



TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F16 – 017
DATE: MARCH 29, 2016
SUBJECT: FARM – JANUARY 2016 PARTICIPATION REPORT

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

Please be advised that the January 2016 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

New This Month

New Line Items on FARM Participation Report

The “Distributed to Member” is now split to show two line items “Operating Results Distributed” and “Available Funds Distributed (for future use)” and the “Total Distributed to Members” is displayed below and is the total of the above two lines on all applicable pages of the January 2016 Operational Report.

Operating Results Distributed
Available Funds Distributed (for future use)
Total Distributed to Member

FA is in the process of providing members with more detail in the Participation Report with respect to line item “Distributed to Members”. Ultimately, this amount will be separated into “Operating Results Distributed” and “Available Funds Distributed”. As the first step in the process, these 2 additional line items have been added to the Participation Report, but the actual split of “Distributed to Members” will occur later in the year. When this split occurs, additional information will be provided in the associated Bulletin. In the meantime, any members wishing to have information on this issue are asked to call Norm Seeney, VP Finance & Member Services.

Government Line Allocation Ratio Process

FA has implemented an updated process for determining allocation ratios used to allocate certain values among government lines. The new process uses ratios reviewed and approved by the Appointed Actuary that are applied to current and projection months’ IBNR and actuarial present

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value adjustments, and to projection months' claims payments and case reserves. The new process was introduced in part to deal with the issue discussed in the Ontario RSP April 2015 Bulletin [F15-033](#), but also in an effort to reduce volatility in the government line amounts from month-to-month.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is \$2.0 million and the incurred loss ratio to the end of 1 month is 68.2%, as summarized in the table below.

Amounts in \$000s	Jan 2016	Jan 2015	Year to date Jan 2016	Year to Date Jan 2015
Written Premiums	11,014	15,841	11,014	15,841
Earned Premiums	15,392	17,030	15,392	17,030
Incurred Losses	10,495	12,275	10,495	12,275
Underwriting Expenses and Others	2,914	3,555	2,914	3,555
Net Result from Operations	1,983	1,200	1,983	1,200
Ratios:				
Loss ratio % - Prior Accident Year	(5.0%)	(0.1%)	(5.0%)	(0.1%)
- Current Accident Years	73.2%	72.2%	73.2%	72.2%
<i>Total</i>	68.2%	72.1%	68.2%	72.1%
Underwriting & Admin Exp.%	19.0%	20.9%	19.0%	20.9%
Combined Operating Ratio	87.2%	93.0%	87.2%	93.0%

Rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2016 - All jurisdictions by month”. A comparable summary by jurisdiction is included in Exhibit 2. Detailed exhibits by jurisdiction are included in a separate folder on our website called [“Summary of Operations”](#).

Updated Projection to Year-end 2016

This month, the estimated calendar year Net Result from Operations to December 2016 is \$18.2 million and the estimated combined operating ratio to December 2016 is 90.2%. This updated projection to the end of the year has not changed significantly from the projection provided last month (\$17.9 million and 90.6%).

Current month results

The Net Result from Operations in the month of January 2016 is \$2.0 million, up approximately \$0.8 million from the same month last year. This improvement included a \$0.1 million unfavourable impact due to the \$1.6 million decrease in earned premium (at a combined ratio of 93.0%), offset by a \$0.9 million favourable impact from the decrease in the combined ratio (from 93.0% last year to 87.2% this year, applied to this month's \$15.4 million earned premium).

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Variances from Projections

The table immediately below provides a summary of key components of the operating results as compared to the estimates projected last month.

January 2016	Actual	Projection	Difference	Difference %
Written Premiums	11,014	12,974	(1,960)	(15.1%)
Earned Premiums	15,392	15,323	69	0.5%
Reported Losses				
Paid Losses	12,618	10,197	2,421	23.7%
Change in Outstanding Losses	(2,654)	(91)	(2,563)	<-999.9%
Total Reported Losses	9,964	10,106	(142)	(1.4%)
Change in IBNR *	957	1,466	(509)	
Change in Premium Deficiency (DPAC) *	320	164	156	
Change in Retro Claims Expense *	(426)	(724)	298	

(Amounts in \$000's)

Rounding differences may occur

* Detailed information is included in [FARM January 2016 Participation Report - Actuarial Highlights](#).

For the month of January 2016, reported indemnity amounts were \$0.3 million higher than projected (*allowed claims expenses are included in table above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows \$0.1 million*). The Current Accident Year had a \$0.6 million favourable variance in reported indemnity, while the Prior Accident Years had an unfavourable variance of \$0.9 million. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$1.7 million unfavourable. No other single Prior Accident Year had a reported indemnity variance in excess of \$1.0 million.

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 for the most recent accident years back to 1994 (for accident years 1993 and earlier, IBNR is held at \$0). This is consistent with management's investigation into reported claims variances, concluding they were random and not necessarily indicative of a trend.

Effect of Quarterly Valuation

The January 2016 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at September 30, 2015 for all jurisdictions and business segments. The actuarial valuation will be updated next as at December 31, 2015 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the March 2016 Participation Report.

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Management Comments

As shown in the table immediately below, the private passenger annualized vehicle counts decreased by 12.6% overall in January 2016 relative to January 2015, decreasing in all jurisdictions except Nova Scotia and Prince Edward Island.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of January 2016				Calendar YTD as of January 2016			
	2016	2015	Chg	% Chg	2016	2015	Chg	% Chg
Ontario	121	161	(40)	(24.8%)	121	161	(40)	(24.8%)
Alberta	153	235	(82)	(34.9%)	153	235	(82)	(34.9%)
Newfoundland & Labrador	699	799	(100)	(12.5%)	699	799	(100)	(12.5%)
New Brunswick	476	533	(57)	(10.7%)	476	533	(57)	(10.7%)
Nova Scotia	279	250	29	11.6%	279	250	29	11.6%
Prince Edward Island	115	115	0	0.0%	115	115	0	0.0%
Yukon	14	26	(12)	(46.2%)	14	26	(12)	(46.2%)
Northwest Territories	163	180	(17)	(9.4%)	163	180	(17)	(9.4%)
Nunavut	29	46	(17)	(37.0%)	29	46	(17)	(37.0%)
All Jurisdictions	2,049	2,345	(296)	(12.6%)	2,049	2,345	(296)	(12.6%)

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

David J. Simpson, M.B.A., FCIP, C. Dir.
 President & CEO

Related link: [FARM January 2016 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 1 month ended January 31, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 01/2016
(thousands of dollars)

	January	CY2016 YTD	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
UNDERWRITING REVENUE:				
PREMIUMS WRITTEN	\$11,014	\$11,014	\$179,052	\$189,847
CHANGE IN UNEARNED PREMIUMS	4,378	4,378	3,720	6,085
NET PREMIUMS EARNED	\$15,392	\$15,392	\$182,772	\$195,932
CLAIMS INCURRED				
PRIOR ACCIDENT YEARS				
UNDISCOUNTED	-201	-201	-202	-15,364
EFFECT OF DISCOUNTING	-575	-575	-7,001	-4,171
DISCOUNTED	-776	-776	-7,203	-19,535
CURRENT ACCIDENT YEAR				
UNDISCOUNTED	10,458	10,458	124,197	138,707
EFFECT OF DISCOUNTING	813	813	7,242	8,047
DISCOUNTED	11,271	11,271	131,439	146,754
CLAIMS INCURRED	\$10,495	\$10,495	\$124,236	\$127,219
UNDERWRITING EXPENSES				
OPERATING & SERVICE FEES	1,170	1,170	18,234	19,838
AGENTS COMMISSIONS	899	899	15,066	15,658
DRIVER RECORD ABSTRACTS	175	175	2,492	3,187
BAD DEBTS	-7	-7	0	-579
PREMIUM DEFICIENCY/(DPAC)				
UNDISCOUNTED	336	336	387	292
EFFECT OF DISCOUNTING	-16	-16	23	-230
DISCOUNTED	320	320	410	62
UNDERWRITING EXPENSES	\$2,557	\$2,557	\$36,202	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$2,340	\$2,340	\$22,334	\$30,547
ADMINISTRATIVE EXPENSES	364	364	4,368	5,085
PREMIUM FINANCE FEE	-10	-10	0	-108
INVESTMENT INCOME	17	17	208	260
OPERATING RESULTS	\$1,983	\$1,983	\$18,174	\$25,614
RATIOS:				
Claims & Adj Expenses Incurred (Earned)				
Prior Accident Year	-5.0%	-5.0%	-3.9%	-10.0%
Current Accident Years	73.2%	73.2%	71.9%	74.9%
All Accident Years Combined	68.2%	68.2%	68.0%	64.9%
Underwriting & Admin Exp.(Earned)	19.0%	19.0%	22.2%	22.1%
COMBINED OPERATING RATIO	87.2%	87.2%	90.2%	87.0%

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 1 month ended January 31, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 01/2016
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$3,288	\$3,130	\$1,024	\$318	\$1,198	\$1,595	\$92	\$321	\$48	\$11,014	\$179,052	\$189,847
CHANGE IN UNEARNED PREMIUMS	2,081	350	365	74	529	731	80	82	86	4,378	3,720	6,085
NET PREMIUMS EARNED	\$5,369	\$3,480	\$1,389	\$392	\$1,727	\$2,326	\$172	\$403	\$134	\$15,392	\$182,772	\$195,932
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	-19	-76	-24	0	-19	-66	3	0	0	-201	-202	-15,364
EFFECT OF DISCOUNTING	-351	-62	-50	-3	-56	-36	7	-17	-7	-575	-7,001	-4,171
DISCOUNTED	-370	-138	-74	-3	-75	-102	10	-17	-7	-776	-7,203	-19,535
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	3,528	2,288	942	242	1,136	1,957	114	190	61	10,458	124,197	138,707
EFFECT OF DISCOUNTING	288	215	64	17	69	133	9	15	3	813	7,242	8,047
DISCOUNTED	3,816	2,503	1,006	259	1,205	2,090	123	205	64	11,271	131,439	146,754
CLAIMS INCURRED	\$3,446	\$2,365	\$932	\$256	\$1,130	\$1,988	\$133	\$188	\$57	\$10,495	\$124,236	\$127,219
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	334	343	107	35	125	165	14	37	10	1,170	18,234	19,838
AGENTS COMMISSIONS	291	174	93	31	113	150	8	33	6	899	15,066	15,658
DRIVER RECORD ABSTRACTS	44	13	34	10	36	28	2	7	1	175	2,492	3,187
BAD DEBTS	0	0	0	0	0	-7	0	0	0	-7	0	-579
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	179	22	30	6	51	23	8	8	9	336	387	292
EFFECT OF DISCOUNTING	0	0	0	0	0	-16	0	0	0	-16	23	-230
DISCOUNTED	179	22	30	6	51	7	8	8	9	320	410	62
UNDERWRITING EXPENSES	\$848	\$552	\$264	\$82	\$325	\$343	\$32	\$85	\$26	\$2,557	\$36,202	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$1,075	\$563	\$193	\$54	\$272	(\$5)	\$7	\$130	\$51	\$2,340	\$22,334	\$30,547
ADMINISTRATIVE EXPENSES	95	101	35	14	40	50	8	14	7	364	4,368	5,085
PREMIUM FINANCE FEE	-3	-4	-1	0	-1	-1	0	0	0	-10	0	-108
INVESTMENT INCOME	5	6	1	0	2	3	0	0	0	17	208	260
OPERATING RESULTS	\$982	\$464	\$158	\$40	\$233	(\$53)	(\$1)	\$116	\$44	\$1,983	\$18,174	\$25,614
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-6.9%	-4.0%	-5.3%	-0.8%	-4.3%	-4.4%	5.8%	-4.2%	-5.2%	-5.0%	-3.9%	-10.0%
Current Accident Years	71.1%	71.9%	72.4%	66.1%	69.8%	89.9%	71.5%	50.9%	47.8%	73.2%	71.9%	74.9%
All Accident Years Combined	64.2%	67.9%	67.1%	65.3%	65.5%	85.5%	77.3%	46.7%	42.6%	68.2%	68.0%	64.9%
Underwriting & Admin Exp.(Earned)	17.6%	18.8%	21.5%	24.5%	21.1%	16.9%	23.3%	24.6%	24.6%	19.0%	22.2%	22.1%
COMBINED OPERATING RATIO	81.8%	86.7%	88.6%	89.8%	86.6%	102.4%	100.6%	71.3%	67.2%	87.2%	90.2%	87.0%

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