



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F16 – 018**

**DATE: MARCH 29, 2016**

**SUBJECT: ONTARIO RISK SHARING POOL  
– FEBRUARY 2016 OPERATIONAL REPORT**

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

Please be advised that the February 2016 Ontario Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

### **New This Month**

#### *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 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 -\$17.1 million and the incurred loss ratio to the end of 2 months is 123.1%, as summarized in the table at the top of the next page.

**Bulletin F16-018**  
**Ontario Risk Sharing Pool – February 2016 Operational Report**

<b>Amounts in \$000s</b>	<b>February 2016</b>	February 2015	<b>Year to date Feb 2016</b>	Year to Date Feb 2015
Written Premiums	16,711	17,369	33,254	37,939
Earned Premiums	18,943	21,347	39,209	44,921
Incurred Losses	23,495	27,484	48,259	57,330
Underwriting Expenses and Others	4,397	3,784	8,088	8,891
<b>Net Result from Operations</b>	<b>(8,949)</b>	<b>(9,921)</b>	<b>(17,138)</b>	<b>(21,300)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Year</b>	<b>(11.5%)</b>	<b>(8.8%)</b>	<b>(14.2%)</b>	<b>(11.5%)</b>
- Current Accident Years	135.5%	137.5%	137.3%	139.1%
Total	<b>124.0%</b>	<b>128.7%</b>	<b>123.1%</b>	<b>127.6%</b>
<b>Underwriting &amp; Admin Exp.%</b>	<b>23.2%</b>	<b>17.7%</b>	<b>20.6%</b>	<b>19.8%</b>
<b>Combined Operating Ratio</b>	<b>147.2%</b>	<b>146.4%</b>	<b>143.7%</b>	<b>147.4%</b>

*Rounding differences may apply.*

These results are discussed in some detail in the “Current Month Results” section below. For additional numeric detail, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2016” attached to this bulletin.

Updated Projection to Year-end 2016

The updated calendar year Net Result from Operations to December 2016 is -\$167.0 million and the estimated combined operating ratio to December 2016 is 165.3%. The updated projection to the end of the year has deteriorated by \$1.0 million from the projection provided last month (-\$166.0 million and 164.5%). This deterioration is composed of a \$1.1 million favourable impact associated with the \$1.8 million decrease in projected earned premium (at a combined ratio of 164.5%), offset by approximately \$2.1 million deterioration stemming from the overall increase in the combined ratio (from 164.5% to 165.3% applied to \$255.6 million in projected earned premium).

Current Month Results

The Ontario Risk Sharing Pool produced a -\$8.9 million Net Result from Operations in the month of February 2016, a \$1.0 million improvement compared with the same month last year. This improvement is composed of a \$1.1 million favourable impact associated with the \$2.4 million decrease in earned premium (at a combined ratio of 146.4%), offset by approximately \$0.1 million deterioration stemming from the overall increase in the combined ratio (from 146.4% to 147.2% applied to \$18.9 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 140.4% at the end of 1 month to 143.7% at the end of 2 months. The 3.3 percentage point increase is composed of a 2.5 percentage point increase in the Prior Accident Year loss ratio, offset by a 1.6 percentage

**Bulletin F16-018**  
**Ontario Risk Sharing Pool – February 2016 Operational Report**

---

point decrease in the Current Accident Year loss ratio, and a 2.4 percentage point increase in the expense ratio.

*Variances from Projections*

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

<b>February 2016</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premiums	16,711	19,558	(2,847)	(14.6%)
Earned Premiums	18,943	19,499	(556)	(2.9%)
Reported Losses				
Paid Losses	21,720	19,402	2,318	11.9%
Loss Expenses Paid	1,725	1,811	(86)	(4.7%)
Change in Outstanding Losses	7,850	1,295	6,555	506.2%
<b>Total Reported Losses</b>	<b>31,295</b>	<b>22,508</b>	<b>8,787</b>	<b>39.0%</b>
Change in IBNR *	(7,800)	1,830	(9,630)	
Change in Premium Deficiency (DPAC) *	(712)	139	(851)	

(Amounts in \$000's)

Rounding differences may occur.

\* Detailed information is included in [Ontario RSP February 2016 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 above set thresholds and responds as appropriate. For this month, the variances were within the threshold given the monthly reporting volatility.

For the month of February 2016, reported losses were \$8.8 million higher than projected. Management investigated reported claims activity and is satisfied that the variance is appropriately accounted for in our current booking process. The Current Accident Year had a \$2.5 million favourable variance in reported losses, while the Prior Accident Years had an approximately \$11.3 million unfavourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$7.6 million unfavourable, followed by Accident Year 2014 at \$1.5 million unfavourable and Accident Year 2013 at \$1.2 million unfavourable. No other single Prior Accident Year had a reported loss 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

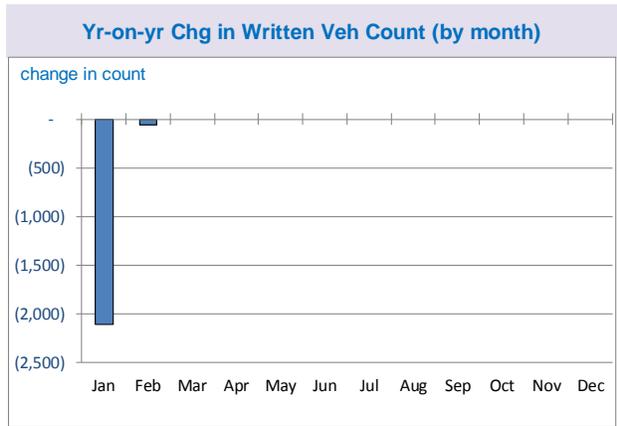
offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium variances (as IBNR is based on loss ratios). This is consistent with management’s investigation into reported claims variances concluding they were random and not necessarily indicative of a trend. IBNR is discussed in more detail in the [Ontario RSP February 2016 Operational Report – Actuarial Highlights](#).

**Effect of Quarterly Valuation**

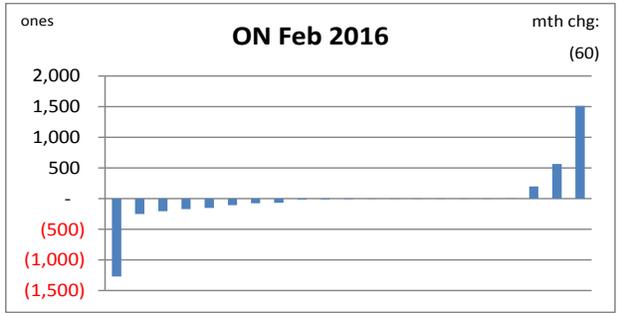
The February 2016 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2015). The actuarial valuation will be updated next as at December 31, 2015 and we anticipate that the results will be reflected in the March 2016 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 2016 vehicle count up 13.5% from 2015, being 2.2% of the 2014 industry private passenger vehicle count including farmers (as we don’t have an industry count yet for 2015, we continue to use the 2014 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.



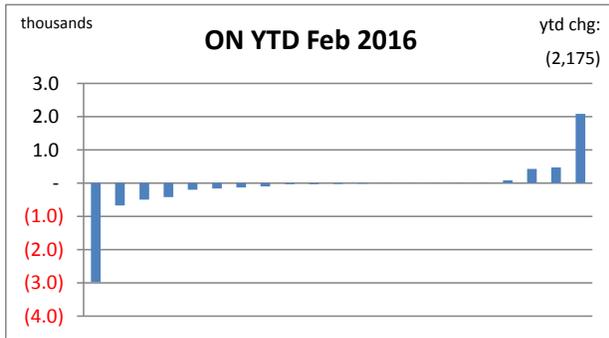
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with February reporting a decrease of 60 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 1,324 vehicles, indicating a variance of 1,384 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in February 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. Seventeen member company groups transferred fewer vehicles to the pool this

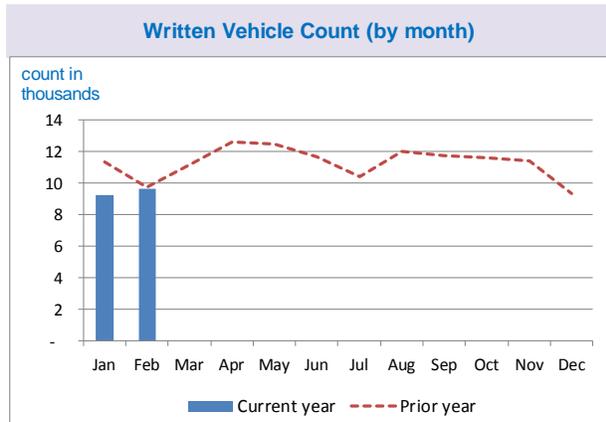
**Bulletin F16-018**  
**Ontario Risk Sharing Pool – February 2016 Operational Report**

month compared to a year ago, while 4 transferred more<sup>1</sup>. Of the 17 member company groups transferring fewer vehicles, 1 member company group accounted for 54% of the total transfer decrease for the “decliner” members. Of the 4 member company groups transferring more vehicles, 1 member company group accounted for 66% of the total transfer increases for the “grower” members.

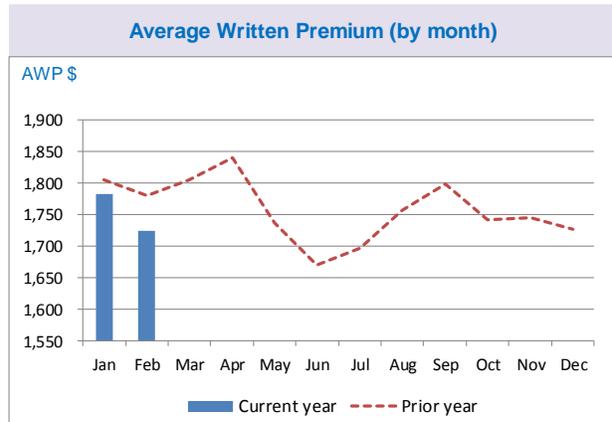


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

February’s year-on-year change in vehicle count transfers to the pool represents a 0.6% decrease from February 2015, and counts were down 10.3% year-to-date. Average written premium was down 3.1% in February 2016 compared with the same month in 2015, and down 2.3% year-to-date (see charts immediately below and at the top of the next page).



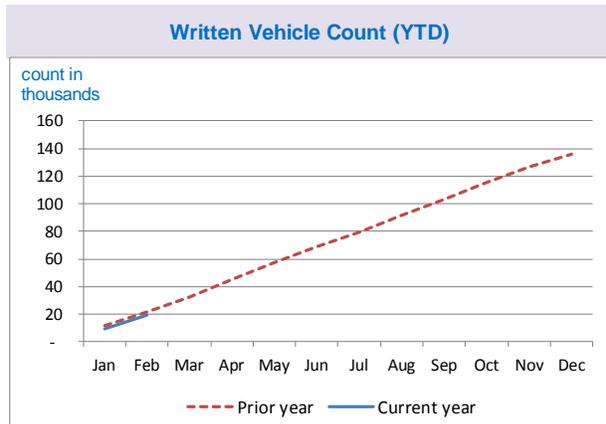
	Feb-16	Feb-15	Amt Chg	% Chg
W. Veh curr mth	9,690	9,750	(60)	-0.6%



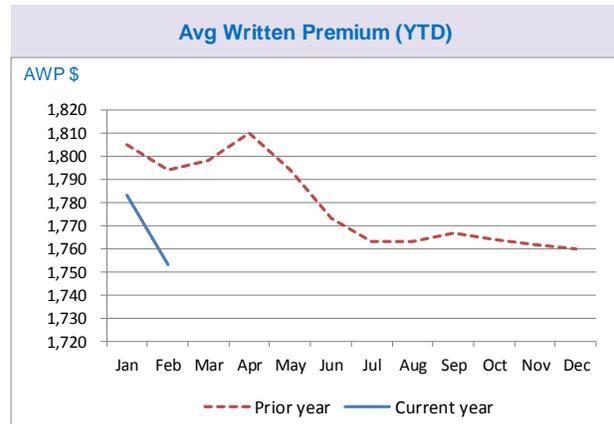
	Feb-16	Feb-15	Amt Chg	% Chg
AWP curr mth	1,725	1,781	(56)	-3.1%

<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2015 or 2016. Groups that have not transferred vehicles in these two periods are ignored.

**Bulletin F16-018**  
**Ontario Risk Sharing Pool – February 2016 Operational Report**

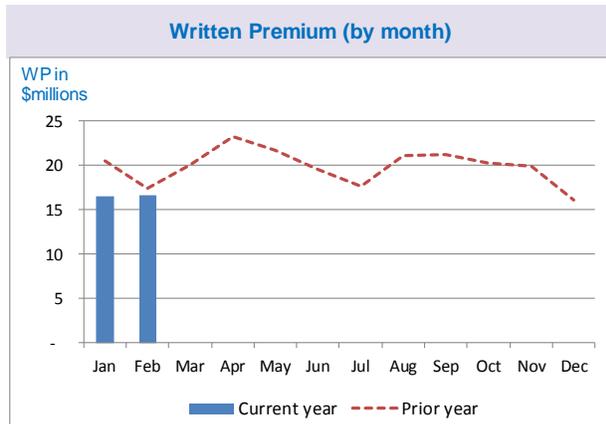


	Feb-16	Feb-15	Amt Chg	% Chg
W. Vehicles YTD	18,968	21,143	(2,175)	-10.3%



	Feb-16	Feb-15	Amt Chg	% Chg
Avg W. Prem YTD	1,753	1,794	(41)	-2.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 3.8% for the month compared with the 12.6% increase we projected last month, and was down 12.3% year-to-date (see charts immediately below).



	Feb-16	Feb-15	Amt Chg	% Chg
WP (\$000s) curr mth	16,711	17,369	(658)	-3.8%



	Feb-16	Feb-15	Amt Chg	% Chg
WP (\$000s) YTD	33,254	37,939	(4,685)	-12.3%

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 links:**

[Ontario RSP February 2016 Operational Report – Actuarial Highlights](#)

## SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Ontario

Operating Results for 2 Months ended February 29, 2016 (Discounted basis)

EXHIBIT 1

Source: Monthly Operational Report

(thousands of dollars)

	January	February	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Net Premiums Written	\$16,543	\$16,711	\$33,254	\$280,739	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$5,955	(\$25,127)	\$23,561
<b>Net Premiums Earned</b>	<b>\$20,266</b>	<b>\$18,943</b>	<b>\$39,209</b>	<b>\$255,612</b>	<b>\$262,568</b>
<b>Claims Incurred:</b>					
Prior Accident Years:					
Undiscounted	(\$98)	(\$96)	(\$194)	(\$194)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(5,366)	(24,476)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$5,560)	(\$24,670)	(\$188,898)
Current Accident Year:					
Undiscounted	\$24,544	\$22,944	\$47,488	\$308,470	\$307,691
Effect of Discounting	3,598	2,733	6,331	35,622	34,955
Discounted	\$28,142	\$25,677	\$53,819	\$344,092	\$342,646
<b>Claims Incurred</b>	<b>\$24,764</b>	<b>\$23,495</b>	<b>\$48,259</b>	<b>\$319,422</b>	<b>\$153,748</b>
<b>Underwriting Expenses:</b>					
Expense Allowance	\$4,926	\$4,981	\$9,907	\$84,152	\$70,525
Change in UPDR/DPAC:					
Undiscounted	(745)	(376)	(1,121)	12,831	(8,667)
Effect of Discounting	(570)	(336)	(906)	4,864	(1,893)
Discounted	(1,315)	(712)	(2,027)	17,695	(\$10,560)
<b>Underwriting Expenses</b>	<b>\$3,611</b>	<b>\$4,269</b>	<b>\$7,880</b>	<b>\$101,847</b>	<b>\$59,965</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$8,109)</b>	<b>(\$8,821)</b>	<b>(\$16,930)</b>	<b>(\$165,657)</b>	<b>\$48,855</b>
<b>Administrative Expenses</b>	<b>\$80</b>	<b>\$128</b>	<b>\$208</b>	<b>\$1,308</b>	<b>\$1,309</b>
<b>Net Result from Operations</b>	<b>(\$8,189)</b>	<b>(\$8,949)</b>	<b>(\$17,138)</b>	<b>(\$166,965)</b>	<b>\$47,546</b>
<b>Ratios:</b>					
<b>Claims &amp; Expenses Incurred (Earned)</b>					
Prior Accident Years	-16.7%	-11.5%	-14.2%	-9.7%	-71.9%
Current Accident Year	138.9%	135.5%	137.3%	134.6%	130.5%
All Accident Years Combined	122.2%	124.0%	123.1%	124.9%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	20.6%	40.4%	23.3%
<b>Combined Operating Ratio</b>	<b>140.4%</b>	<b>147.2%</b>	<b>143.7%</b>	<b>165.3%</b>	<b>81.9%</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