

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F16 – 039**

**DATE: JUNE 24, 2016**

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

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

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

### **New This Month**

#### *Annual Update of Member Sharing Ratios*

The May 2016 Operational Report reflects the annual update of member sharing ratios for Accident Years 2014, 2015, 2016 and 2017. Please refer to Bulletin [F16-43](#) for additional information.

#### *Updated Transfer Projections Significant*

Approximately once per quarter, the FA actuarial group sends transfer and premium projection requests to larger RSP users. The projections are monthly to the end of the current calendar year (2016) and the next calendar year (2017). These projections are incorporated into FA's projections as they are provided to us.

The updated projections received since last month's projections generated a \$16.7 million (5.4%) increase in the written premium projection for 2016, which generated a larger overall change in the projected operating result than is the change attributed to the implementation of the 2016 Q1 valuation (the overall projected calendar year **2016** net result deteriorated \$1.3 million to a **loss of \$126.6 million**, whereas the valuation implementation had a favourable impact of \$8.3 million).

The written premium projection for calendar year **2017** is \$354.7 million, an increase of \$29.8 million (9.2%) from the calendar year 2016 projection, with a **projected operating loss of**

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**\$206.5 million.** The 2017 Preliminary Outlook for the RSPs is being released at the same time as this month’s results.

Valuation

A valuation of the Ontario RSP as at March 31, 2016 has been completed since last month’s Operational Report and the results of that valuation have been incorporated into this month’s Operational Report. The valuation was completed by the Facility Association’s internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

Ontario 2014 Bill 15 and 2015 Bill 91 included various changes to the Ontario automobile insurance product that affect the benefits available to policyholders. With the current Ontario RSP valuation (as at March 31, 2016), we’ve included various adjustments related to these recent product reforms, aligned with adjustments introduced with the September 30, 2015 valuation. For further detail related to recent legal decisions and changes in legislation / regulation and associated adjustments, please see the Ontario RSP May 2016 Operational Report – Actuarial Highlights and the Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at March 31, 2016 (links are provided further in this bulletin).

The implementation of the new valuation resulted in an estimated overall **\$2.0 million favourable** impact on the month’s net result from operations, subtracting an estimated 2.0 points from the year-to-date Combined Operating Ratio (ending at 105.5%). The impact on the month’s results is summarized in the table immediately below<sup>1</sup>.

Ontario	unfav / (fav) for the month and ytd						ytd EP 100,440 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	(3,082)	(130)	(3,212)	2,519	-	(693)	(3.1%)	(0.1%)	(3.2%)	2.5%	-	(0.7%)
CAY	(706)	(200)	(906)	313	-	(593)	(0.7%)	(0.2%)	(0.9%)	0.3%	-	(0.6%)
Prem Def	(1,321)	116	(1,205)	486	-	(719)	(1.3%)	0.1%	(1.2%)	0.5%	-	(0.7%)
<b>TOTAL</b>	<b>(5,109)</b>	<b>(214)</b>	<b>(5,323)</b>	<b>3,318</b>	<b>-</b>	<b>(2,005)</b>	<b>(5.1%)</b>	<b>(0.2%)</b>	<b>(5.3%)</b>	<b>3.3%</b>	<b>-</b>	<b>(2.0%)</b>

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$5.3 million favourable impact – see column [3] in the left table above), and the impact of a 9 basis point decrease in the selected discount rate (from 0.90 to 0.81%, generating a \$3.3 million unfavourable impact – see column [4] in the left table above). There was no change in the margin for adverse deviation in investment yield (remains at 25 basis points) and no changes to the margins for adverse deviation for claims development as selected at the coverage / accident year level (hence zeros in all rows of column [5] in the left table above).

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<sup>1</sup> In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dsct rate” refers to the impact of changes in the selected discount rate applied to projected cashflows; and “apv adj.” refers to “actuarial present value adjustments”.

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Please see “Effect of Quarterly Valuation” further in this bulletin for additional details on the impacts of the updated valuation.

**Summary of Financial Results**

The calendar year-to-date Net Result from Operations is -\$5.5 million and the incurred loss ratio to the end of 5 months is 76.2%, as summarized in the table immediately below.

<b>Amounts in \$000s</b>	<b>May 2016</b>	May 2015	<b>Year to date May 2016</b>	Year to Date May 2015
Written Premiums	27,953	21,679	105,774	102,951
Earned Premiums	21,046	22,913	100,440	113,650
Incurred Losses	24,045	(7,486)	76,540	78,952
Underwriting Expenses and Others	10,319	11,529	29,382	34,682
<b>Net Result from Operations</b>	<b>(13,318)</b>	<b>18,870</b>	<b>(5,482)</b>	<b>16</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Year</b>	<b>(13.8%)</b>	<b>(189.9%)</b>	<b>(55.0%)</b>	<b>(73.1%)</b>
- Current Accident Years	128.0%	157.3%	131.2%	142.6%
<i>Total</i>	<b>114.2%</b>	<b>(32.6%)</b>	<b>76.2%</b>	<b>69.5%</b>
<b>Underwriting &amp; Admin Exp.%</b>	<b>49.0%</b>	<b>50.3%</b>	<b>29.3%</b>	<b>30.5%</b>
<b>Combined Operating Ratio</b>	<b>163.2%</b>	<b>17.7%</b>	<b>105.5%</b>	<b>100.0%</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 projected calendar year Net Result from Operations to December 2016 is -\$126.6 million and the estimated combined operating ratio to December 2016 is 147.4%. This updated projection to the end of the year has deteriorated by \$1.3 million from the projection provided last month (-\$125.2 million and 148.0%), despite the overall favourable impact of the valuation as at March 31, 2016, as summarized in the table at the top of the next page (see more information under “Effect of Quarterly Valuation”). The deterioration in the projection is driven by the \$16.7 million increase in the written premium projection, generating a sufficient projected operating loss to offset the \$8.3 million favourable valuation implementation impact. In particular, one member company group has significantly increased their transfer projections for the year.

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Ontario	unfav / (fav) projected for full year						year EP 266,874 (projected this month)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % full year EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(3,082)	(2,251)	(5,333)	2,145	-	(3,188)	(1.2%)	(0.8%)	(2.0%)	0.8%	-	(1.2%)
CAY	(1,870)	71	(1,799)	806	-	(993)	(0.7%)	-	(0.7%)	0.3%	-	(0.4%)
Prem Def	(4,654)	(196)	(4,850)	702	-	(4,148)	(1.7%)	(0.1%)	(1.8%)	0.3%	-	(1.6%)
<b>TOTAL</b>	<b>(9,606)</b>	<b>(2,376)</b>	<b>(11,982)</b>	<b>3,653</b>	<b>-</b>	<b>(8,329)</b>	<b>(3.6%)</b>	<b>(0.9%)</b>	<b>(4.5%)</b>	<b>1.4%</b>	<b>-</b>	<b>(3.1%)</b>

Current Month Results

The Ontario Risk Sharing Pool produced a -\$13.3 million Net Result from Operations in the month of May 2016, a \$32.2 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$1.6 million unfavourable impact associated with the \$1.9 million decrease in earned premium (at a combined ratio of 17.7%), with the remaining \$30.6 million deterioration stemming from the overall increase in the combined ratio (from 17.7% to 163.2% applied to \$21.0 million in earned premium). The primary driver of the difference in combined ratios is the difference in the respective valuation implementation impacts.

This month's results moved the year-to-date combined operating ratio from 90.1% at the end of 4 months to 105.5% at the end of 5 months. The 15.4 percentage point increase is composed of a 10.9 percentage point increase in the Prior Accident Year loss ratio, and a 5.3 percentage point increase in the expense ratio, offset by a 0.8 percentage point decrease in the Current Accident Year loss ratio.

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.

May 2016	Actual	Projection	Difference	Difference %
Written Premiums	27,953	27,959	(6)	(0.0%)
Earned Premiums	21,046	21,536	(490)	(2.3%)
Reported Losses				
Paid Losses	21,098	20,208	890	4.4%
Loss Expenses Paid	1,811	1,942	(131)	(6.7%)
Change in Outstanding Losses	(4,365)	(448)	(3,917)	(874.3%)
<b>Total Reported Losses</b>	<b>18,544</b>	<b>21,702</b>	<b>(3,158)</b>	<b>(14.6%)</b>
Change in IBNR *	5,501	4,326	1,175	
Change in Premium Deficiency (DPAC) *	1,994	2,554	(560)	

(Amounts in \$000's)

Rounding differences may occur.

\* Detailed information is included in [Ontario RSP May 2016 Operational Report - Actuarial Highlights](#).

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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.

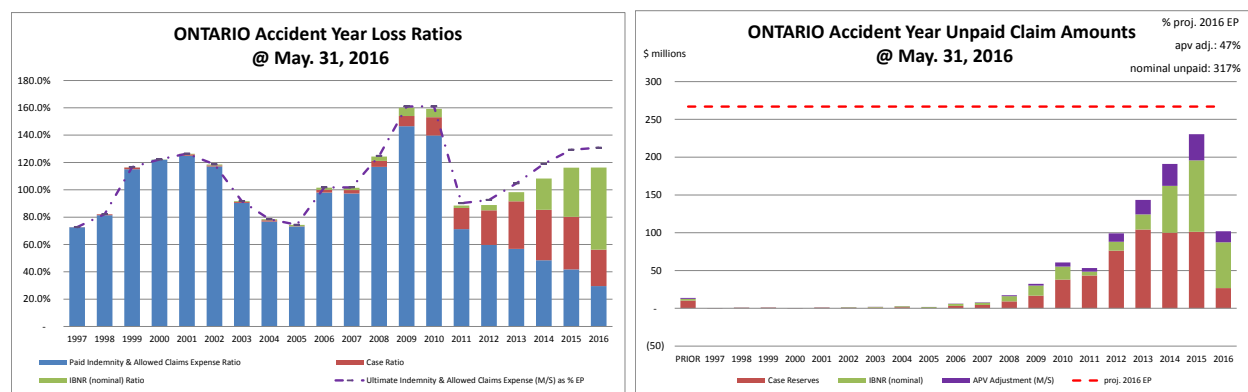
For the month of May 2016, reported losses were \$3.2 million lower than projected. Management investigated reported claims activity and is satisfied that the variance is appropriately accounted for in our current booking process. The Current Accident Year had a \$1.1 million unfavourable variance in reported losses, while the Prior Accident Years had a \$4.3 million favourable variance. Of the Prior Accident Years, 2013 had the largest variance in reported losses at \$2.6 million unfavourable, followed by Accident Year 1995 at \$2.3 million favourable, Accident Year 2015 at \$1.9 million favourable, Accident Year 2014 at \$1.5 million unfavourable and Accident Year 2009 at \$1.2 million favourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

**Effect of Quarterly Valuation**

The May 2016 Ontario Risk Sharing Pool Operational Report reflects the results of an updated valuation as at March 31, 2016, with the associated impacts in relation to the results for May 2016 summarized in the table immediately below.

Ontario	unfav / (fav) for the month and ytd						mth EP 21,046 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	(3,082)	(130)	(3,212)	2,519	-	(693)	(14.6%)	(0.6%)	(15.3%)	12.0%	-	(3.3%)
CAY	(706)	(200)	(906)	313	-	(593)	(3.4%)	(1.0%)	(4.3%)	1.5%	-	(2.8%)
Prem Def	(1,321)	116	(1,205)	486	-	(719)	(6.3%)	0.6%	(5.7%)	2.3%	-	(3.4%)
<b>TOTAL</b>	<b>(5,109)</b>	<b>(214)</b>	<b>(5,323)</b>	<b>3,318</b>	<b>-</b>	<b>(2,005)</b>	<b>(24.3%)</b>	<b>(1.0%)</b>	<b>(25.3%)</b>	<b>15.8%</b>	<b>-</b>	<b>(9.5%)</b>

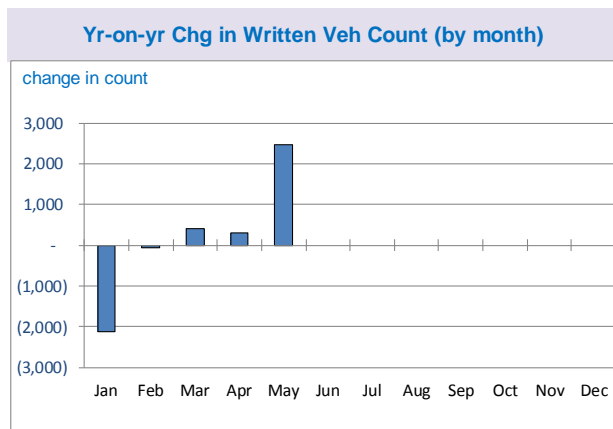
The charts below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.



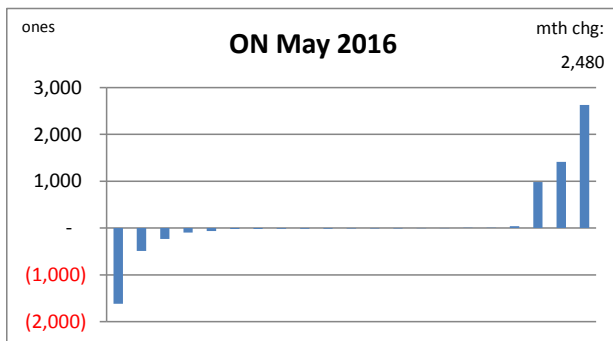
The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Ontario RSP May 2016 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at March 31, 2016](#). The actuarial valuation will be updated next as at June 30, 2016 and we anticipate that the results will be reflected in the August 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 32.8% from 2015, being 2.6% 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 May reporting an increase of 2,480 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 2,571 vehicles, indicating a variance of 91 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in May than projected.

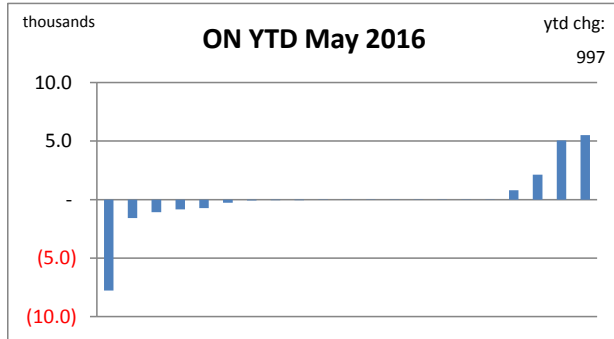


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Fifteen member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 6 transferred more<sup>2</sup>. Of the 15 member company groups transferring fewer vehicles, 1 member

<sup>2</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.

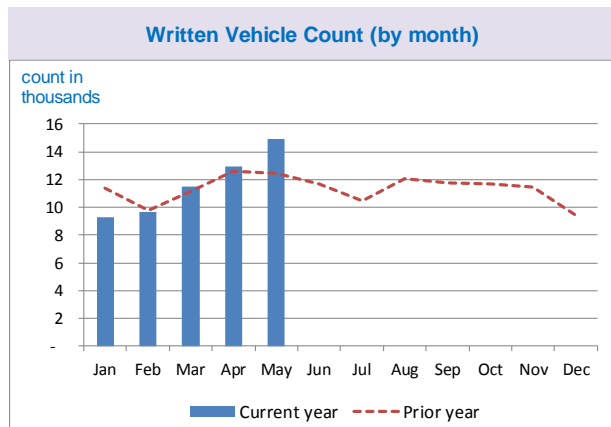
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company group accounted for 62% of the total transfer decrease for the “decliner” members. Of the 6 member company groups transferring more vehicles, 1 member company group accounted for 52% of the total transfer increases for the “grower” members.

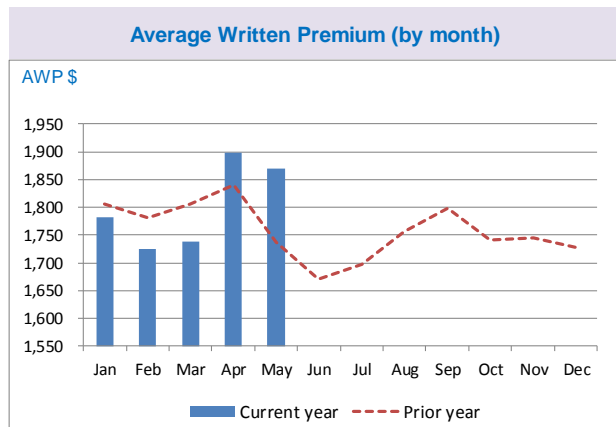


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

May’s year-on-year change in vehicle count transfers to the pool represents a 19.9% increase from May 2015, and counts were up 1.7% year-to-date. Average written premium was up 7.5% in May 2016 compared with the same month in 2015, and up 1.0% year-to-date (see charts immediately below and at the top of the next page).

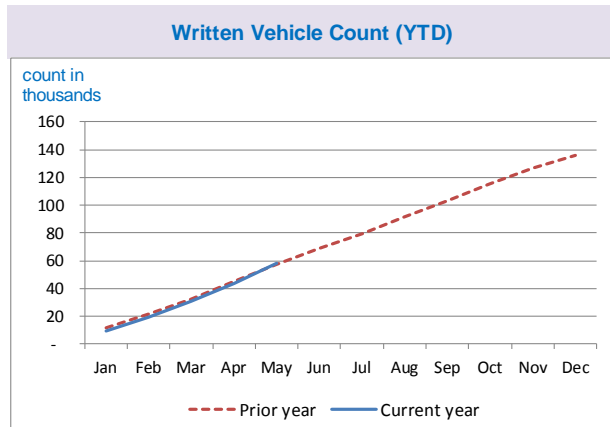


	May-16	May-15	Amt Chg	% Chg
W. Veh curr mth	14,956	12,476	2,480	19.9%

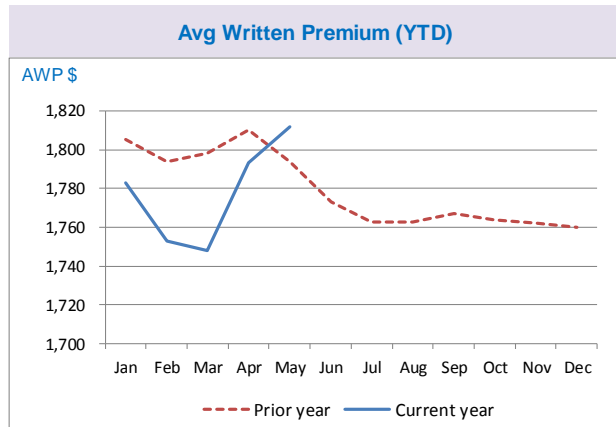


	May-16	May-15	Amt Chg	% Chg
AWP curr mth	1,869	1,738	131	7.5%

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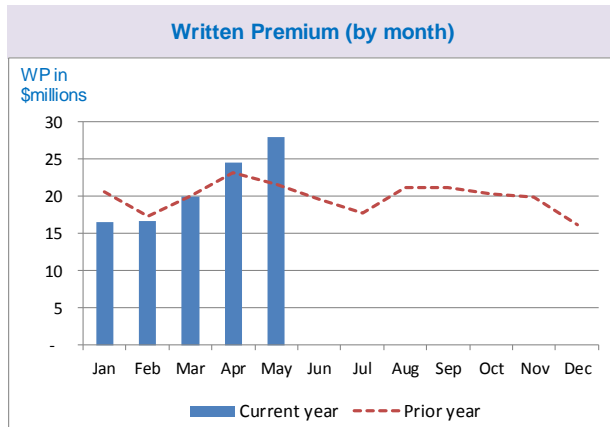


	May-16	May-15	Amt Chg	% Chg
W. Vehicles YTD	58,369	57,372	997	1.7%

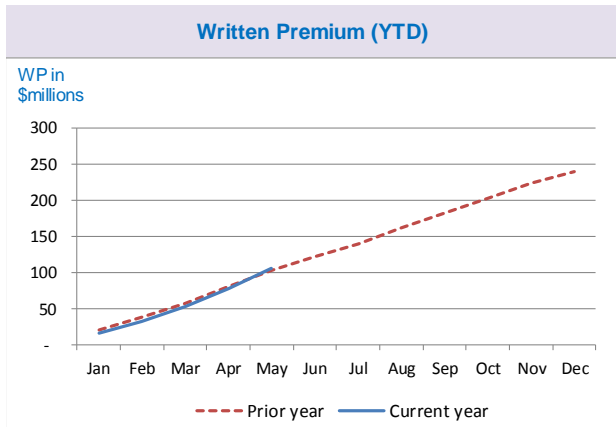


	May-16	May-15	Amt Chg	% Chg
Avg W. Prem YTD	1,812	1,794	18	1.0%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 28.9% for the month compared with the 29.0% increase we projected last month, and was up 2.7% year-to-date (see charts immediately below).



	May-16	May-15	Amt Chg	% Chg
WP (\$000s) curr mth	27,953	21,679	6,274	28.9%



	May-16	May-15	Amt Chg	% Chg
WP (\$000s) YTD	105,774	102,951	2,823	2.7%

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



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**Related links:**

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

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at March 31, 2016](#)

[Actuarial Quarterly Valuation Highlights Exhibits – Ontario RSP](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2016**  
**Risk Sharing Pool - Ontario**  
**Operating Results for the 5 Months Ended May 31, 2016 (Discounted basis)**  
**Source: Monthly Operational Report**  
**(thousands of dollars)**

EXHIBIT 1

	January	February	March	April	May	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Net Premiums Written	\$16,543	\$16,711	\$20,046	\$24,521	\$27,953	\$105,774	\$324,920	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$262	(\$4,644)	(\$6,907)	(\$5,334)	(\$58,046)	\$23,561
<b>Net Premiums Earned</b>	<b>\$20,266</b>	<b>\$18,943</b>	<b>\$20,308</b>	<b>\$19,877</b>	<b>\$21,046</b>	<b>\$100,440</b>	<b>\$266,874</b>	<b>\$262,568</b>
<b>Claims Incurred:</b>								
Prior Accident Years:								
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$46,144)	(\$46,145)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	233	(9,080)	(25,787)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$2,901)	(\$55,224)	(\$71,932)	(\$188,898)
Current Accident Year:								
Undiscounted	\$24,544	\$22,944	\$22,431	\$23,307	\$23,973	\$117,199	\$310,762	\$307,691
Effect of Discounting	3,598	2,733	2,632	2,629	2,973	14,565	37,541	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$26,946	\$131,764	\$348,303	\$342,646
<b>Claims Incurred</b>	<b>\$24,764</b>	<b>\$23,495</b>	<b>(\$19,795)</b>	<b>\$24,031</b>	<b>\$24,045</b>	<b>\$76,540</b>	<b>\$276,371</b>	<b>\$153,748</b>
<b>Underwriting Expenses:</b>								
Expense Allowance	\$4,926	\$4,981	\$5,959	\$7,212	\$8,209	\$31,287	\$97,032	\$70,525
Change in UPDR/DPAC:								
Undiscounted	(745)	(376)	(4,056)	1,084	281	(3,812)	8,333	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,337	10,146	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	(2,475)	18,479	(\$10,560)
<b>Underwriting Expenses</b>	<b>\$3,611</b>	<b>\$4,269</b>	<b>\$1,684</b>	<b>\$9,045</b>	<b>\$10,203</b>	<b>\$28,812</b>	<b>\$115,511</b>	<b>\$59,965</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$8,109)</b>	<b>(\$8,821)</b>	<b>\$38,419</b>	<b>(\$13,199)</b>	<b>(\$13,202)</b>	<b>(\$4,912)</b>	<b>(\$125,008)</b>	<b>\$48,855</b>
<b>Administrative Expenses</b>	<b>\$80</b>	<b>\$128</b>	<b>\$142</b>	<b>\$104</b>	<b>\$116</b>	<b>\$570</b>	<b>\$1,561</b>	<b>\$1,309</b>
<b>Net Result from Operations</b>	<b>(\$8,189)</b>	<b>(\$8,949)</b>	<b>\$38,277</b>	<b>(\$13,303)</b>	<b>(\$13,318)</b>	<b>(\$5,482)</b>	<b>(\$126,569)</b>	<b>\$47,546</b>
<b>Ratios:</b>								
<b>Claims &amp; Expenses Incurred (Earned)</b>								
Prior Accident Years	-16.7%	-11.5%	-220.9%	-9.6%	-13.8%	-55.0%	-27.0%	-71.9%
Current Accident Year	138.9%	135.5%	123.4%	130.5%	128.0%	131.2%	130.5%	130.5%
All Accident Years Combined	122.2%	124.0%	-97.5%	120.9%	114.2%	76.2%	103.5%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	9.0%	46.0%	49.0%	29.3%	43.9%	23.3%
<b>Combined Operating Ratio</b>	<b>140.4%</b>	<b>147.2%</b>	<b>-88.5%</b>	<b>166.9%</b>	<b>163.2%</b>	<b>105.5%</b>	<b>147.4%</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