



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F16 – 069

DATE: SEPTEMBER 28, 2016

SUBJECT: FARM – JULY 2016 PARTICIPATION REPORT

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

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

Fort McMurray Wildfires

We estimate that the FARM indemnity claims costs for the Fort McMurray wildfires will be no more than \$3 million or 1.6 points of final year-end loss ratio for the FARM in total. In terms of context, for FARM Alberta (private passenger and non-private passenger combined), we are currently carrying case reserves of \$6.3 million, nominal IBNR of \$6.7 million, and a nominal development provision for adverse claims development of \$1.5 million against accident year 2016. We have not adjusted the 2016 accident year loss ratios to date. Please see “*Updated Projection to Year-end 2016*” below for additional comments.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is \$5.3 million and the incurred loss ratio to the end of 7 months is 71.1%, as summarized in the table at the top of the next page. 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.

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Amounts in \$000s	July 2016	July 2015	Year to date Jul 2016	Year to Date Jul 2015
Written Premiums	16,410	17,720	107,044	120,015
Earned Premiums	15,491	16,954	104,235	114,315
Incurred Losses	10,836	12,119	74,134	79,836
Underwriting Expenses and Others	3,542	4,016	24,755	27,235
Net Result from Operations	1,113	819	5,346	7,244
Ratios:				
Loss ratio % - Prior Accident Year	(2.0%)	(2.8%)	(1.5%)	(4.4%)
- Current Accident Years	71.9%	74.3%	72.6%	74.2%
Total	69.9%	71.5%	71.1%	69.8%
Underwriting & Admin Exp.%	22.9%	23.8%	23.8%	23.9%
Combined Operating Ratio	92.8%	95.3%	94.9%	93.7%

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 \$13.6 million and the estimated combined operating ratio to December 2016 is 92.4%. The updated projection to the end of calendar year 2016 has deteriorated by \$0.5 million as compared to the projection provided last month (\$14.2 million and 92.2%). This deterioration mainly stems from the overall increase in the combined ratio (from 92.2% to 92.4% applied to \$178.1 million in projected earned premium). 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 July 2016 is \$1.1 million, up \$0.3 million from the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 95.3% to 92.8% applied to \$15.5 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 95.3% at the end of 6 months to 94.9% at the end of 7 months. The 0.4 percentage point decrease is composed of a 0.1 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 0.1 percentage point decrease in the Current Accident Year loss ratio, and a 0.2 percentage point decrease 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.

July 2016	Actual	Projection	Difference	Difference %
Written Premiums	16,410	17,927	(1,517)	(8.5%)
Earned Premiums	15,491	15,561	(70)	(0.4%)
Reported Losses				
Paid Losses	8,806	10,401	(1,595)	(15.3%)
Change in Outstanding Losses	5,743	1,068	4,675	437.7%
Total Reported Losses	14,549	11,469	3,080	26.9%
Change in IBNR *	(3,115)	(41)	(3,074)	
Change in Premium Deficiency (DPAC) *	(53)	(187)	134	
Change in Retro Claims Expense *	(598)	(684)	86	

(Amounts in \$000's)

Rounding differences may occur

* Detailed information is included in [FARM July 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 July 2016, reported indemnity amounts were \$3.2 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 \$3.1 million*). The Current Accident Year had a \$0.7 million favourable variance in reported indemnity, while the Prior Accident Years had an unfavourable variance of \$3.9 million. Of the Prior Accident Years, 1993 had the largest variance in reported losses at \$1.3 million unfavourable. 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, except as discussed in the next paragraph.

During the course of our review of monthly operating results, we were advised that claims transactions related to 4 ex-servicing carrier claims (impacting Ontario FARM Accident Years 1991, 1992, 1993 and 1997) were incorrectly reported during the month. With the current month results, for the three claims prior to Accident Year 1994 (the loss ratio matching approach is used to determine IBNR for claims occurring in Accident Year 1994 and onwards), specific IBNR

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adjustments were made to offset the incorrectly reported claims transactions. No specific adjustment was required for the Accident Year 1997 claim as the loss ratio matching approach used automatically offsets the claim activity.

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 except for explicit adjustments made this month to reflect claims transaction errors as discussed in the previous section). This is consistent with management's investigation into reported claims variances (other than the claims transaction errors discussed in the previous section), concluding they were random and not necessarily indicative of a trend.

Effect of Quarterly Valuation

The July 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 at the top of the next page, the private passenger annualized vehicle counts decreased by 6.3% overall in July 2016 relative to July 2015. On a year-to-date basis, exposure counts are down by 6.6%, decreasing in all jurisdictions except Nova Scotia.

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FARM Private Passenger Written Car Years¹

# FARM Vehicles Written								
Jurisdiction	Month of July 2016				Calendar YTD as of July 2016			
	2016	2015	Chg	% Chg	2016	2015	Chg	% Chg
Ontario	196	194	2	1.3%	1,195	1,309	(114)	(8.7%)
Alberta	143	235	(92)	(39.1%)	1,024	1,565	(541)	(34.6%)
Newfoundland & Labrador	934	995	(61)	(6.1%)	6,237	6,360	(123)	(1.9%)
New Brunswick	640	688	(48)	(7.0%)	4,378	4,591	(213)	(4.6%)
Nova Scotia	391	314	77	24.5%	2,283	2,173	110	5.1%
Prince Edward Island	175	163	13	7.7%	930	961	(31)	(3.2%)
Yukon	24	45	(21)	(46.8%)	154	259	(105)	(40.4%)
Northwest Territories	210	226	(16)	(7.0%)	1,470	1,563	(93)	(6.0%)
Nunavut	44	84	(40)	(47.9%)	197	358	(161)	(45.0%)
All Jurisdictions	2,757	2,943	(186)	(6.3%)	17,868	19,139	(1,271)	(6.6%)

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 July 2016 Participation Report – Actuarial Highlights](#)

¹ As indicated in the June 2016 Bulletin, 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, as well as excluding fleet-rated private passenger vehicles from the table because fleet-rated private passenger vehicles are considered “non-private passenger” for the purposes of sharing. This basis is consistent with share written premium presented each month, better aligning count changes with premium changes. “Entry Date” basis for the above consistent with prior reporting practice is available upon request.

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 7 months ended July 31, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 07/2016
(thousands of dollars)

	January	February	March	April	May	June	July	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	\$16,410	\$107,044	\$177,597	\$189,847
CHANGE IN UNEARNED PREMIUMS	4,378	3,624	2,270	(1,943)	(6,005)	(4,214)	(919)	(2,809)	490	6,085
NET PREMIUMS EARNED	\$15,392	\$14,061	\$14,917	\$14,380	\$15,134	\$14,860	\$15,491	\$104,235	\$178,087	\$195,932
CLAIMS INCURRED										
PRIOR ACCIDENT YEARS										
UNDISCOUNTED	(201)	70	(2,552)	(2)	4,266	(173)	2	1,410	1,409	(15,364)
EFFECT OF DISCOUNTING	(575)	(797)	(288)	(592)	368	(769)	(309)	(2,962)	(6,148)	(4,171)
DISCOUNTED	(776)	(727)	(2,840)	(594)	4,634	(942)	(307)	(1,552)	(4,739)	(19,535)
CURRENT ACCIDENT YEAR										
UNDISCOUNTED	10,458	9,614	10,300	9,851	10,354	10,175	10,572	71,324	121,859	138,707
EFFECT OF DISCOUNTING	813	664	622	530	712	450	571	4,362	6,854	8,047
DISCOUNTED	11,271	10,278	10,922	10,381	11,066	10,625	11,143	75,686	128,713	146,754
CLAIMS INCURRED	\$10,495	\$9,551	\$8,082	\$9,787	\$15,700	\$9,683	\$10,836	\$74,134	\$123,974	\$127,219
UNDERWRITING EXPENSES										
OPERATING & SERVICE FEES	1,170	1,059	1,381	1,666	2,156	2,000	1,704	11,136	18,274	19,838
AGENTS COMMISSIONS	899	873	1,083	1,366	1,706	1,607	1,382	8,916	14,913	15,658
DRIVER RECORD ABSTRACTS	175	148	396	147	291	222	180	1,559	2,624	3,187
BAD DEBTS	(7)	(4)	1	190	(5)	(6)	(4)	165	167	(579)
PREMIUM DEFICIENCY/(DPAC)										
UNDISCOUNTED	336	277	178	(144)	(316)	(282)	(65)	(16)	(3)	292
EFFECT OF DISCOUNTING	(16)	(5)	4	1	87	20	12	103	60	(230)
DISCOUNTED	320	272	182	(143)	(229)	(262)	(53)	87	57	62
UNDERWRITING EXPENSES	\$2,557	\$2,348	\$3,043	\$3,226	\$3,919	\$3,561	\$3,209	\$21,863	\$36,035	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$2,340	\$2,162	\$3,792	\$1,367	(\$4,485)	\$1,616	\$1,446	\$8,238	\$18,078	\$30,547
ADMINISTRATIVE EXPENSES	364	320	607	399	391	522	343	2,946	4,632	5,085
PREMIUM FINANCE FEE	(10)	(9)	(9)	(9)	(9)	(10)	(8)	(64)	(55)	(108)
INVESTMENT INCOME	17	16	18	15	16	18	18	118	230	260
OPERATING RESULTS	\$1,983	\$1,849	\$3,194	\$974	(\$4,869)	\$1,102	\$1,113	\$5,346	\$13,621	\$25,614
RATIOS:										
Claims & Adj Expenses Incurred (Earned)										
Prior Accident Year	-5.0%	-5.2%	-19.0%	-4.1%	30.6%	-6.3%	-2.0%	-1.5%	-2.7%	-10.0%
Current Accident Years	73.2%	73.1%	73.2%	72.2%	73.1%	71.5%	71.9%	72.6%	72.3%	74.9%
All Accident Years Combined	68.2%	67.9%	54.2%	68.1%	103.7%	65.2%	69.9%	71.1%	69.6%	64.9%
Underwriting & Admin Exp.(Earned)	19.0%	19.0%	24.5%	25.2%	28.5%	27.5%	22.9%	23.8%	22.8%	22.1%
COMBINED OPERATING RATIO	87.2%	86.9%	78.7%	93.3%	132.2%	92.7%	92.8%	94.9%	92.4%	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 7 months ended July 31, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 07/2016
(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	\$34,024	\$24,737	\$10,841	\$3,002	\$12,563	\$16,947	\$1,296	\$2,875	\$759	\$107,044	\$177,597	\$189,847
CHANGE IN UNEARNED PREMIUMS	1,582	(1,497)	(1,127)	(266)	(715)	(700)	(108)	(99)	121	(2,809)	490	6,085
NET PREMIUMS EARNED	\$35,606	\$23,240	\$9,714	\$2,736	\$11,848	\$16,247	\$1,188	\$2,776	\$880	\$104,235	\$178,087	\$195,932
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(2,136)	495	1,396	(455)	512	320	57	1,579	(358)	1,410	1,409	(15,364)
EFFECT OF DISCOUNTING	(1,345)	(872)	(8)	(35)	(167)	(604)	1	105	(37)	(2,962)	(6,148)	(4,171)
DISCOUNTED	(3,481)	(377)	1,388	(490)	345	(284)	58	1,684	(395)	(1,552)	(4,739)	(19,535)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	23,301	15,006	6,722	1,652	7,830	14,182	770	1,417	444	71,324	121,859	138,707
EFFECT OF DISCOUNTING	1,236	1,236	364	104	448	810	55	82	27	4,362	6,854	8,047
DISCOUNTED	24,537	16,242	7,086	1,756	8,278	14,992	825	1,499	471	75,686	128,713	146,754
CLAIMS INCURRED	\$21,056	\$15,865	\$8,474	\$1,266	\$8,623	\$14,708	\$883	\$3,183	\$76	\$74,134	\$123,974	\$127,219
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	3,426	2,697	1,108	308	1,278	1,777	146	303	93	11,136	18,274	19,838
AGENTS COMMISSIONS	2,942	1,485	954	285	1,188	1,588	115	288	71	8,916	14,913	15,658
DRIVER RECORD ABSTRACTS	460	87	365	93	230	203	19	92	10	1,559	2,624	3,187
BAD DEBTS	(5)	188	(1)	0	0	(17)	0	0	0	165	167	(579)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	159	(90)	(95)	(24)	(56)	91	(7)	(7)	13	(16)	(3)	292
EFFECT OF DISCOUNTING	0	0	0	0	0	103	0	0	0	103	60	(230)
DISCOUNTED	159	(90)	(95)	(24)	(56)	194	(7)	(7)	13	87	57	62
UNDERWRITING EXPENSES	\$6,982	\$4,367	\$2,331	\$662	\$2,640	\$3,745	\$273	\$676	\$187	\$21,863	\$36,035	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$7,568	\$3,008	(\$1,091)	\$808	\$585	(\$2,206)	\$32	(\$1,083)	\$617	\$8,238	\$18,078	\$30,547
ADMINISTRATIVE EXPENSES	861	659	305	104	347	453	64	102	51	2,946	4,632	5,085
PREMIUM FINANCE FEE	(21)	(20)	(7)	0	(7)	(9)	0	0	0	(64)	(55)	(108)
INVESTMENT INCOME	32	42	10	2	12	20	0	0	0	118	230	260
OPERATING RESULTS	\$6,718	\$2,371	(\$1,393)	\$706	\$243	(\$2,648)	(\$32)	(\$1,185)	\$566	\$5,346	\$13,621	\$25,614
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-9.8%	-1.6%	14.3%	-17.9%	2.9%	-1.7%	4.9%	60.7%	-44.9%	-1.5%	-2.7%	-10.0%
Current Accident Years	68.9%	69.9%	72.9%	64.2%	69.9%	92.3%	69.4%	54.0%	53.5%	72.6%	72.3%	74.9%
All Accident Years Combined	59.1%	68.3%	87.2%	46.3%	72.8%	90.6%	74.3%	114.7%	8.6%	71.1%	69.6%	64.9%
Underwriting & Admin Exp.(Earned)	22.0%	21.6%	27.1%	28.0%	25.2%	25.8%	28.4%	28.0%	27.0%	23.8%	22.8%	22.1%
COMBINED OPERATING RATIO	81.1%	89.9%	114.3%	74.3%	98.0%	116.4%	102.7%	142.7%	35.6%	94.9%	92.4%	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