

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 060

DATE: AUGUST 29, 2016

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

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

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

Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$37.2 million and the incurred loss ratio to the end of 7 months is 89.0%, as summarized in the table below.

Amounts in \$000s	July 2016	July 2015	Year to date Jul 2016	Year to Date Jul 2015
Written Premiums	29,255	17,705	165,356	140,212
Earned Premiums	22,378	22,222	143,829	157,815
Incurred Losses	26,237	28,941	127,957	136,381
Underwriting Expenses and Others	11,341	3,764	53,102	43,662
Net Result from Operations	(15,200)	(10,483)	(37,230)	(22,228)
Ratios:				
Loss ratio % - Prior Accident Year	(12.9%)	(10.7%)	(41.8%)	(55.7%)
- Current Accident Years	130.1%	141.0%	130.8%	142.1%
<i>Total</i>	117.2%	130.3%	89.0%	86.4%
Underwriting & Admin Exp.%	50.7%	16.9%	36.9%	27.7%
Combined Operating Ratio	167.9%	147.2%	125.9%	114.1%

Rounding differences may apply.

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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 -\$124.5 million and the estimated combined operating ratio to December 2016 is 146.9%. This updated projection to the end of the year has improved by \$1.7 million from the projection provided last month (-\$126.2 million and 147.2%). This improvement is driven by a \$2.8 million reduction in projected written premium (and associated assumption updates), resulting in a lower projected net operating loss.

Current Month Results

The Ontario Risk Sharing Pool produced a -\$15.2 million Net Result from Operations in the month of July 2016, a \$4.7 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$0.1 million unfavourable impact associated with the \$0.2 million increase in earned premium (at a combined ratio of 147.2%), with the remaining \$4.6 million deterioration stemming from the overall increase in the combined ratio (from 147.2% to 167.9% applied to \$22.4 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 118.2% at the end of 6 months to 125.9% at the end of 7 months. The 7.7 percentage point increase is composed of a 5.3 percentage point increase in the Prior Accident Year loss ratio, and a 2.5 percentage point increase in the expense ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio.

Variances from Projections

The table at the top of the next page provides a summary of key components of the operating results as compared to the estimates projected last month.

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July 2016	Actual	Projection	Difference	Difference %
Written Premiums	29,255	32,057	(2,802)	(8.7%)
Earned Premiums	22,378	23,063	(685)	(3.0%)
Reported Losses				
Paid Losses	25,919	20,500	5,419	26.4%
Loss Expenses Paid	3,067	1,807	1,260	69.7%
Change in Outstanding Losses	(6,967)	939	(7,906)	(842.0%)
Total Reported Losses	22,019	23,246	(1,227)	(5.3%)
Change in IBNR *	4,218	4,648	(430)	
Change in Premium Deficiency (DPAC) *	2,627	3,350	(723)	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Ontario RSP July 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 beyond set thresholds and responds as appropriate.

For the month of July 2016, reported losses were \$1.2 million lower than projected. The Current Accident Year had a \$1.1 million unfavourable variance in reported losses, while the Prior Accident Years had a \$2.3 million favourable variance. Of the Prior Accident Years, 2009 had the largest variance in reported losses at \$1.1 million favourable, followed by Accident Year 2006 at a \$1.1 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for reported claims activity were beyond the set thresholds for both the Prior Accident Years and the Current Accident Year (paid variances were within the set thresholds). Management investigated reported claims activity and is satisfied that the variances are appropriately accounted for in our current booking process.

Part of management's investigation involved discussion with a member company who is in the process of completing a comprehensive review of their open claims transactions as reported to the FA RSP system. The investigation found that correcting transactions were posted to reverse claim closures (and associated case reserve takedowns) posted by this member during the prior month (June 2016). While the amounts are not large relative to Ontario RSP unpaid balances, the amounts have been confirmed as correct with the member and the investigation and discussion with the member continues to ensure our records are accurate in relation to their own (i.e. the member's) records in relation to their RSP claims portfolio.

Booking IBNR

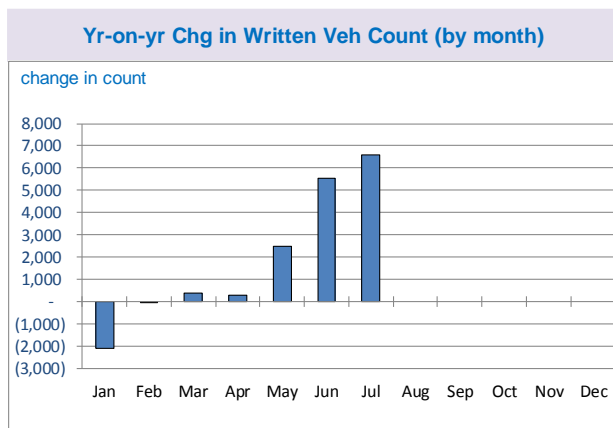
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 July 2016 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

The July 2016 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is 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.

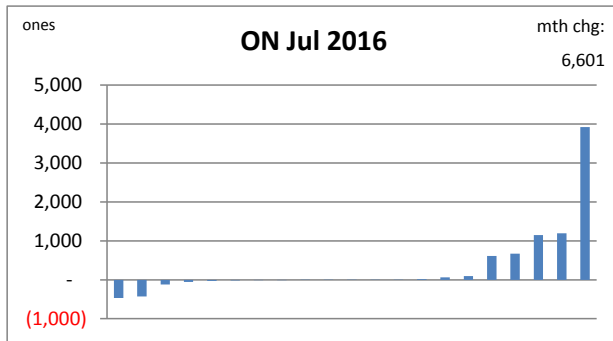
Management Comments

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 32.5% from 2015, being 2.5% of the 2015 industry private passenger vehicle count (excluding farmers) and the 2014 industry private passenger vehicle farmers count (as we don’t have an industry count for farmers 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.



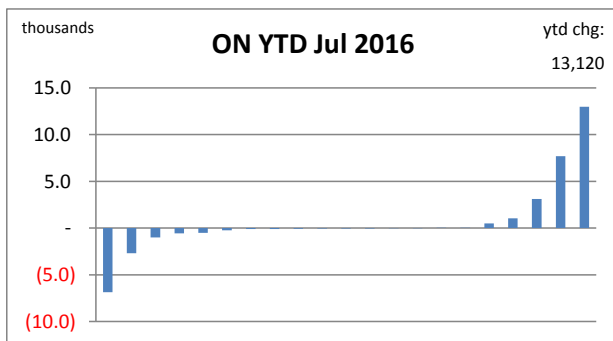
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with July reporting an increase of 6,601 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 7,267 vehicles, indicating a variance of 666 from the actual transfers. This variance was mainly due to one member company transferring a lower number of vehicles to the pool in July than projected.

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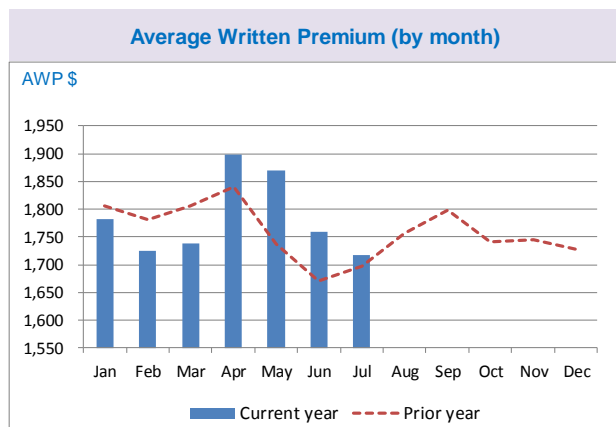
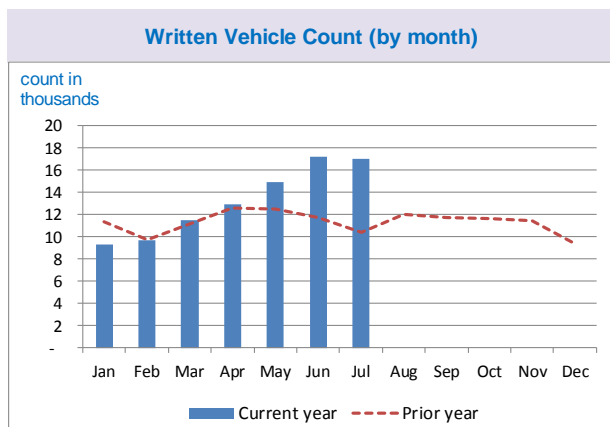
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 13 transferred more¹. Of the 8 member company groups transferring fewer vehicles, 2 member

company groups accounted for 79% of the total transfer decrease for the “decliner” members. Of the 13 member company groups transferring more vehicles, 1 member company group accounted for 51% 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.

July’s year-on-year change in vehicle count transfers to the pool represents a 63.3% increase from July 2015, and counts were up 16.5% year-to-date. Average written premium was up 1.2% in July 2016 compared with the same month in 2015, and up 1.2% year-to-date (see charts immediately below and at the top of the next page).

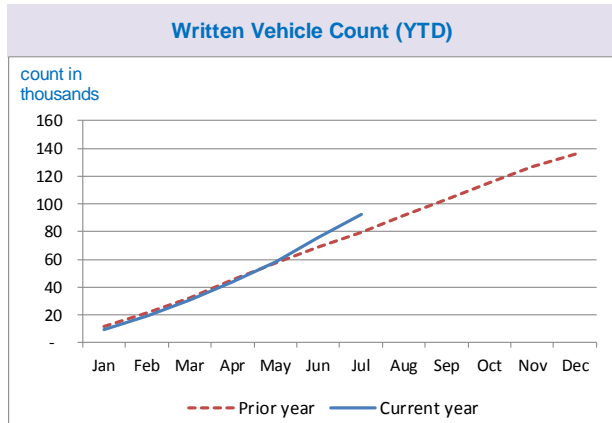


	Jul-16	Jul-15	Amt Chg	% Chg
W. Veh curr mth	17,031	10,430	6,601	63.3%

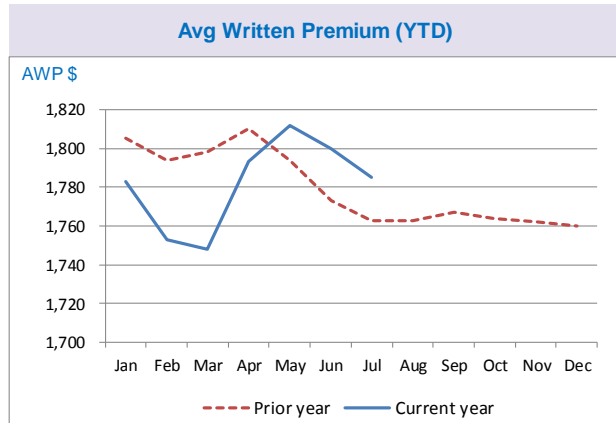
	Jul-16	Jul-15	Amt Chg	% Chg
AWP curr mth	1,718	1,697	21	1.2%

¹For 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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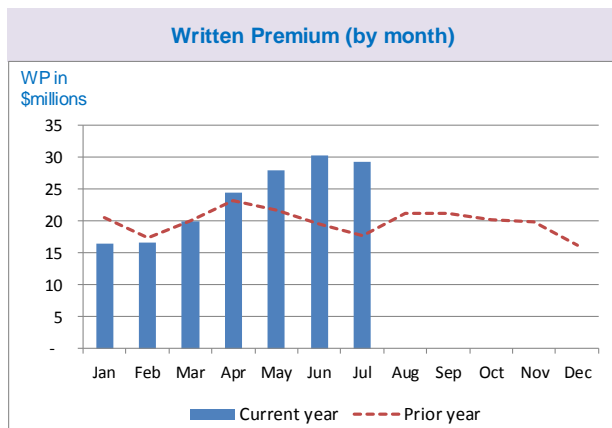


	Jul-16	Jul-15	Amt Chg	% Chg
W. Vehicles YTD	92,633	79,513	13,120	16.5%

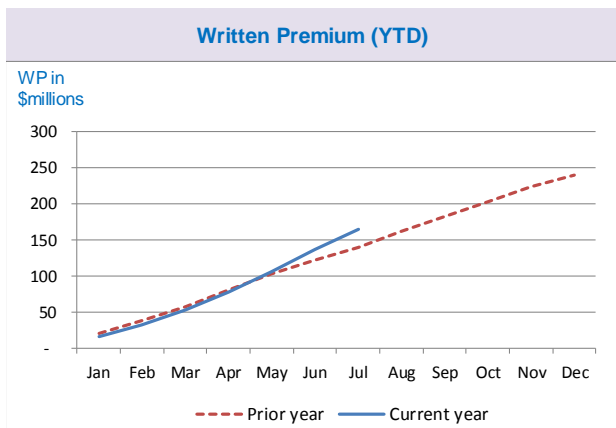


	Jul-16	Jul-15	Amt Chg	% Chg
Avg W. Prem YTD	1,785	1,763	22	1.2%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 65.2% for the month compared with the 81.1% increase we projected last month, and was up 17.9% year-to-date (see charts immediately below).



	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) curr mth	29,255	17,705	11,550	65.2%



	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) YTD	165,356	140,212	25,145	17.9%

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 July 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Ontario

Operating Results for the 7 Months Ended July 31, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Net Premiums Written	\$16,543	\$16,711	\$20,046	\$24,521	\$27,953	\$30,327	\$29,255	\$165,356	\$320,606	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$262	(\$4,644)	(\$6,907)	(\$9,316)	(\$6,877)	(\$21,527)	(\$54,770)	\$23,561
Net Premiums Earned	\$20,266	\$18,943	\$20,308	\$19,877	\$21,046	\$21,011	\$22,378	\$143,829	\$265,836	\$262,568
Claims Incurred:										
Prior Accident Years:										
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$50)	(\$65)	(\$46,259)	(\$46,261)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	233	(1,954)	(2,816)	(13,850)	(24,649)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$2,901)	(\$2,004)	(\$2,881)	(\$60,109)	(\$70,910)	(\$188,898)
Current Accident Year:										
Undiscounted	\$24,544	\$22,944	\$22,431	\$23,307	\$23,973	\$24,487	\$26,093	\$167,779	\$309,673	\$307,691
Effect of Discounting	3,598	2,733	2,632	2,629	2,973	2,697	3,025	20,287	37,409	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$26,946	\$27,184	\$29,118	\$188,066	\$347,082	\$342,646
Claims Incurred	\$24,764	\$23,495	(\$19,795)	\$24,031	\$24,045	\$25,180	\$26,237	\$127,957	\$276,172	\$153,748
Underwriting Expenses:										
Expense Allowance	\$4,926	\$4,981	\$5,959	\$7,212	\$8,209	\$8,906	\$8,616	\$48,809	\$95,385	\$70,525
Change in UPDR/DPAC:										
Undiscounted	(745)	(376)	(4,056)	1,084	281	1,847	1,492	(473)	7,698	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,517	1,135	3,989	9,614	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	3,364	2,627	3,516	17,312	(\$10,560)
Underwriting Expenses	\$3,611	\$4,269	\$1,684	\$9,045	\$10,203	\$12,270	\$11,243	\$52,325	\$112,697	\$59,965
Net Underwriting Gain (Loss)	(\$8,109)	(\$8,821)	\$38,419	(\$13,199)	(\$13,202)	(\$16,439)	(\$15,102)	(\$36,453)	(\$123,033)	\$48,855
Administrative Expenses	\$80	\$128	\$142	\$104	\$116	\$109	\$98	\$777	\$1,499	\$1,309
Net Result from Operations	(\$8,189)	(\$8,949)	\$38,277	(\$13,303)	(\$13,318)	(\$16,548)	(\$15,200)	(\$37,230)	(\$124,532)	\$47,546
Ratios:										
Claims & Expenses Incurred (Earned)										
Prior Accident Years	-16.7%	-11.5%	-220.9%	-9.6%	-13.8%	-9.5%	-12.9%	-41.8%	-26.7%	-71.9%
Current Accident Year	138.9%	135.5%	123.4%	130.5%	128.0%	129.4%	130.1%	130.8%	130.6%	130.5%
All Accident Years Combined	122.2%	124.0%	-97.5%	120.9%	114.2%	119.9%	117.2%	89.0%	103.9%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	9.0%	46.0%	49.0%	58.9%	50.7%	36.9%	43.0%	23.3%
Combined Operating Ratio	140.4%	147.2%	-88.5%	166.9%	163.2%	178.8%	167.9%	125.9%	146.9%	81.9%

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