

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 097

DATE: DECEMBER 22, 2016

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

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

Please be advised that the November 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 Operating Result is -\$86.6 million and the incurred loss ratio to the end of 11 months is 90.8%, as summarized in the table below.

Amounts in \$000s	November 2016	November 2015	Year to date Nov 2016	Year to Date Nov 2015
Premiums Written	35,078	19,949	302,799	222,836
Premiums Earned	25,992	20,116	242,798	242,066
Claims Incurred	32,114	23,734	220,493	129,651
General Expenses	13,254	6,692	108,863	57,098
Operating Result	(19,376)	(10,310)	(86,558)	55,317
Ratios:				
Loss ratio % - Prior Accident Years	(7.8%)	(10.3%)	(43.1%)	(77.2%)
- Current Accident Year	131.3%	128.3%	133.9%	130.8%
<i>Total</i>	123.5%	118.0%	90.8%	53.6%
General Expenses %	51.0%	33.3%	44.8%	23.6%
Combined Operating Ratio	174.5%	151.3%	135.6%	77.2%

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 -\$99.3 million and the estimated combined operating ratio to December 2016 is 136.6%. This updated projection to the end of the year has deteriorated by \$4.1 million from the projection provided last month (-\$95.2 million and 135.4%). This deterioration is driven by a \$6.0 million increase in projected written premium (and associated assumption updates), resulting in a higher projected net operating loss.

Current Month Results

The Ontario Risk Sharing Pool produced a -\$19.4 million Operating Result in the month of November 2016, an approximately \$9.0 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$3.0 million unfavourable impact associated with the \$5.9 million increase in earned premium (at a combined ratio of 151.3%), with the remaining \$6.0 million deterioration stemming from the overall increase in the combined ratio (from 151.3% to 174.5% applied to \$26.0 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 131.0% at the end of 10 months to 135.6% at the end of 11 months. The 4.6 percentage point increase is composed of a 4.2 percentage point increase in the Prior Accident Years loss ratio, and a 0.7 percentage point increase in the expense ratio, offset by a 0.3 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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Ontario Risk Sharing Pool – November 2016 Operational Report

November 2016	Actual	Projection	Difference	Difference %
Premiums Written	35,078	29,098	5,980	20.6%
Premiums Earned	25,992	25,656	336	1.3%
Reported Losses				
Paid Losses	26,935	25,334	1,601	6.3%
Paid Expenses	2,064	2,150	(86)	(4.0%)
Change in Outstanding Losses	(5,691)	(4,075)	(1,616)	(39.7%)
Total Reported Losses	23,308	23,409	(101)	(0.4%)
Change in IBNR Provision*	8,806	8,296	510	
Change in Premium Deficiency (DPAC) *	2,673	744	1,929	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Ontario RSP November 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 November 2016, reported losses were \$0.1 million lower than projected. The Current Accident Year had a \$3.2 million unfavourable variance in reported losses, while the Prior Accident Years had a \$3.3 million favourable variance. Of the Prior Accident Years, 2012 had the largest variance in reported losses at \$2.7 million favourable, followed by Accident Year 2013 at a \$1.7 million favourable and Accident Year 2014 at a \$1.5 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.

Booking IBNR

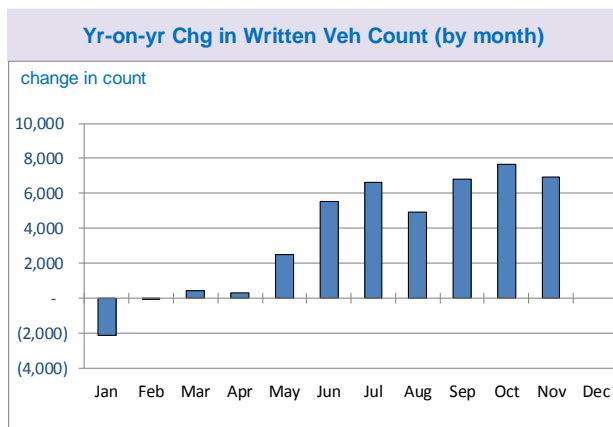
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

Effect of Quarterly Valuation

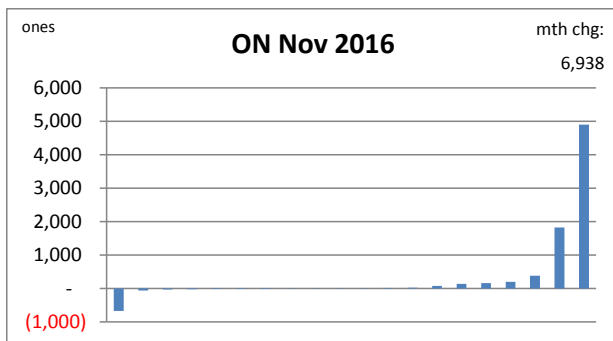
The November 2016 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2016). The actuarial valuation will be updated next as at December 31, 2016 and we anticipate that the results will be reflected in the March 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 31.4% from 2015, being 2.5% 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.



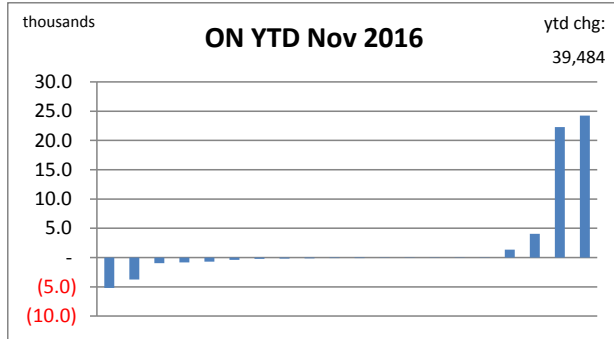
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with November reporting an increase of 6,938 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 3,721 vehicles, indicating a variance of 3,217 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in November 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 to a year ago, while 11 transferred more¹. Of the 9 member company groups transferring fewer vehicles, 1 member

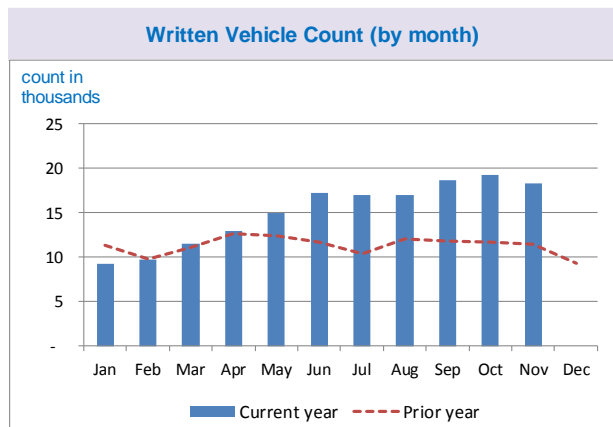
¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2015 or 2016. Groups that have not transferred vehicles in these two periods are ignored.

company group accounted for 81% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 1 member company group accounted for 63% of the total transfer increases for the “grower” members.

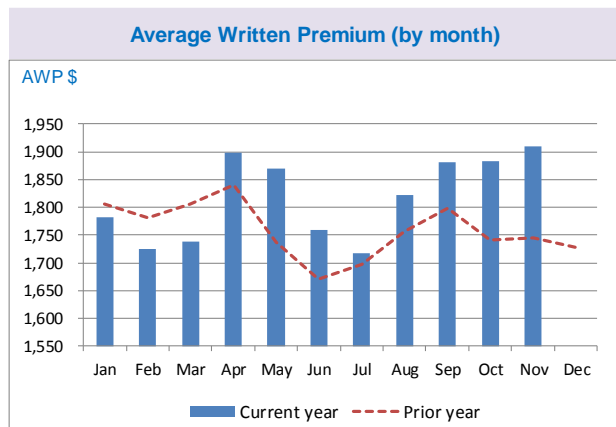


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change.

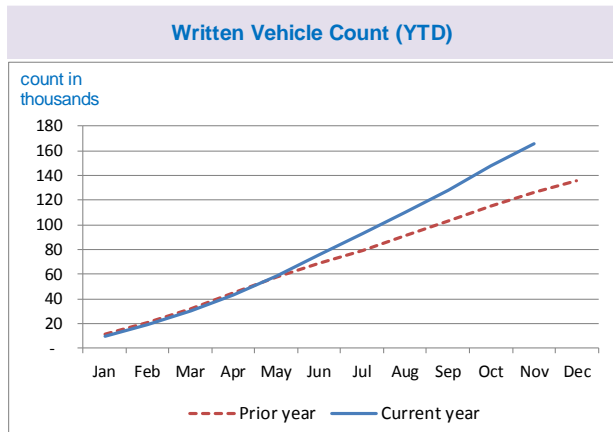
November’s year-on-year change in vehicle count transfers to the pool represents a 60.7% increase from November 2015, and counts were up 31.2% year-to-date. Average written premium was up 9.5% in November 2016 compared with the same month in 2015, and up 3.6% year-to-date (see charts immediately below and at the top of the next page).



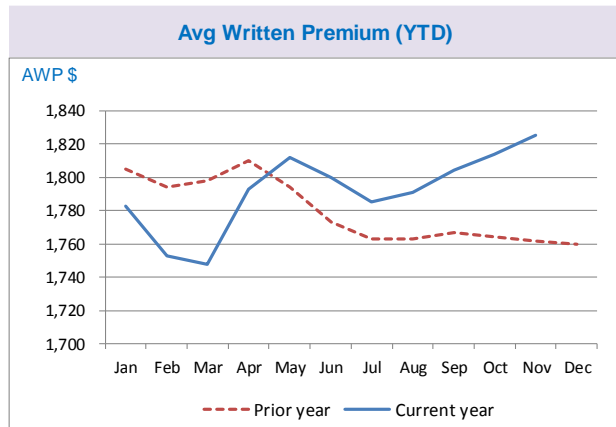
	Nov-16	Nov-15	Amt Chg	% Chg
W. Veh curr mth	18,369	11,431	6,938	60.7%



	Nov-16	Nov-15	Amt Chg	% Chg
AWP curr mth	1,910	1,745	165	9.5%

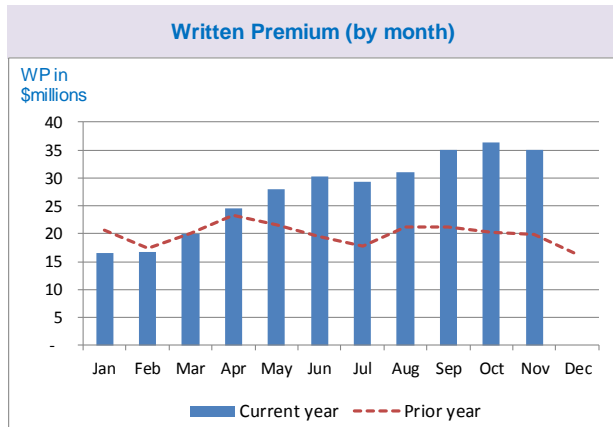


	Nov-16	Nov-15	Amt Chg	% Chg
W. Vehicles YTD	165,921	126,437	39,484	31.2%

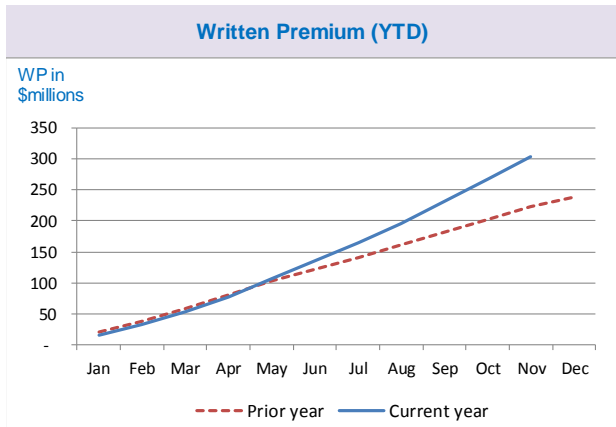


	Nov-16	Nov-15	Amt Chg	% Chg
Avg W. Prem YTD	1,825	1,762	63	3.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 75.8% for the month compared with the 45.9% increase we projected last month, and was up 35.9% year-to-date (see charts immediately below).



	Nov-16	Nov-15	Amt Chg	% Chg
WP (\$000s) curr mth	35,078	19,949	15,129	75.8%



	Nov-16	Nov-15	Amt Chg	% Chg
WP (\$000s) YTD	302,799	222,835	79,964	35.9%

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 November 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Ontario

Operating Results for the 11 Months Ended November 30, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	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	\$35,078	\$302,799	\$326,646	\$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)	(\$9,086)	(\$60,001)	(\$56,336)	\$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	\$25,992	\$242,798	\$270,310	\$262,568
Claims Incurred:														
Prior Accident Years:														
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$50)	(\$65)	(\$23,117)	(\$23)	(\$1,101)	(\$24)	(\$70,524)	(\$70,525)	(\$146,204)
Effect of Discounting	(3,280)	(2,086)	(2,092)	(1,855)	233	(1,954)	(2,816)	(15,512)	(1,283)	(1,388)	(1,995)	(34,028)	(36,121)	(42,694)
Discounted	(\$3,378)	(\$2,182)	(\$44,858)	(\$1,905)	(\$2,901)	(\$2,004)	(\$2,881)	(\$38,629)	(\$1,306)	(\$2,489)	(\$2,019)	(\$104,552)	(\$106,646)	(\$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	\$31,007	\$290,079	\$322,873	\$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	3,126	34,966	38,931	34,955
Discounted	\$28,142	\$25,677	\$25,063	\$25,936	\$26,946	\$27,184	\$29,118	\$35,135	\$31,378	\$36,333	\$34,133	\$325,045	\$361,804	\$342,646
Claims Incurred	\$24,764	\$23,495	(\$19,795)	\$24,031	\$24,045	\$25,180	\$26,237	(\$3,494)	\$30,072	\$33,844	\$32,114	\$220,493	\$255,158	\$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	\$10,487	\$89,814	\$96,968	\$70,525
Change in UPDR/DPAC:														
Undiscounted	(745)	(376)	(4,056)	1,084	281	1,847	1,492	2,605	1,873	2,088	1,257	7,350	6,250	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,517	1,135	2,240	1,838	1,050	1,416	10,533	9,882	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	3,364	2,627	4,845	3,711	3,138	2,673	17,883	16,132	(\$10,560)
Underwriting Expenses	\$3,611	\$4,269	\$1,684	\$9,045	\$10,203	\$12,270	\$11,243	\$13,995	\$14,166	\$14,051	\$13,160	\$107,697	\$113,100	\$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)	(\$19,282)	(\$85,392)	(\$97,948)	\$48,855
Administrative Expenses	\$80	\$128	\$142	\$104	\$116	\$109	\$98	\$105	\$91	\$99	\$94	\$1,166	\$1,305	\$1,309
Operating Result	(\$8,189)	(\$8,949)	\$38,277	(\$13,303)	(\$13,318)	(\$16,548)	(\$15,200)	\$12,706	(\$20,515)	(\$22,143)	(\$19,376)	(\$86,558)	(\$99,253)	\$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%	-7.8%	-43.1%	-39.5%	-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%	131.3%	133.9%	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%	123.5%	90.8%	94.3%	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%	51.0%	44.8%	42.3%	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%	174.5%	135.6%	136.6%	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