

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 061

DATE: AUGUST 29, 2016

**SUBJECT: ALBERTA RISK SHARING POOLS
– 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 Alberta Risk Sharing Pools Operational Reports are now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Fort McMurray Wildfires

Based on recorded indemnity Actual vs Projected (AvsP) for the months of May through July for Alberta RSPs, activity has generally been “as projected”, although the Non-Grid RSP recorded activity in the month of May that was higher than projected by approximately \$5.8 million. As such, we have not adjusted the 2016 accident year loss ratios used for booking results to explicitly account for Alberta RSP claims arising out of the Fort McMurray wildfires experienced in May 2016. (The ratios are 78.6% for the Grid RSP and 95.7% for the Non-Grid RSP.)

While we haven’t adjusted the 2016 accident year loss ratios provided to-date, we estimate that the claims costs for the Fort McMurray will be no more than \$2 million for the Grid RSP (1.5 points of final year-end loss ratio) and no more than \$5 million for the Non-Grid RSP (5.4 points of final year-end loss ratio). For the Grid RSP, we are currently carrying case reserves of \$24.4 million, nominal IBNR of \$15.7 million, and development provision for adverse claims development of \$4.7 million against accident year 2016. For the Non-Grid RSP, we are currently carrying case reserves of \$22.5 million, nominal IBNR of \$5.4 million, and development provision for adverse claims development of \$3.2 million against accident year 2016.

The 2016 Q2 quarterly valuations for the RSPs has been initiated and is scheduled for completion for implementation into the RSP August 2016 Operational Reports, scheduled for release in September 2016. These valuations will include an explicit update to accident year loss ratios as per regular practice.

Alberta Grid RSP - Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$47.5 million and the incurred loss ratio to the end of 7 months is 125.6%, as summarized in the table immediately below.

Amounts in \$000s	July 2016	July 2015	Year to date Jul 2016	Year to Date Jul 2015
Written Premiums	14,392	12,891	80,307	80,767
Earned Premiums	11,155	12,286	72,981	87,145
Incurring Losses	8,848	8,370	91,651	68,106
Underwriting Expenses and Others	3,900	3,483	28,871	24,155
Net Result from Operations	(1,593)	433	(47,541)	(5,116)
Ratios:				
Loss ratio % - Prior Accident Year	(4.6%)	(4.5%)	40.8%	4.1%
- Current Accident Years	83.9%	72.7%	84.8%	74.1%
<i>Total</i>	79.3%	68.2%	125.6%	78.2%
Underwriting & Admin Exp.%	35.0%	28.3%	39.6%	27.7%
Combined Operating Ratio	114.3%	96.5%	165.2%	105.9%

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 for Risk Sharing Pool - Alberta Grid” attached to this bulletin.

Updated Projection to Year-end 2016

The projected calendar year Net Result from Operations to December 2016 is -\$55.8 million and the estimated combined operating ratio to December 2016 is 141.0%. This updated projection to the end of the year has not changed significantly from the projection provided last month (-\$55.1 million and 140.4%). 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 Grid RSP 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 Grid RSP August 2016 Operational Report, scheduled for release in September 2016.

Current Month Results

The Alberta Grid Risk Sharing Pool produced a -\$1.6 million Net Result from Operations in the month of July 2016, a deterioration of \$2.0 million compared with the same month last year. This deterioration mainly stems from the overall increase in the combined ratio (from 96.5% to 114.3% applied to \$11.2 million in earned premium).

Bulletin F16–061
Alberta Risk Sharing Pools – July 2016 Operational Reports

This month’s results moved the year-to-date combined operating ratio from 174.4% at the end of 6 months to 165.2% at the end of 7 months. The 9.2 percentage point decrease is composed of a 8.2 percentage point decrease in the Prior Accident Year loss ratio, coupled with a 0.2 percentage point decrease in the Current Accident Year loss ratio, and a 0.8 percentage point decrease in the expense ratio.

Variances from Projections

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

July 2016	Actual	Projection	Difference	Difference %
Written Premiums	14,392	15,757	(1,365)	(8.7%)
Earned Premiums	11,155	11,625	(470)	(4.0%)
Reported Losses				
Paid Losses	7,756	9,711	(1,955)	(20.1%)
Loss Expenses Paid	462	488	(26)	(5.3%)
Change in Outstanding Losses	2,776	(1,342)	4,118	306.9%
Total Reported Losses	10,994	8,857	2,137	24.1%
Change in IBNR *	(2,146)	183	(2,329)	
Change in Premium Deficiency (DPAC) *	(510)	(639)	129	

(Amounts in \$000's)

Rounding differences may apply.

* Detailed information is included in [Alberta Grid 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 \$2.1 million higher than projected. The Current Accident Year reported a favourable variance of \$0.2 million, while the Prior Accident Years reported an unfavourable variance of \$2.3 million. No single Prior Accident Year had a variance in excess of \$1.0 million.

The variances for claims activity (both reported and paid) were within the set thresholds for both the Prior Accident Years and the Current Accident Year for the month.

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

Bulletin F16-061**Alberta Risk Sharing Pools – July 2016 Operational Reports**

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 [Alberta Grid RSP July 2016 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

The July 2016 Alberta Grid 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.

Alberta Non-Grid RSP - Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$17.5 million and the incurred loss ratio to the end of 7 months is 96.5%, as summarized in the table immediately below.

Amounts in \$000s	July 2016	July 2015	Year to date Jul 2016	Year to Date Jul 2015
Written Premiums	9,598	6,373	60,899	54,743
Earned Premiums	7,667	7,982	50,794	52,896
Incurred Losses	7,439	8,105	49,025	58,556
Underwriting Expenses and Others	3,031	1,727	19,316	16,053
Net Result from Operations	(2,803)	(1,850)	(17,547)	(21,713)
Ratios:				
Loss ratio % - Prior Accident Year	(4.4%)	(3.0%)	(5.1%)	5.7%
- Current Accident Years	101.4%	104.5%	101.6%	105.0%
<i>Total</i>	97.0%	101.5%	96.5%	110.7%
Underwriting & Admin Exp.%	39.5%	21.6%	38.0%	30.3%
Combined Operating Ratio	136.5%	123.1%	134.5%	141.0%

Rounding differences may apply.

These results are discussed in some detail in the “Current Month Results” section below. For additional numeric details, please refer to Exhibit 2 “Summary of Operations for Calendar Year 2016 for Risk Sharing Pool - Alberta Non-Grid” attached to this bulletin.

Updated Projection to Year-end 2016

The projected calendar year Net Result from Operations to December 2016 is -\$31.4 million and the estimated combined operating ratio to December 2016 is 133.8%. This updated projection to the end of the year has not changed significantly from the projection provided last month (-\$31.5 million and 133.7%). 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

Bulletin F16-061
Alberta Risk Sharing Pools – July 2016 Operational Reports

the context of the Non-Grid RSP 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 Non-Grid RSP August 2016 Operational Report, scheduled for release in October 2016.

Current month results

The Alberta Non-Grid Risk Sharing Pool produced a -\$2.8 million Net Result from Operations in the month of July 2016, a deterioration of approximately \$0.9 million compared with the same month last year. This deterioration is composed of a \$0.1 million favourable impact associated with the \$0.3 million decrease in earned premium (at a combined ratio of 123.1%), offset by a \$1.0 million deterioration stemming from the overall increase in the combined ratio (from 123.1% to 136.5% applied to \$7.7 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 134.2% at the end of 6 months to 134.5% at the end of 7 months. The 0.3 percentage point increase is composed of a 0.1 percentage point increase in the Prior Accident Year loss ratio, and a 0.2 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.

July 2016	Actual	Projection	Difference	Difference %
Written Premiums	9,598	9,957	(359)	(3.6%)
Earned Premiums	7,667	7,912	(245)	(3.1%)
Reported Losses				
Paid Losses	5,871	6,487	(616)	(9.5%)
Loss Expenses Paid	241	240	1	0.4%
Change in Outstanding Losses	494	653	(159)	(24.3%)
Total Reported Losses	6,606	7,380	(774)	(10.5%)
Change in IBNR *	833	259	574	
Change in Premium Deficiency (DPAC) *	64	66	(2)	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Alberta Non-Grid RSP July 2016 Operational Report - Actuarial Highlights](#).

As discussed in relation to the Alberta Grid RSP, 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 \$0.8 million lower than projected. The Current Accident Year had a \$0.8 million favourable variance in reported losses, while the Prior Accident Years had a \$2 thousand unfavourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for reported claims activity were within the set thresholds for both the Prior Accident Years and the Current Accident Year for the month. However, large case reserve activity for a particular accident year was identified, investigated, and confirmed as recorded correctly. The variances for paid claims activity were outside the set thresholds for both the Prior Accident Years and the Current Accident Year for the month. Management investigated paid claims activity and is satisfied that the variances are appropriately accounted for in our current booking process.

Booking IBNR

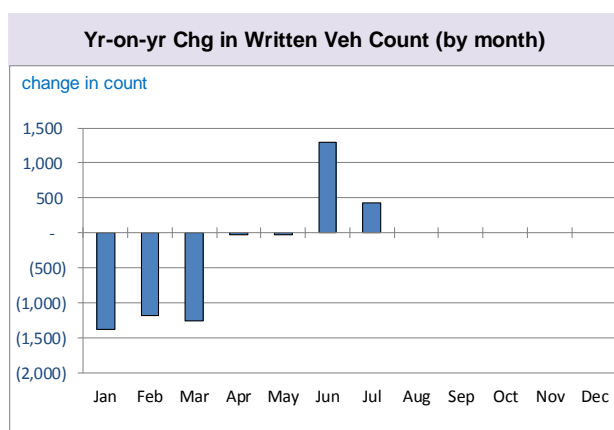
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

Effect of Quarterly Valuation

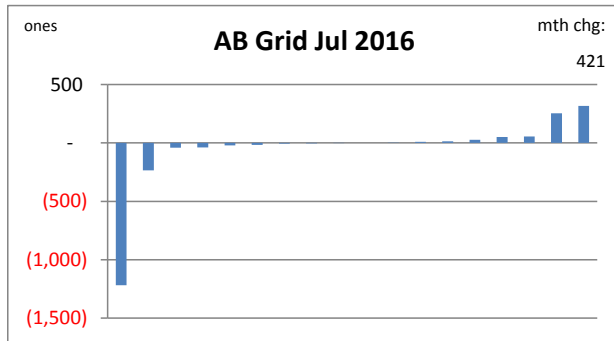
The July 2016 Alberta Non-Grid Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2016). The actuarial valuation will be updated next as at June 30, 2016 and we anticipate that the results will be reflected in the August 2016 Operational Report.

Management Comments

Alberta Grid

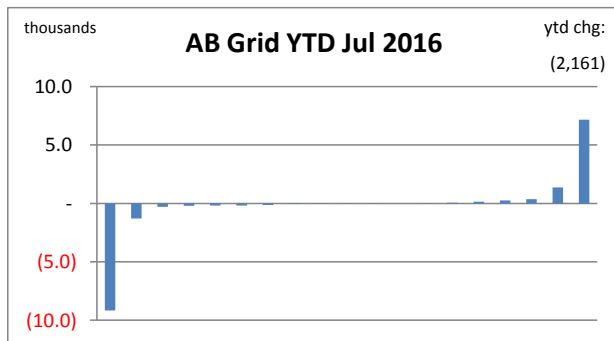


The chart on the left shows the year-on-year change in the vehicles transferred to the Alberta Grid pool by month, with July showing an increase of 421 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 1,105 vehicles, indicating a variance of 684 vehicles 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.



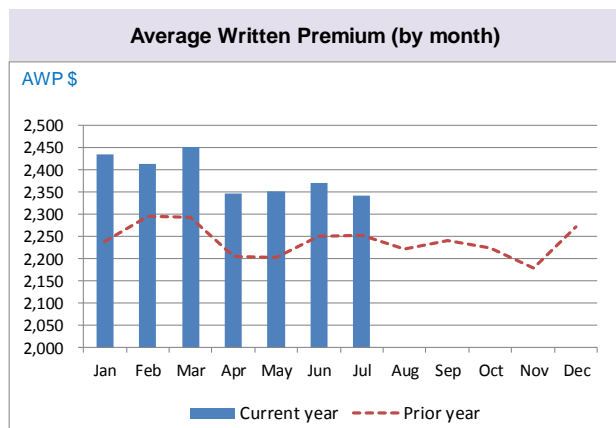
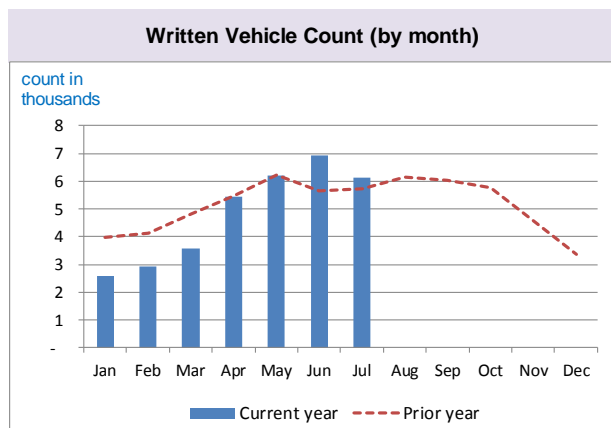
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Nine member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 9 transferred more and 1 remained the same. Of the 9 member company groups transferring fewer vehicles, 1 member company group accounted for 77% of the total transfer decrease for these “decliner” members. Of the 9 member company groups transferring more vehicles, 1 member company group accounted for 64% of the total transfer increases for these “grower” members.

fewer vehicles, 1 member company group accounted for 77% of the total transfer decrease for these “decliner” members. Of the 9 member company groups transferring more vehicles, 1 member company group accounted for 64% of the total transfer increases for these “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 vehicle count transfers to the pool represent a 7.4% increase from July 2015, but vehicle counts were down 6.0% year-to-date. Average written premium was up 4.0% in July 2016 compared with the same month in 2015, and up 5.8% year-to-date (see charts immediately below and at the top of the next page).

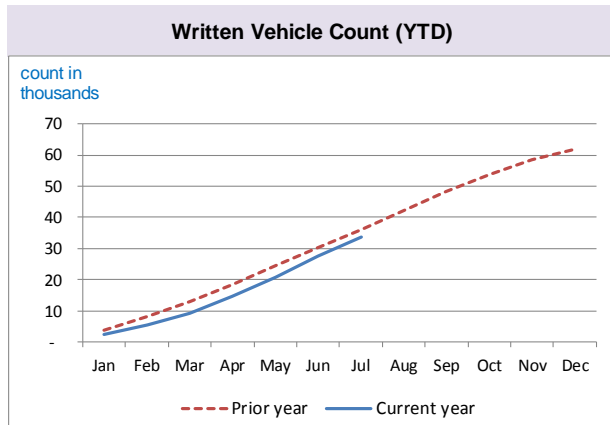


	Jul-16	Jul-15	Amt Chg	% Chg
W. Veh curr mth	6,143	5,722	421	7.4%

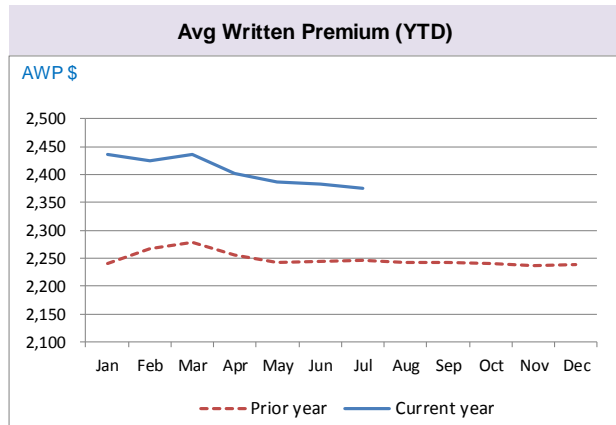
	Jul-16	Jul-15	Amt Chg	% Chg
AWP curr mth	2,343	2,253	90	4.0%

Bulletin F16-061

Alberta Risk Sharing Pools – July 2016 Operational Reports

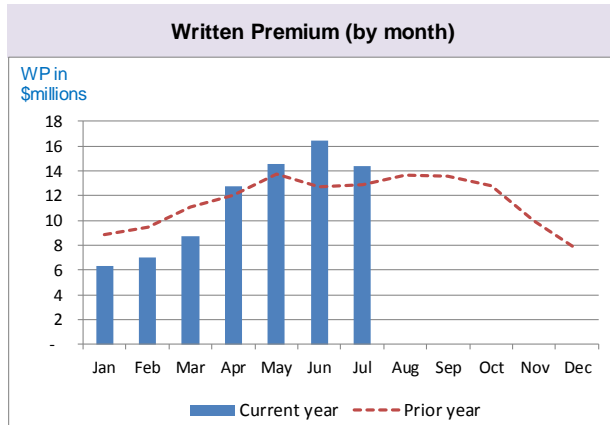


	Jul-16	Jul-15	Amt Chg	% Chg
W. Vehicles YTD	33,803	35,964	(2,161)	-6.0%

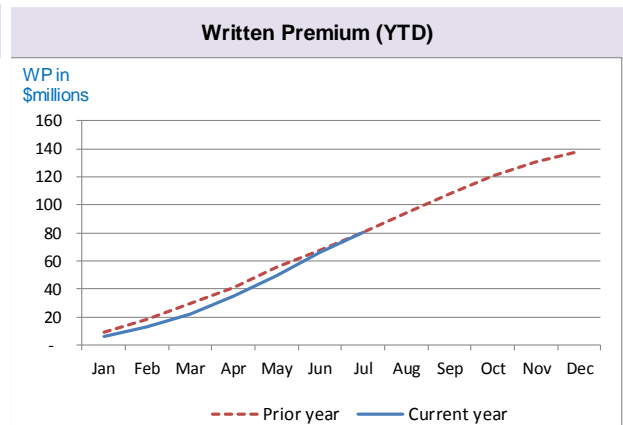


	Jul-16	Jul-15	Amt Chg	% Chg
Avg W. Prem YTD	2,376	2,246	130	5.8%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 11.6% for the month compared with the 22.2% increase we projected last month, but was down 0.6% year-to-date (see charts immediately below).

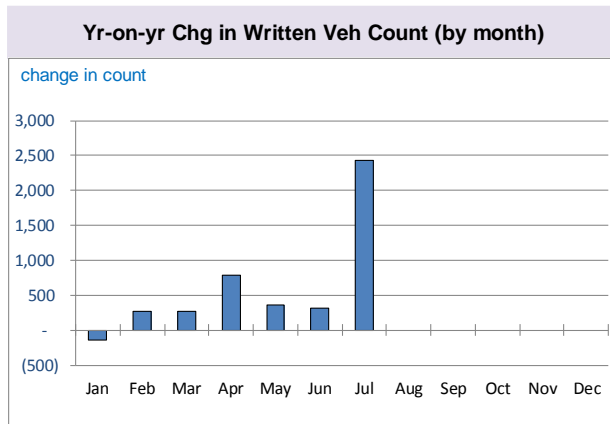


	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) curr mth	14,392	12,891	1,501	11.6%



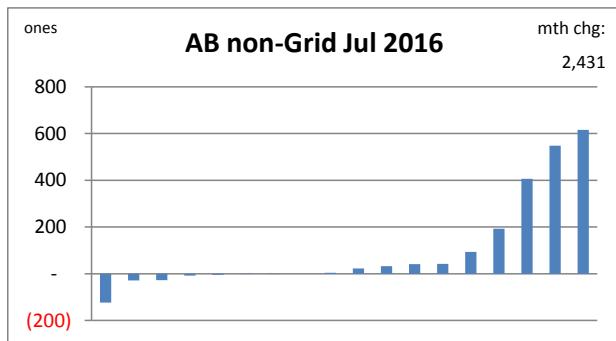
	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) YTD	80,307	80,767	(460)	-0.6%

Alberta Non-Grid



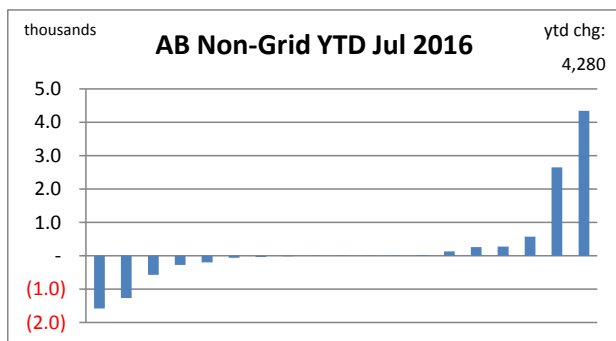
The chart on the left shows the year-on-year change in the vehicles transferred to the Alberta Non-Grid pool by month, with July showing an increase of 2,431 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 2,399 vehicles, indicating a variance of 32 vehicles from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the

pool in July than projected.



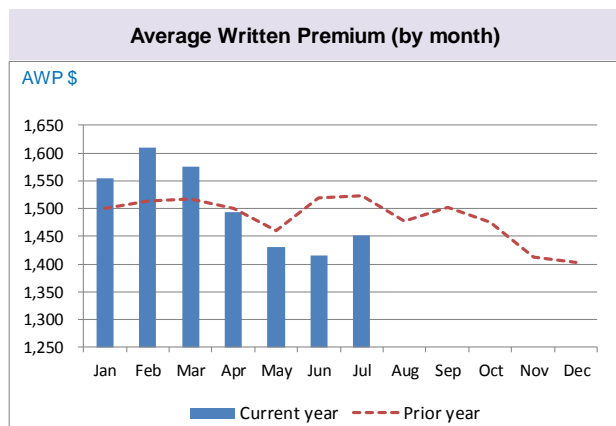
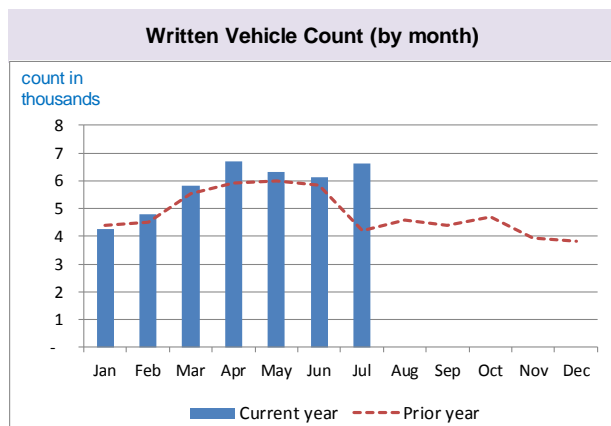
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Seven member company groups transferred fewer vehicles to the pool this month compared to a year ago, while 11 transferred more and 1 remained the same. Of the 7 member company groups transferring

fewer vehicles, 1 member company groups accounted for 64% of the total transfer decrease for these “decliner” members. Of the 11 member company groups transferring more vehicles, 3 member company groups accounted for 68% of the total transfers increase for these “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.

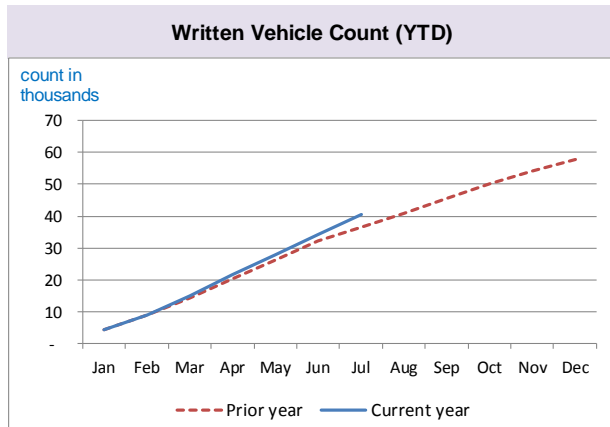
July’s vehicle count transfers to the pool represent a 58.1% increase from July 2015, and vehicle counts were up 11.8% year-to-date. Average written premium was down 4.7% in July 2016 compared with the same month in 2015, and down 0.5% year-to-date (see charts immediately below and at the top of the next page).



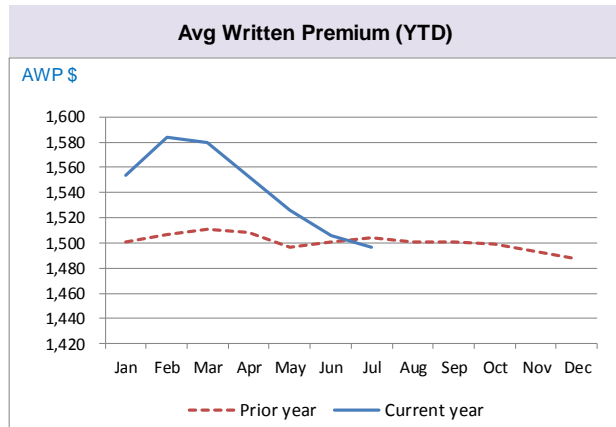
	Jul-16	Jul-15	Amt Chg	% Chg
W. Veh curr mth	6,617	4,186	2,431	58.1%

	Jul-16	Jul-15	Amt Chg	% Chg
AWP curr mth	1,451	1,523	(72)	-4.7%

Bulletin F16-061
Alberta Risk Sharing Pools – July 2016 Operational Reports

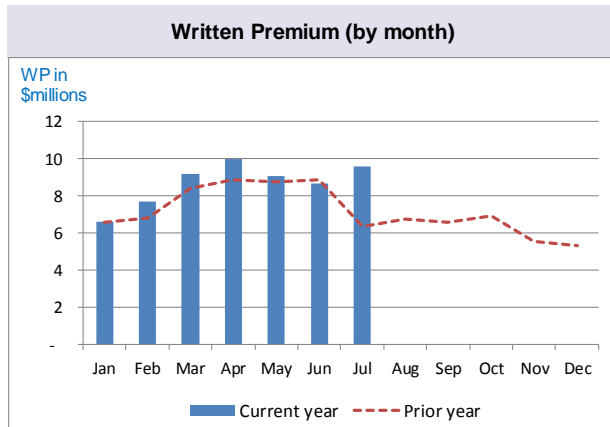


	Jul-16	Jul-15	Amt Chg	% Chg
W. Vehicles YTD	40,684	36,404	4,280	11.8%

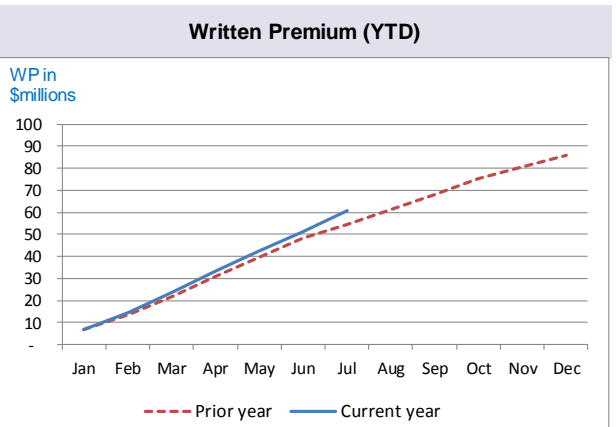


	Jul-16	Jul-15	Amt Chg	% Chg
Avg W. Prem YTD	1,497	1,504	(7)	-0.5%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 50.6% for the month compared with the 56.2% increase we projected last month, and was up 11.2% year-to-date (see charts immediately below).



	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) curr mth	9,598	6,373	3,225	50.6%



	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) YTD	60,899	54,743	6,156	11.2%

Should you require any further information, please call Norm Seenev, Vice President, Finance and Member Services at (416) 644-4914.

David J. Simpson, M.B.A., FCIP, C. Dir.
 President & CEO

Bulletin F16-061
Alberta Risk Sharing Pools – July 2016 Operational Reports

Related Links:

Alberta Grid RSP:

[Alberta Grid RSP July 2016 Operational Report - Actuarial Highlights](#)

Alberta Non-Grid RSP:

[Alberta Non-Grid RSP July 2016 Operational Report - Actuarial Highlights](#)