



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 089

DATE: NOVEMBER 29, 2016

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

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

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

New This Month

Valuation

A valuation of the Ontario RSP as at September 30, 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 previous valuations (starting with the September 30, 2015 valuation), we included various adjustments related to the retroactive nature of these recent product reforms to reflect our view that it would take some time for members to fully reflect the changes in their case reserves. With the current valuation (September 30, 2016), we now assume case reserves fully reflect the changes, and no longer include these explicit reform adjustments. For further detail related to recent legal decisions and changes in legislation / regulation and associated adjustments, please see the Ontario RSP October 2016 Operational Report – Actuarial Highlights and the Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at September 30, 2016 (links are provided further in this bulletin).

The implementation of the new valuation resulted in an estimated overall **\$2.0 million unfavourable** impact on the month's net result from operations, adding an estimated 0.9 points

to the year-to-date Combined Operating Ratio (ending at 131.0%). The impact on the month's results is summarized in the table immediately below¹.

Ontario	unfav / (fav) for the month and ytd						ytd EP 216,806 (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	(1,068)	(180)	(1,248)	1,215	-	(33)	(0.5%)	(0.1%)	(0.6%)	0.6%	-	-
CAY	1,739	121	1,860	436	-	2,296	0.8%	0.1%	0.9%	0.2%	-	1.1%
Prem Def	377	(906)	(529)	234	-	(295)	0.2%	(0.4%)	(0.2%)	0.1%	-	(0.1%)
TOTAL	1,048	(965)	83	1,885	-	1,968	0.5%	(0.4%)	-	0.9%	-	0.9%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.1 million unfavourable impact – see column [3] in the left table above), and the impact of a 6 basis point decrease in the selected discount rate (from 0.68% to 0.62%, generating a \$1.9 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 with this valuation (therefore generating no impact – see column [5] in the left table above).

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 Operating Result is -\$67.2 million and the incurred loss ratio to the end of 10 months is 86.9%, as summarized in the table at the top of the next page.

¹ 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”.

Amounts in \$000s	October 2016	October 2015	Year to date Oct 2016	Year to Date Oct 2015
Premiums Written	36,389	20,295	267,721	202,887
Premiums Earned	25,851	21,179	216,806	221,950
Claims Incurred	33,844	(3,407)	188,379	105,917
General Expenses	14,150	(1,271)	95,609	50,406
Operating Result	(22,143)	25,857	(67,182)	65,627
Ratios:				
Loss ratio % - Prior Accident Years	(9.6%)	(89.3%)	(47.3%)	(83.3%)
- Current Accident Year	140.5%	73.3%	134.2%	131.0%
<i>Total</i>	130.9%	(16.0%)	86.9%	47.7%
General Expenses %	54.7%	(6.0%)	44.1%	22.7%
Combined Operating Ratio	185.6%	(22.0%)	131.0%	70.4%

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 Operating Result to December 2016 is -\$95.2 million and the estimated combined operating ratio to December 2016 is 135.4%. This updated projection to the end of the year has deteriorated by \$2.4 million from the projection provided last month (-\$92.8 million and 134.7%), mainly due to the overall unfavourable impact of the valuation as at September 30, 2016, as summarized in the table immediately below (see more information under “Effect of Quarterly Valuation”). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

Ontario	unfav / (fav) projected for full year						year EP 269,485 (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	(1,068)	(169)	(1,237)	1,155	-	(82)	(0.4%)	(0.1%)	(0.5%)	0.4%	-	-
CAY	2,160	316	2,476	529	-	3,005	0.8%	0.1%	0.9%	0.2%	-	1.1%
Prem Def	7	(957)	(950)	233	-	(717)	-	(0.4%)	(0.4%)	0.1%	-	(0.3%)
TOTAL	1,099	(810)	289	1,917	-	2,206	0.4%	(0.3%)	0.1%	0.7%	-	0.8%

Current Month Results

The Ontario Risk Sharing Pool produced a -\$22.1 million Operating Result in the month of October 2016, a \$48.0 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$5.7 million favourable impact associated with the \$4.7 million increase in earned premium (at a combined ratio of -22.0%), offset by the remaining

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\$53.7 million deterioration stemming from the overall increase in the combined ratio (from -22.0% to 185.6% applied to \$25.9 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 123.6% at the end of 9 months to 131.0% at the end of 10 months. The 7.4 percentage point increase is composed of a 5.1 percentage point increase in the Prior Accident Years loss ratio, coupled with a 0.9 percentage point increase in the Current Accident Year loss ratio, and a 1.4 percentage point increase in the expense ratio.

Variations from Projections

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

October 2016	Actual	Projection	Difference	Difference %
Premiums Written	36,389	31,419	4,970	15.8%
Premiums Earned	25,851	25,409	442	1.7%
Reported Losses				
Paid Losses	28,035	19,687	8,348	42.4%
Paid Expenses	1,612	1,672	(60)	(3.6%)
Change in Outstanding Losses	(2,505)	405	(2,910)	(718.5%)
Total Reported Losses	27,142	21,764	5,378	24.7%
Change in IBNR Provision*	6,702	10,372	(3,670)	
Change in Premium Deficiency (DPAC) *	3,138	1,867	1,271	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Ontario RSP October 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 October 2016, reported losses were \$5.4 million higher than projected. The Current Accident Year had a \$4.4 million unfavourable variance in reported losses, and the Prior Accident Years had a \$1.0 million unfavourable variance. Of the Prior Accident Years, 2013 had the largest variance in reported losses at \$2.3 million unfavourable, followed by Accident Year 2014 at a \$1.1 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

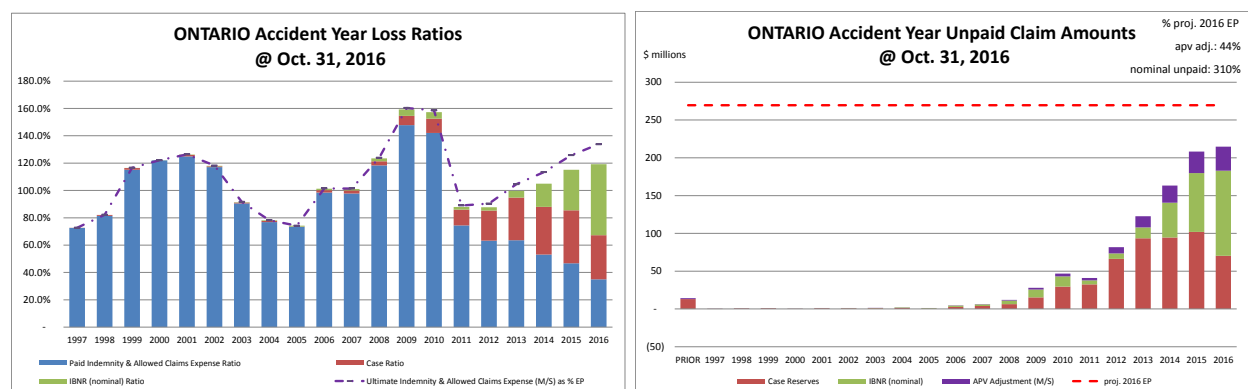
The variances for reported claims activity were beyond the set thresholds for both the Prior Accident Years and the Current Accident Year (paid variances were within the set thresholds). Management investigated reported claims activity and is satisfied that the variances are appropriately accounted for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

Effect of Quarterly Valuation

The October 2016 Ontario Risk Sharing Pool Operational Report reflects the results of an updated valuation as at September 30, 2016, with the associated impacts in relation to the results for October 2016 summarized in the table immediately below.

Ontario	unfav / (fav) for the month and ytd						mth EP 25,851 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate		argins	ults & payout patterns			dsct rate		argins
	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	(1,068)	(180)	(1,248)	1,215	-	(33)	(4.1%)	(0.7%)	(4.8%)	4.7%	-	(0.1%)
CAY	1,739	121	1,860	436	-	2,296	6.7%	0.5%	7.2%	1.7%	-	8.9%
Prem Def	377	(906)	(529)	234	-	(295)	1.5%	(3.5%)	(2.0%)	0.9%	-	(1.1%)
TOTAL	1,048	(965)	83	1,885	-	1,968	4.1%	(3.7%)	0.3%	7.3%	-	7.6%

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.

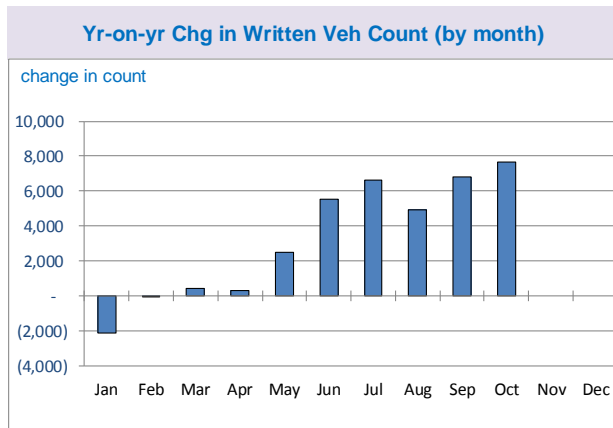


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Ontario RSP October 2016 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at September 30, 2016](#). The actuarial valuation will be updated next as at December 31, 2016 and we anticipate that the results will be reflected in the March 31, 2017 Operational Report.

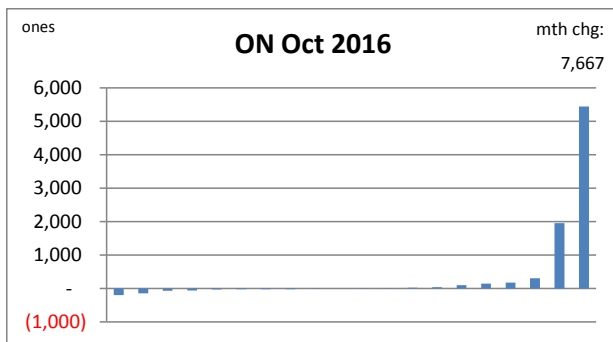
Management Comments

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 29.0% from 2015, being 2.4% of the 2015 industry private passenger vehicle count including farmers (as we don't have an industry count yet for 2016, we continue to use the 2015 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.



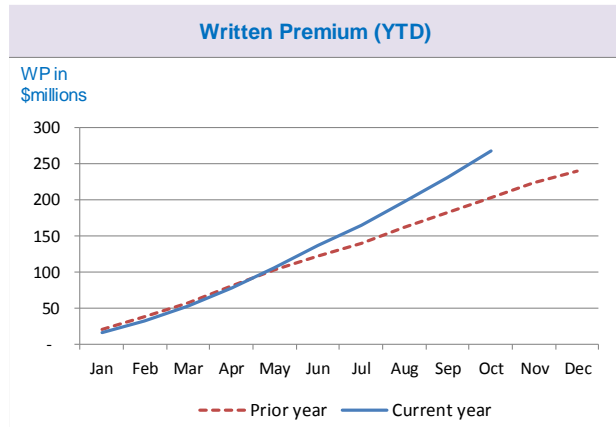
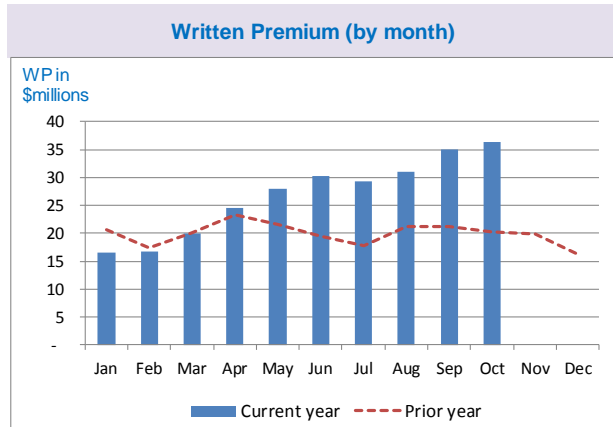
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with October reporting an increase of 7,667 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 5,200 vehicles, indicating a variance of 2,467 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in October than projected.



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As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 79.3% for the month compared with the 54.8% increase we projected last month, and was up 32.0% year-to-date (see charts immediately below).



	Oct-16	Oct-15	Amt Chg	% Chg
WP (\$000s) curr mth	36,389	20,295	16,094	79.3%

	Oct-16	Oct-15	Amt Chg	% Chg
WP (\$000s) YTD	267,721	202,886	64,835	32.0%

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 October 2016 Operational Report – Actuarial Highlights](#)

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at September 30, 2016](#)

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Ontario

Operating Results for the 10 Months Ended October 31, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	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	\$30,955	\$35,021	\$36,389	\$267,721	\$320,666	\$239,007
Decrease (Increase) in Unearned Premiums	\$3,723	\$2,232	\$262	(\$4,644)	(\$6,907)	(\$9,316)	(\$6,877)	(\$7,643)	(\$11,207)	(\$10,538)	(\$50,915)	(\$51,181)	\$23,561
Net Premiums Earned	\$20,266	\$18,943	\$20,308	\$19,877	\$21,046	\$21,011	\$22,378	\$23,312	\$23,814	\$25,851	\$216,806	\$269,485	\$262,568
Claims Incurred:													
Prior Accident Years:													
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$50)	(\$65)	(\$23,117)	(\$23)	(\$1,101)	(\$70,500)	(\$70,501)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	233	(1,954)	(2,816)	(15,512)	(1,283)	(1,388)	(32,033)	(36,303)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$2,901)	(\$2,004)	(\$2,881)	(\$38,629)	(\$1,306)	(\$2,489)	(\$102,533)	(\$106,804)	(\$188,898)
Current Accident Year:													
Undiscounted	\$24,544	\$22,944	\$22,431	\$23,307	\$23,973	\$24,487	\$26,093	\$30,691	\$28,221	\$32,381	\$259,072	\$321,863	\$307,691
Effect of Discounting	3,598	2,733	2,632	2,629	2,973	2,697	3,025	4,444	3,157	3,952	31,840	38,640	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$26,946	\$27,184	\$29,118	\$35,135	\$31,378	\$36,333	\$290,912	\$360,503	\$342,646
Claims Incurred	\$24,764	\$23,495	(\$19,795)	\$24,031	\$24,045	\$25,180	\$26,237	(\$3,494)	\$30,072	\$33,844	\$188,379	\$253,699	\$153,748
Underwriting Expenses:													
Expense Allowance	\$4,926	\$4,981	\$5,959	\$7,212	\$8,209	\$8,906	\$8,616	\$9,150	\$10,455	\$10,913	\$79,327	\$95,211	\$70,525
Change in UPDR/DPAC:													
Undiscounted	(745)	(376)	(4,056)	1,084	281	1,847	1,492	2,605	1,873	2,088	6,093	5,342	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,517	1,135	2,240	1,838	1,050	9,117	9,051	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	3,364	2,627	4,845	3,711	3,138	15,210	14,393	(\$10,560)
Underwriting Expenses	\$3,611	\$4,269	\$1,684	\$9,045	\$10,203	\$12,270	\$11,243	\$13,995	\$14,166	\$14,051	\$94,537	\$109,604	\$59,965
Net Underwriting Gain (Loss)	(\$8,109)	(\$8,821)	\$38,419	(\$13,199)	(\$13,202)	(\$16,439)	(\$15,102)	\$12,811	(\$20,424)	(\$22,044)	(\$66,110)	(\$93,818)	\$48,855
Administrative Expenses	\$80	\$128	\$142	\$104	\$116	\$109	\$98	\$105	\$91	\$99	\$1,072	\$1,339	\$1,309
Operating Result	(\$8,189)	(\$8,949)	\$38,277	(\$13,303)	(\$13,318)	(\$16,548)	(\$15,200)	\$12,706	(\$20,515)	(\$22,143)	(\$67,182)	(\$95,157)	\$47,546
Ratios:													
Claims & Expenses Incurred (Earned)													
Prior Accident Years	-16.7%	-11.5%	-220.9%	-9.6%	-13.8%	-9.5%	-12.9%	-165.7%	-5.5%	-9.6%	-47.3%	-39.6%	-71.9%
Current Accident Year	138.9%	135.5%	123.4%	130.5%	128.0%	129.4%	130.1%	150.7%	131.8%	140.5%	134.2%	133.8%	130.5%
All Accident Years Combined	122.2%	124.0%	-97.5%	120.9%	114.2%	119.9%	117.2%	-15.0%	126.3%	130.9%	86.9%	94.2%	58.6%
Underwriting & Administrative Expenses (Earned)	18.2%	23.2%	9.0%	46.0%	49.0%	58.9%	50.7%	60.5%	59.9%	54.7%	44.1%	41.2%	23.3%
Combined Operating Ratio	140.4%	147.2%	-88.5%	166.9%	163.2%	178.8%	167.9%	45.5%	186.2%	185.6%	131.0%	135.4%	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