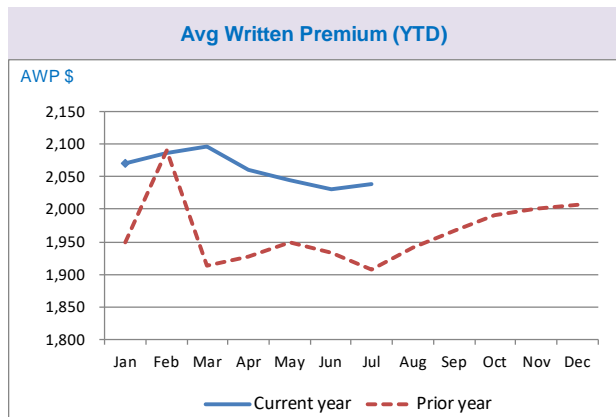
	Jul-20	Jul-19	Amt Chg	% Chg
W. Veh curr mth	16,109	11,830	4,279	36.2%



	Jul-20	Jul-19	Amt Chg	% Chg
AWP curr mth	2,087	1,702	385	22.6%



	Jul-20	Jul-19	Amt Chg	% Chg
W. Vehicles YTD	116,651	107,772	8,879	8.2%

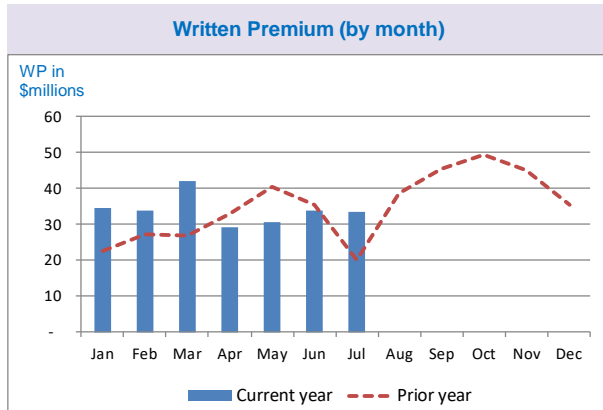


	Jul-20	Jul-19	Amt Chg	% Chg
Avg W. Prem YTD	2,039	1,908	131	6.9%

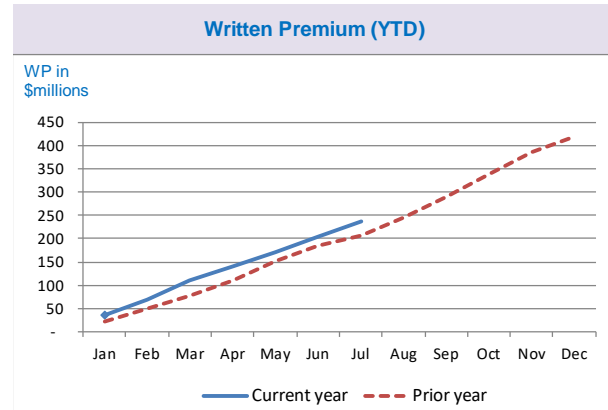
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As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 67.0% for the month compared with the 89.6% increase we projected last month, and was still up 15.6% year-to-date (see the following charts).



	Jul-20	Jul-19	Amt Chg	% Chg
WP (\$000s) curr mth	33,615	20,133	13,482	67.0%



	Jul-20	Jul-19	Amt Chg	% Chg
WP (\$000s) YTD	237,794	205,679	32,115	15.6%

Should you require any further information, please call Aidan Chen, AVP Data & Analytics at (416) 863-1750 x 4804.

Saskia Matheson  
 President & CEO

**Related links:**

[Ontario RSP July 2020 Operational Report – Actuarial Highlights](#)

\*For additional details on Actual vs Projected variances, IBNR, and valuation (if applicable)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2020**  
**Risk Sharing Pool - Ontario**  
**Operating Results for the 7 Months Ended July 31, 2020 (Discounted basis)**  
**Source: Monthly Operational Report**  
(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Net Premiums Written	\$34,572	\$33,748	\$42,191	\$29,308	\$30,705	\$33,656	\$33,615	\$237,795	\$452,564	\$419,790
Decrease (Increase) in Unearned Premiums	1,929	923	(3,646)	\$8,114	\$6,486	(\$5)	\$1,030	14,831	(11,934)	(60,036)
<b>Net Premiums Earned</b>	<b>\$36,501</b>	<b>\$34,671</b>	<b>\$38,545</b>	<b>\$37,422</b>	<b>\$37,191</b>	<b>\$33,651</b>	<b>\$34,645</b>	<b>\$252,626</b>	<b>\$440,630</b>	<b>\$359,754</b>
<b>Claims Incurred:</b>										
Prior Accident Years:										
Undiscounted	\$102	(\$383)	(\$45,015)	(\$101)	(\$18,176)	(\$219)	(\$755)	(\$64,547)	(\$64,546)	(\$78,927)
Effect of Discounting	(2,874)	(2,208)	(7,525)	(1,594)	19,237	(2,230)	(1,911)	895	(10,658)	(16,000)
Discounted	(\$2,772)	(\$2,591)	(\$52,540)	(\$1,695)	\$1,061	(\$2,449)	(\$2,666)	(\$63,652)	(\$75,204)	(\$94,927)
Current Accident Year:										
Undiscounted	\$45,573	\$43,809	\$42,285	\$44,818	\$30,138	\$37,803	\$39,430	\$283,856	\$493,856	\$444,417
Effect of Discounting	5,911	4,511	2,979	4,538	8,154	4,625	4,835	35,553	51,238	38,828
Discounted	\$51,484	\$48,320	\$45,264	\$49,356	\$38,292	\$42,428	\$44,265	\$319,409	\$545,094	\$483,245
<b>Claims Incurred</b>	<b>\$48,712</b>	<b>\$45,729</b>	<b>(\$7,276)</b>	<b>\$47,661</b>	<b>\$39,353</b>	<b>\$39,979</b>	<b>\$41,599</b>	<b>\$255,757</b>	<b>\$469,890</b>	<b>\$388,318</b>
<b>Underwriting Expenses:</b>										
Expense Allowance	\$10,247	\$10,010	\$12,548	\$8,855	\$9,120	\$9,753	\$9,572	\$70,105	\$133,675	\$123,090
Change in UPDR/DPAC:										
Undiscounted	(447)	(108)	(12,094)	(1,349)	(15,938)	1,450	1,406	(27,080)	(10,767)	11,983
Effect of Discounting	(247)	(106)	(2,349)	(927)	3,374	176	47	(32)	5,174	11,538
Discounted	(694)	(214)	(14,443)	(2,276)	(12,564)	1,626	1,453	(27,112)	(5,593)	23,521
<b>Underwriting Expenses</b>	<b>\$9,553</b>	<b>\$9,796</b>	<b>(\$1,895)</b>	<b>\$6,579</b>	<b>(\$3,444)</b>	<b>\$11,379</b>	<b>\$11,025</b>	<b>\$42,993</b>	<b>\$128,082</b>	<b>\$146,611</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$21,764)</b>	<b>(\$20,854)</b>	<b>\$47,716</b>	<b>(\$16,818)</b>	<b>\$1,282</b>	<b>(\$17,707)</b>	<b>(\$17,979)</b>	<b>(\$46,124)</b>	<b>(\$157,342)</b>	<b>(\$175,175)</b>
<b>Administrative Expenses</b>	<b>\$111</b>	<b>\$166</b>	<b>\$112</b>	<b>\$127</b>	<b>\$113</b>	<b>\$123</b>	<b>\$134</b>	<b>\$886</b>	<b>\$1,763</b>	<b>\$1,624</b>
<b>Operating Result</b>	<b>(\$21,875)</b>	<b>(\$21,020)</b>	<b>\$47,604</b>	<b>(\$16,945)</b>	<b>\$1,169</b>	<b>(\$17,830)</b>	<b>(\$18,113)</b>	<b>(\$47,010)</b>	<b>(\$159,105)</b>	<b>(\$176,799)</b>
<b>Ratios:</b>										
<b>Claims &amp; Expenses Incurred (Earned)</b>										
Prior Accident Years	-7.6%	-7.5%	-136.3%	-4.5%	2.9%	-7.3%	-7.7%	-25.2%	-17.1%	-26.4%
Current Accident Year	141.0%	139.4%	117.4%	131.9%	103.0%	126.1%	127.8%	126.4%	123.7%	134.3%
All Accident Years Combined	133.4%	131.9%	-18.9%	127.4%	105.9%	118.8%	120.1%	101.2%	106.6%	107.9%
Underwriting & Administrative Expenses (Earned)	26.5%	28.7%	-4.6%	17.9%	-9.0%	34.2%	32.2%	17.4%	29.5%	41.2%
<b>Combined Operating Ratio</b>	<b>159.9%</b>	<b>160.6%</b>	<b>-23.5%</b>	<b>145.3%</b>	<b>96.9%</b>	<b>153.0%</b>	<b>152.3%</b>	<b>118.6%</b>	<b>136.1%</b>	<b>149.1%</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