

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F16 – 059

DATE: AUGUST 29, 2016

SUBJECT: FARM – JUNE 2016 PARTICIPATION REPORT

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

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

Fort McMurray Wildfires

Based on recorded indemnity Actual vs Projected (AvsP) for the months of May and June for FARM Alberta, activity has generally been “as projected”, although non-private passenger has been higher than projected by approximately \$0.5 million for June. This level is consistent with “process variance” for the FARM Alberta non-private passenger. As such, we have not adjusted the 2016 accident year loss ratios used for booking results to explicitly account for FARM claims arising out of the Fort McMurray wildfires experienced in May 2016. (The Alberta ratios are 59.8% for private passenger and 54.7% for non-private passenger.)

While we haven’t adjusted the 2016 accident year loss ratios provided to-date, we estimate that the FARM indemnity claims costs for the Fort McMurray will be no more than \$3 million or 1.6 points of final year-end loss ratio for the FARM in total. We are currently carrying case reserves of \$5.9 million, nominal IBNR of \$5.9 million, and development provision for adverse claims development of \$1.3 million against accident year 2016 for FARM Alberta (private passenger and non-private passenger combined).

The 2016 Q2 quarterly valuation for the FARM has been initiated and is scheduled for completion for implementation into the FARM August 2016 Participation Report, scheduled for release in October 2016. This valuation will include an explicit update to accident year loss ratios as per regular practice.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is \$4.2 million and the incurred loss ratio to the end of 6 months is 71.3%, as summarized in the table at the top of the next page.

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Amounts in \$000s	June 2016	June 2015	Year to date Jun 2016	Year to Date Jun 2015
Written Premiums	19,074	21,730	90,634	102,295
Earned Premiums	14,860	16,333	88,744	97,361
Incurred Losses	9,683	11,356	63,298	67,717
Underwriting Expenses and Others	4,075	4,606	21,213	23,219
Net Result from Operations	1,102	371	4,233	6,425
Ratios:				
Loss ratio % - Prior Accident Year	(6.3%)	(4.6%)	(1.4%)	(4.7%)
- Current Accident Years	71.5%	74.1%	72.7%	74.2%
Total	65.2%	69.5%	71.3%	69.5%
Underwriting & Admin Exp.%	27.5%	28.3%	24.0%	23.9%
Combined Operating Ratio	92.7%	97.8%	95.3%	93.4%

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 \$14.2 million and the estimated combined operating ratio to December 2016 is 92.2%. This updated projection to the end of the year has not changed significantly from the projection provided last month (\$14.1 million and 92.4%). At the current time, no explicit adjustment has been made for the Fort McMurray wildfires, under the view that they would constitute “process variance” within the context of the FARM results overall. This view may change with the completion of the 2016 Q2 valuation which has been initiated and is scheduled for completion for implementation into the FARM August 2016 Participation Report, scheduled for release in October 2016.

Current month results

The Net Result from Operations in the month of June 2016 is \$1.1 million, up \$0.7 million from the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 97.8% to 92.7% applied to \$14.9 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 95.8% at the end of 5 months to 95.3% at the end of 6 months. The 0.5 percentage point decrease is composed of a 1.0 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 0.3 percentage point decrease in the Current Accident Year loss ratio, offset by a 0.8 percentage point increase in the expense 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.

June 2016	Actual	Projection	Difference	Difference %
Written Premiums	19,074	21,113	(2,039)	(9.7%)
Earned Premiums	14,860	16,010	(1,150)	(7.2%)
Reported Losses				
Paid Losses	14,159	11,113	3,046	27.4%
Change in Outstanding Losses	(820)	(621)	(199)	(32.0%)
Total Reported Losses	13,339	10,492	2,847	27.1%
Change in IBNR *	(3,285)	1,193	(4,478)	
Change in Premium Deficiency (DPAC) *	(262)	(322)	60	
Change in Retro Claims Expense *	(371)	(689)	318	

(Amounts in \$000's)

Rounding differences may occur

* Detailed information is included in [FARM June 2016 Participation 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 beyond set thresholds and responds as appropriate.

For the month of June 2016, reported indemnity amounts were \$3.4 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 \$2.8 million*). The Current Accident Year had a \$1.5 million unfavourable variance in reported indemnity, and the Prior Accident Years had an unfavourable variance of \$1.9 million. Of the Prior Accident Years, 1994 had the largest variance in reported losses at \$1.9 million unfavourable, followed by Accident Year 2010 at a \$1.2 million favourable. No other single Prior Accident Year had a reported indemnity variance in excess of \$1.0 million.

The variances for claims activity that were beyond the set thresholds at the jurisdiction, business segment level, and accident year group (i.e. Prior Accident Years vs. Current Accident Year) were investigated by Management. Management is satisfied that the variances are appropriately accounted for in our current booking process.

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

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

Management Comments

As shown in the table immediately below, the private passenger annualized vehicle counts decreased by 10.3% overall in June 2016 relative to June 2015. On a year-to-date basis, exposure counts are down by 6.7%, decreasing in all jurisdictions except Nova Scotia.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of June 2016				Calendar YTD as of June 2016			
	2016	2015	Chg	% Chg	2016	2015	Chg	% Chg
Ontario	221	220	2	0.8%	994	1,115	(122)	(10.9%)
Alberta	161	248	(87)	(35.0%)	882	1,331	(449)	(33.7%)
Newfoundland & Labrador	1,076	1,136	(60)	(5.2%)	5,305	5,365	(60)	(1.1%)
New Brunswick	774	820	(45)	(5.5%)	3,740	3,903	(163)	(4.2%)
Nova Scotia	353	396	(43)	(10.9%)	1,891	1,859	33	1.8%
Prince Edward Island	167	171	(4)	(2.6%)	757	798	(41)	(5.2%)
Yukon	25	56	(31)	(55.4%)	130	214	(83)	(39.0%)
Northwest Territories	208	240	(32)	(13.4%)	1,261	1,338	(76)	(5.7%)
Nunavut	34	78	(45)	(57.1%)	153	274	(121)	(44.2%)
All Jurisdictions	3,019	3,364	(345)	(10.3%)	15,113	16,196	(1,083)	(6.7%)

Note:

This month we changed the basis of the counts provided in the table above from an “Entry Date” basis to a “Share Date” basis to be in line with our share base reporting. In addition, we now exclude fleet-rated private passenger vehicles from this table because fleet-rated private passenger vehicles are considered “non-private passenger” for the purposes of sharing.

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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 June 2016 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 6 months ended June 30, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 06/2016
(thousands of dollars)

	January	February	March	April	May	June	CY2016 YTD	CY2016 12 Months Updated Projections	CY2015 12 Months Actual
UNDERWRITING REVENUE:									
PREMIUMS WRITTEN	\$11,014	\$10,437	\$12,647	\$16,323	\$21,139	\$19,074	\$90,634	\$179,068	\$189,847
CHANGE IN UNEARNED PREMIUMS	4,378	3,624	2,270	(1,943)	(6,005)	(4,214)	(1,890)	(370)	6,085
NET PREMIUMS EARNED	\$15,392	\$14,061	\$14,917	\$14,380	\$15,134	\$14,860	\$88,744	\$178,698	\$195,932
CLAIMS INCURRED									
PRIOR ACCIDENT YEARS									
UNDISCOUNTED	(201)	70	(2,552)	(2)	4,266	(173)	1,408	1,408	(15,364)
EFFECT OF DISCOUNTING	(575)	(797)	(288)	(592)	368	(769)	(2,653)	(6,651)	(4,171)
DISCOUNTED	(776)	(727)	(2,840)	(594)	4,634	(942)	(1,245)	(5,243)	(19,535)
CURRENT ACCIDENT YEAR									
UNDISCOUNTED	10,458	9,614	10,300	9,851	10,354	10,175	60,752	122,271	138,707
EFFECT OF DISCOUNTING	813	664	622	530	712	450	3,791	6,908	8,047
DISCOUNTED	11,271	10,278	10,922	10,381	11,066	10,625	64,543	129,179	146,754
CLAIMS INCURRED	\$10,495	\$9,551	\$8,082	\$9,787	\$15,700	\$9,683	\$63,298	\$123,936	\$127,219
UNDERWRITING EXPENSES									
OPERATING & SERVICE FEES	1,170	1,059	1,381	1,666	2,156	2,000	9,432	18,359	19,838
AGENTS COMMISSIONS	899	873	1,083	1,366	1,706	1,607	7,534	15,030	15,658
DRIVER RECORD ABSTRACTS	175	148	396	147	291	222	1,379	2,695	3,187
BAD DEBTS	(7)	(4)	1	190	(5)	(6)	169	174	(579)
PREMIUM DEFICIENCY/(DPAC)									
UNDISCOUNTED	336	277	178	(144)	(316)	(282)	49	(84)	292
EFFECT OF DISCOUNTING	(16)	(5)	4	1	87	20	91	60	(230)
DISCOUNTED	320	272	182	(143)	(229)	(262)	140	(24)	62
UNDERWRITING EXPENSES	\$2,557	\$2,348	\$3,043	\$3,226	\$3,919	\$3,561	\$18,654	\$36,234	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$2,340	\$2,162	\$3,792	\$1,367	(\$4,485)	\$1,616	\$6,792	\$18,528	\$30,547
ADMINISTRATIVE EXPENSES	364	320	607	399	391	522	2,603	4,525	5,085
PREMIUM FINANCE FEE	(10)	(9)	(9)	(9)	(9)	(10)	(56)	(45)	(108)
INVESTMENT INCOME	17	16	18	15	16	18	100	206	260
OPERATING RESULTS	\$1,983	\$1,849	\$3,194	\$974	(\$4,869)	\$1,102	\$4,233	\$14,164	\$25,614
RATIOS:									
Claims & Adj Expenses Incurred (Earned)									
Prior Accident Year	-5.0%	-5.2%	-19.0%	-4.1%	30.6%	-6.3%	-1.4%	-2.9%	-10.0%
Current Accident Years	73.2%	73.1%	73.2%	72.2%	73.1%	71.5%	72.7%	72.3%	74.9%
All Accident Years Combined	68.2%	67.9%	54.2%	68.1%	103.7%	65.2%	71.3%	69.4%	64.9%
Underwriting & Admin Exp.(Earned)	19.0%	19.0%	24.5%	25.2%	28.5%	27.5%	24.0%	22.8%	22.1%
COMBINED OPERATING RATIO	87.2%	86.9%	78.7%	93.3%	132.2%	92.7%	95.3%	92.2%	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 6 months ended June 30, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 06/2016
(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	\$28,508	\$21,445	\$9,010	\$2,471	\$10,801	\$14,353	\$1,099	\$2,442	\$505	\$90,634	\$179,068	\$189,847
CHANGE IN UNEARNED PREMIUMS	1,953	(1,745)	(768)	(155)	(718)	(551)	(85)	(76)	255	(1,890)	(370)	6,085
NET PREMIUMS EARNED	\$30,461	\$19,700	\$8,242	\$2,316	\$10,083	\$13,802	\$1,014	\$2,366	\$760	\$88,744	\$178,698	\$195,932
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(2,139)	496	1,395	(454)	511	320	57	1,580	(358)	1,408	1,408	(15,364)
EFFECT OF DISCOUNTING	(1,274)	(784)	24	(29)	(148)	(524)	2	117	(37)	(2,653)	(6,651)	(4,171)
DISCOUNTED	(3,413)	(288)	1,419	(483)	363	(204)	59	1,697	(395)	(1,245)	(5,243)	(19,535)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	19,950	12,737	5,704	1,396	6,664	12,047	660	1,212	382	60,752	122,271	138,707
EFFECT OF DISCOUNTING	1,116	1,058	308	90	386	694	47	67	25	3,791	6,908	8,047
DISCOUNTED	21,066	13,795	6,012	1,486	7,050	12,741	707	1,279	407	64,543	129,179	146,754
CLAIMS INCURRED	\$17,653	\$13,507	\$7,431	\$1,003	\$7,413	\$12,537	\$766	\$2,976	\$12	\$63,298	\$123,936	\$127,219
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	2,871	2,338	919	250	1,096	1,513	124	257	64	9,432	18,359	19,838
AGENTS COMMISSIONS	2,460	1,285	793	234	1,020	1,350	97	245	50	7,534	15,030	15,658
DRIVER RECORD ABSTRACTS	402	77	327	84	213	166	17	85	8	1,379	2,695	3,187
BAD DEBTS	(5)	190	(1)	0	0	(15)	0	0	0	169	174	(579)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	187	(108)	(65)	(12)	(56)	88	(4)	(6)	25	49	(84)	292
EFFECT OF DISCOUNTING	0	0	0	0	0	91	0	0	0	91	60	(230)
DISCOUNTED	187	(108)	(65)	(12)	(56)	179	(4)	(6)	25	140	(24)	62
UNDERWRITING EXPENSES	\$5,915	\$3,782	\$1,973	\$556	\$2,273	\$3,193	\$234	\$581	\$147	\$18,654	\$36,234	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$6,893	\$2,411	(\$1,162)	\$757	\$397	(\$1,928)	\$14	(\$1,191)	\$601	\$6,792	\$18,528	\$30,547
ADMINISTRATIVE EXPENSES	747	594	265	92	311	399	59	92	44	2,603	4,525	5,085
PREMIUM FINANCE FEE	(18)	(18)	(6)	0	(6)	(8)	0	0	0	(56)	(45)	(108)
INVESTMENT INCOME	27	36	8	2	10	17	0	0	0	100	206	260
OPERATING RESULTS	\$6,155	\$1,835	(\$1,425)	\$667	\$90	(\$2,318)	(\$45)	(\$1,283)	\$557	\$4,233	\$14,164	\$25,614
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-11.2%	-1.5%	17.2%	-20.9%	3.6%	-1.5%	5.8%	71.7%	-52.0%	-1.4%	-2.9%	-10.0%
Current Accident Years	69.2%	70.0%	72.9%	64.2%	69.9%	92.3%	69.7%	54.1%	53.6%	72.7%	72.3%	74.9%
All Accident Years Combined	58.0%	68.5%	90.1%	43.3%	73.5%	90.8%	75.5%	125.8%	1.6%	71.3%	69.4%	64.9%
Underwriting & Admin Exp.(Earned)	21.9%	22.2%	27.2%	28.0%	25.6%	26.0%	28.9%	28.4%	25.1%	24.0%	22.8%	22.1%
COMBINED OPERATING RATIO	79.9%	90.7%	117.3%	71.3%	99.1%	116.8%	104.4%	154.2%	26.7%	95.3%	92.2%	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