

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F16 – 023

DATE: APRIL 28, 2016

SUBJECT: FARM – FEBRUARY 2016 PARTICIPATION REPORT

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

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

New this Month

Annually, retroactive claims fees adjustments are paid to Servicing Carriers in accordance with the Plan of Operation for the final adjustment, and Bulletin “All-Canada SC2004-12” for interim adjustments. These adjustments were made and taken into account for this month’s Participation Report, with accident year 2010 receiving final payment/(recovery), accident year 2013 receiving 2nd interim payment/(recovery), and accident year 2015 receiving 1st interim payment/(recovery). The payments/(recoveries) and changes in provision are summarized below. As indicated, the retroactive claims fees adjustments incurred have little impact on the operational results.

\$000s	<u>Accident Year</u> <u>2015</u>	<u>Accident Year</u> <u>2013</u>	<u>Accident Year</u> <u>2010</u>	<u>TOTAL</u>
Retro Adj Pairs	(1,442)	(681)	(893)	(3,016)
unpaid @ Jan 31	(1,378)	(646)	(916)	(2,940)
unpaid @ Feb 29	25	46	137	208
change:	1,403	692	1,053	3,148
incurred:	(39)	11	160	132

The final retroactive adjustment unpaid amount for accident year 2010 should have been zero (highlighted in the red square in the table above). However, as can be seen from the table above, the balance in total is \$137k which is comprised of ON (\$139k), NB (\$25k), PI (-\$22k) and YT (-\$5k). This error was identified prior to our close but late enough in the process and small enough in magnitude that we opted not to correct this month. This will be corrected for the March 2016 Participation Report.

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Summary of Financial Results

The calendar year-to-date Net Result from Operations is \$3.8 million and the incurred loss ratio to the end of 2 months is 68.1%, as summarized in the table immediately below.

Amounts in \$000s	Feb 2016	Feb 2015	Year to date Feb 2016	Year to Date Feb 2015
Written Premiums	10,437	11,370	21,451	27,211
Earned Premiums	14,061	15,118	29,453	32,148
Incurred Losses	9,551	9,604	20,046	21,879
Underwriting Expenses and Others	2,661	2,660	5,575	6,215
Net Result from Operations	1,849	2,854	3,832	4,054
Ratios:				
Loss ratio % - Prior Accident Year	(5.2%)	(9.6%)	(5.1%)	(4.6%)
- Current Accident Years	73.1%	73.1%	73.2%	72.6%
<i>Total</i>	67.9%	63.5%	68.1%	68.0%
Underwriting & Admin Exp.%	19.0%	17.6%	19.0%	19.4%
Combined Operating Ratio	86.9%	81.1%	87.1%	87.4%

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 \$18.0 million and the estimated combined operating ratio to December 2016 is 90.3%. This updated projection to the end of the year has not changed significantly from the projection provided last month (\$18.2 million and 90.2%).

Current month results

The Net Result from Operations in the month of February 2016 is \$1.8 million, down \$1.0 million from the same month last year. This deterioration included a \$0.2 million unfavourable impact due to the \$1.1 million decrease in earned premium (at a combined ratio of 81.1%), with the remaining \$0.8 million unfavourable impact stemming from the increase in the combined ratio (from 81.1% last year to 86.9% this year, applied to this month’s \$14.1 million earned premium).

This month’s results moved the year-to-date combined operating ratio from 87.2% at the end of 1 month to 87.1% at the end of 2 months. The 0.1 percentage point decrease is composed of a 0.1 percentage point decrease in the Prior Accident Year loss ratio.

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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.

February 2016	Actual	Projection	Difference	Difference %
Written Premiums	10,437	10,692	(255)	(2.4%)
Earned Premiums	14,061	15,112	(1,051)	(7.0%)
Reported Losses				
Paid Losses	9,801	10,377	(576)	(5.6%)
Change in Outstanding Losses	242	(76)	318	418.4%
Total Reported Losses	10,043	10,301	(258)	(2.5%)
Change in IBNR *	(3,599)	788	(4,387)	
Change in Premium Deficiency (DPAC) *	272	305	(33)	
Change in Retro Claims Expense *	3,107	(714)	3,821	

(Amounts in \$000's)

Rounding differences may occur

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

For the month of February 2016, reported indemnity amounts were \$3.6 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 \$0.3 million*). The Current Accident Year had an approximately \$0.4 million favourable variance in reported indemnity, while the Prior Accident Years had an unfavourable variance of \$4.0 million. Of the Prior Accident Years, 2010 had the largest variance in reported losses at \$1.7 million unfavourable, followed by Accident Year 2015 at \$1.1 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 February 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 3.4% overall in February 2016 relative to February 2015. On a year-to-date basis, exposure counts are down by 8.0%, decreasing in all jurisdictions except Nova Scotia.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of February 2016				Calendar YTD as of February 2016			
	2016	2015	Chg	% Chg	2016	2015	Chg	% Chg
Ontario	118	120	(2)	(1.7%)	239	281	(42)	(14.9%)
Alberta	178	255	(77)	(30.2%)	330	490	(160)	(32.7%)
Newfoundland & Labrador	783	729	54	7.4%	1,482	1,528	(46)	(3.0%)
New Brunswick	578	583	(5)	(0.9%)	1,054	1,116	(62)	(5.6%)
Nova Scotia	265	243	22	9.1%	544	493	51	10.3%
Prince Edward Island	88	111	(23)	(20.7%)	203	226	(23)	(10.2%)
Yukon	11	26	(15)	(57.7%)	25	52	(27)	(51.9%)
Northwest Territories	199	231	(32)	(13.9%)	362	411	(49)	(11.9%)
Nunavut	36	37	(1)	(2.7%)	65	83	(18)	(21.7%)
All Jurisdictions	2,256	2,335	(79)	(3.4%)	4,304	4,680	(376)	(8.0%)

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 February 2016 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 2 months ended February 29, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2016
(thousands of dollars)

	January	February	CY2016 YTD	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
UNDERWRITING REVENUE:					
PREMIUMS WRITTEN	\$11,014	\$10,437	\$21,451	\$178,796	\$189,847
CHANGE IN UNEARNED PREMIUMS	4,378	3,624	8,002	2,734	6,085
NET PREMIUMS EARNED	\$15,392	\$14,061	\$29,453	\$181,530	\$195,932
CLAIMS INCURRED					
PRIOR ACCIDENT YEARS					
UNDISCOUNTED	-201	70	-131	-132	-15,364
EFFECT OF DISCOUNTING	-575	-797	-1,372	-7,333	-4,171
DISCOUNTED	-776	-727	-1,503	-7,465	-19,535
CURRENT ACCIDENT YEAR					
UNDISCOUNTED	10,458	9,614	20,072	123,458	138,707
EFFECT OF DISCOUNTING	813	664	1,477	7,183	8,047
DISCOUNTED	11,271	10,278	21,549	130,641	146,754
CLAIMS INCURRED	\$10,495	\$9,551	\$20,046	\$123,176	\$127,219
UNDERWRITING EXPENSES					
OPERATING & SERVICE FEES	1,170	1,059	2,229	18,248	19,838
AGENTS COMMISSIONS	899	873	1,772	15,024	15,658
DRIVER RECORD ABSTRACTS	175	148	323	2,523	3,187
BAD DEBTS	-7	-4	-11	-8	-579
PREMIUM DEFICIENCY/(DPAC)					
UNDISCOUNTED	336	277	613	319	292
EFFECT OF DISCOUNTING	-16	-5	-21	25	-230
DISCOUNTED	320	272	592	344	62
UNDERWRITING EXPENSES	\$2,557	\$2,348	\$4,905	\$36,131	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$2,340	\$2,162	\$4,502	\$22,223	\$30,547
ADMINISTRATIVE EXPENSES	364	320	684	4,447	5,085
PREMIUM FINANCE FEE	-10	-9	-19	-9	-108
INVESTMENT INCOME	17	16	33	210	260
OPERATING RESULTS	\$1,983	\$1,849	\$3,832	\$17,977	\$25,614
RATIOS:					
Claims & Adj Expenses Incurred (Earned)					
Prior Accident Year	-5.0%	-5.2%	-5.1%	-4.1%	-10.0%
Current Accident Years	73.2%	73.1%	73.2%	72.0%	74.9%
All Accident Years Combined	68.2%	67.9%	68.1%	67.9%	64.9%
Underwriting & Admin Exp.(Earned)	19.0%	19.0%	19.0%	22.4%	22.1%
COMBINED OPERATING RATIO	87.2%	86.9%	87.1%	90.3%	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 2 months ended February 29, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2016
(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	\$6,745	\$5,332	\$2,111	\$494	\$2,368	\$3,371	\$209	\$723	\$98	\$21,451	\$178,796	\$189,847
CHANGE IN UNEARNED PREMIUMS	3,598	1,155	572	259	949	1,129	128	55	157	8,002	2,734	6,085
NET PREMIUMS EARNED	\$10,343	\$6,487	\$2,683	\$753	\$3,317	\$4,500	\$337	\$778	\$255	\$29,453	\$181,530	\$195,932
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	-37	24	-9	-4	-28	-75	3	-3	-2	-131	-132	-15,364
EFFECT OF DISCOUNTING	-581	-409	-133	-11	-101	-100	3	-34	-6	-1,372	-7,333	-4,171
DISCOUNTED	-618	-385	-142	-15	-129	-175	6	-37	-8	-1,503	-7,465	-19,535
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	6,814	4,281	1,821	467	2,189	3,796	219	373	112	20,072	123,458	138,707
EFFECT OF DISCOUNTING	522	390	108	33	130	240	18	28	8	1,477	7,183	8,047
DISCOUNTED	7,336	4,671	1,929	500	2,319	4,036	237	401	120	21,549	130,641	146,754
CLAIMS INCURRED	\$6,718	\$4,286	\$1,787	\$485	\$2,190	\$3,861	\$243	\$364	\$112	\$20,046	\$123,176	\$127,219
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	679	581	217	51	241	342	26	77	15	2,229	18,248	19,838
AGENTS COMMISSIONS	585	299	188	49	230	318	18	74	11	1,772	15,024	15,658
DRIVER RECORD ABSTRACTS	66	21	64	16	53	46	5	49	3	323	2,523	3,187
BAD DEBTS	0	0	0	0	0	-11	0	0	0	-11	-8	-579
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	313	70	47	22	87	43	11	5	15	613	319	292
EFFECT OF DISCOUNTING	0	0	0	0	0	-21	0	0	0	-21	25	-230
DISCOUNTED	313	70	47	22	87	22	11	5	15	592	344	62
UNDERWRITING EXPENSES	\$1,643	\$971	\$516	\$138	\$611	\$717	\$60	\$205	\$44	\$4,905	\$36,131	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$1,982	\$1,230	\$380	\$130	\$516	(\$78)	\$34	\$209	\$99	\$4,502	\$22,223	\$30,547
ADMINISTRATIVE EXPENSES	200	168	69	19	76	105	12	27	8	684	4,447	5,085
PREMIUM FINANCE FEE	-6	-6	-2	0	-2	-3	0	0	0	-19	-9	-108
INVESTMENT INCOME	9	12	2	1	3	6	0	0	0	33	210	260
OPERATING RESULTS	\$1,785	\$1,068	\$311	\$112	\$441	(\$180)	\$22	\$182	\$91	\$3,832	\$17,977	\$25,614
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-6.0%	-5.9%	-5.3%	-2.0%	-3.9%	-3.9%	1.8%	-4.8%	-3.1%	-5.1%	-4.1%	-10.0%
Current Accident Years	70.9%	72.0%	71.9%	66.4%	69.9%	89.7%	70.3%	51.5%	47.1%	73.2%	72.0%	74.9%
All Accident Years Combined	64.9%	66.1%	66.6%	64.4%	66.0%	85.8%	72.1%	46.7%	44.0%	68.1%	67.9%	64.9%
Underwriting & Admin Exp.(Earned)	17.8%	17.6%	21.8%	20.8%	20.7%	18.3%	21.4%	29.8%	20.4%	19.0%	22.4%	22.1%
COMBINED OPERATING RATIO	82.7%	83.7%	88.4%	85.2%	86.7%	104.1%	93.5%	76.5%	64.4%	87.1%	90.3%	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