



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F17 – 004

DATE: JANUARY 30, 2017

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

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

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

New This Month

Quarterly Sharing Update

An update of the "Member's Usage" of the Ontario Risk Sharing Pool ("RSP") was performed since the release of the November 2016 Operational Report, bringing members' sharing current to the fourth quarter 2016. The usage update is reflected in the December 2016 Operational Report.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$104.5 million and the incurred loss ratio to the end of 12 months is 94.2%, as summarized in the table at the top of the next page.

Amounts in \$000s	December 2016	December 2015	Year to date Dec 2016	Year to Date Dec 2015
Premiums Written	33,250	16,171	336,049	239,007
Premiums Earned	28,065	20,502	270,863	262,568
Claims Incurred	34,667	24,097	255,160	153,748
General Expenses	11,318	4,176	120,181	61,274
Operating Result	(17,920)	(7,771)	(104,478)	47,546
Ratios:				
Loss ratio % - Prior Accident Years	(8.5%)	(9.9%)	(39.5%)	(71.9%)
- Current Accident Year	132.0%	127.4%	133.7%	130.5%
<i>Total</i>	123.5%	117.5%	94.2%	58.6%
General Expenses %	40.3%	20.4%	44.4%	23.3%
Combined Operating Ratio	163.8%	137.9%	138.6%	81.9%

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” attached to this bulletin.

Updated Projection to Year-end 2017

An Outlook had been prepared to provide Members with an estimate of Ontario RSP operating results for calendar year 2017 based on the actuarial valuation at June 30, 2016, and reflecting actual experience to date as detailed in the August 2016 Operational Report. This Outlook was posted on September 28, 2016 (please refer to Bulletin [F16-075](#)), and projected a Net Result from Operations for 2017 of -\$193.3 million, and a combined operating ratio of 156.5%.

The projected calendar year Operating Result to December 2017 is now -\$217.9 million (a \$24.6 million deterioration relative to the Outlook) and the estimated combined operating ratio to December 2017 is 159.0% (a 2.5 point deterioration relative to the Outlook). The deterioration is composed of an estimated \$15.1 million unfavourable impact associated with the \$26.7 million increase in projected earned premium (at a combined ratio of 156.5%), and a \$9.2 million deterioration stemming from the overall increase in the combined ratio (from 156.5% to 159.0% applied to \$368.9 million in projected earned premium). The remaining \$0.3 million difference is due to other assumption updates.

Current Month Results

The Ontario Risk Sharing Pool produced a -\$17.9 million Operating Result in the month of December 2016, a \$10.1 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$2.9 million unfavourable impact associated with the \$7.6 million increase in earned premium (at a combined ratio of 137.9%), with the remaining

approximately \$7.2 million deterioration stemming from the overall increase in the combined ratio (from 137.9% to 163.8% applied to \$28.1 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 135.6% at the end of 11 months to 138.6% at the end of 12 months. The 3.0 percentage point increase is composed of a 3.6 percentage point increase in the Prior Accident Years loss ratio (i.e. it is 3.6 points less negative), offset by a 0.2 percentage point decrease in the Current Accident Year loss ratio, further offset by a 0.4 percentage point decrease 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.

December 2016	Actual	Projection	Difference	Difference %
Premiums Written	33,250	23,847	9,403	39.4%
Premiums Earned	28,065	27,513	552	2.0%
Reported Losses				
Paid Losses	29,954	22,815	7,139	31.3%
Paid Expenses	1,758	2,375	(617)	(26.0%)
Change in Outstanding Losses	(4,776)	(278)	(4,498)	<-999.9%
Total Reported Losses	26,936	24,912	2,024	8.1%
Change in IBNR Provision*	7,731	9,756	(2,025)	
Change in Premium Deficiency (DPAC) *	1,257	(1,751)	3,008	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included in [Ontario RSP December 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 December 2016, reported losses were \$2.0 million higher than projected. The Current Accident Year had a \$2.1 million unfavourable variance in reported losses, while the Prior Accident Years had a \$0.1 million favourable variance. Of the Prior Accident Years, 1996 had the largest variance in reported losses at \$4.4 million unfavourable, followed by Accident Year 2013 at a \$2.4 million favourable and Accident Year 2010 at a \$1.2 million favourable. 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.

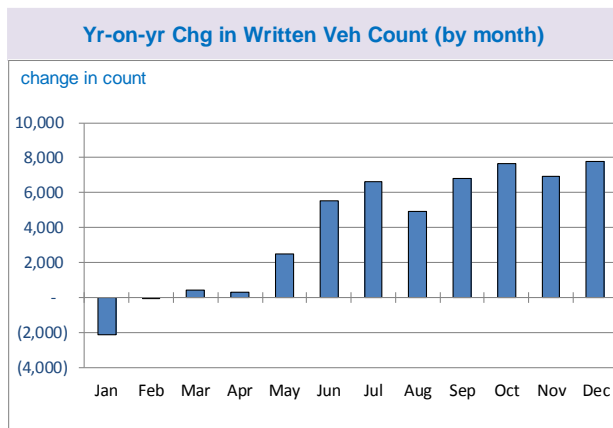
Booking IBNR

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 December 2016 Operational Report – Actuarial Highlights](#).

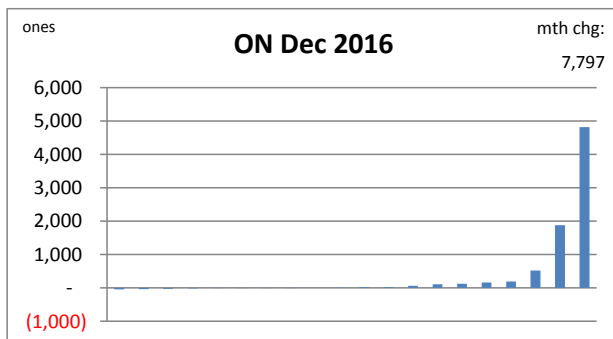
Effect of Quarterly Valuation

The December 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.

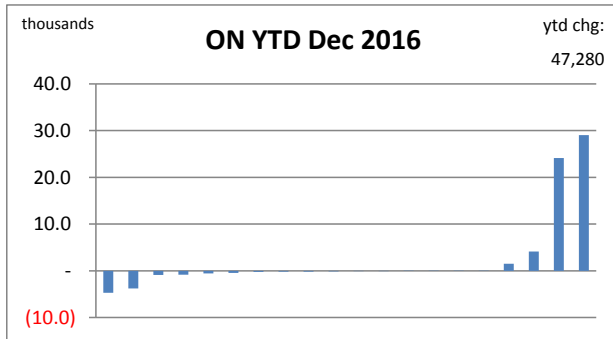
Management Comments



The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with December reporting an increase of 7,797 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 3,158 vehicles, indicating a variance of 4,639 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in December than projected.

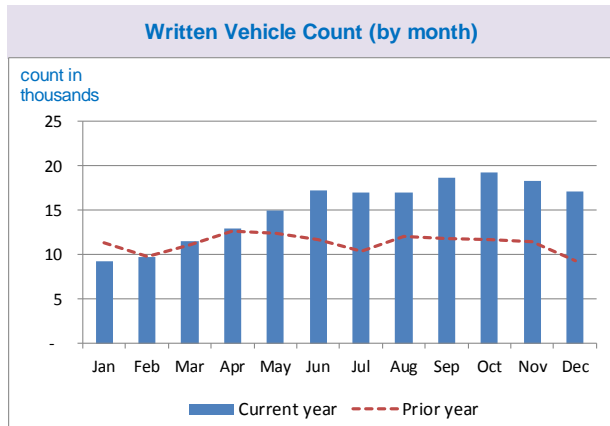


transferred more¹ and 1 remained the same. Of the 8 member company groups transferring fewer vehicles, 3 member company groups accounted for 78% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 1 member company group accounted for 61% of the total transfer increases for the “grower” members.

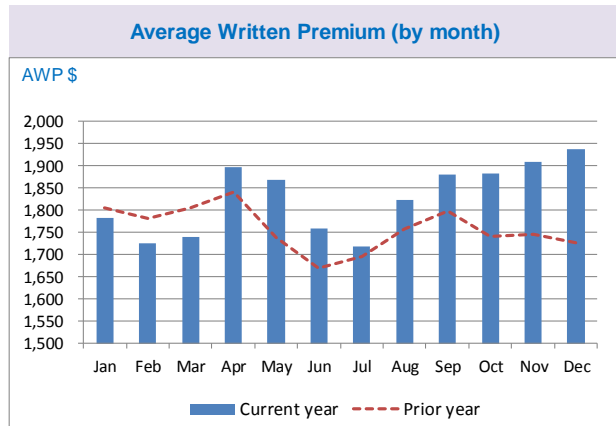


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

December’s year-on-year change in vehicle count transfers to the pool represents an 83.3% increase from December 2015, and counts were up 34.8% year-to-date. Average written premium was up 12.2% in December 2016 compared with the same month in 2015, and up 4.3% year-to-date (see charts immediately below and at the top of the next page).

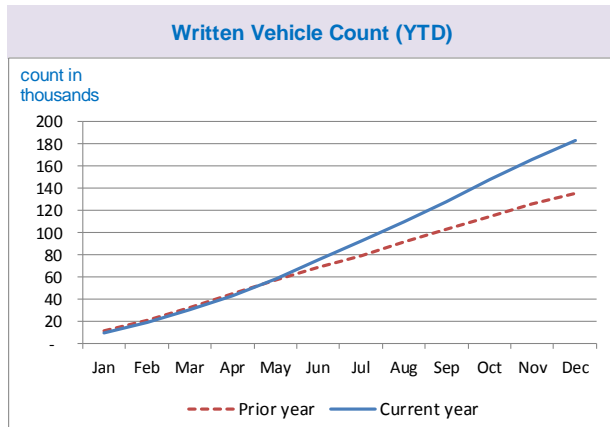


	Dec-16	Dec-15	Amt Chg	% Chg
W. Veh curr mth	17,161	9,364	7,797	83.3%

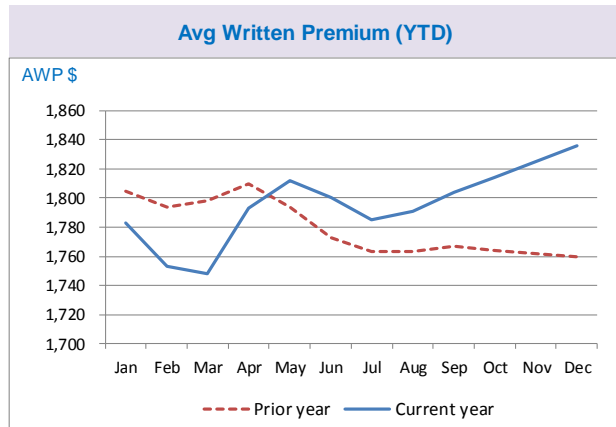


	Dec-16	Dec-15	Amt Chg	% Chg
AWP curr mth	1,938	1,727	211	12.2%

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.

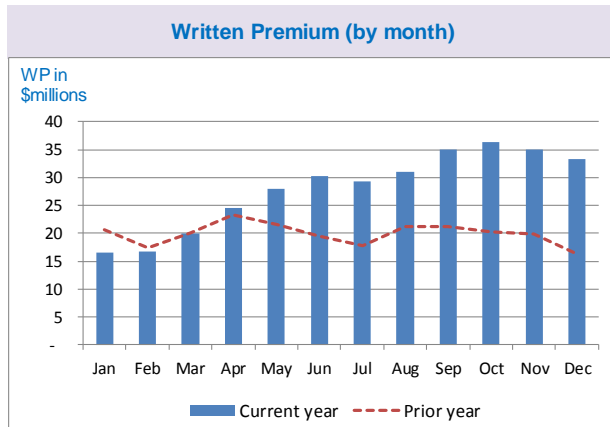


	Dec-16	Dec-15	Amt Chg	% Chg
W. Vehicles YTD	183,082	135,802	47,280	34.8%

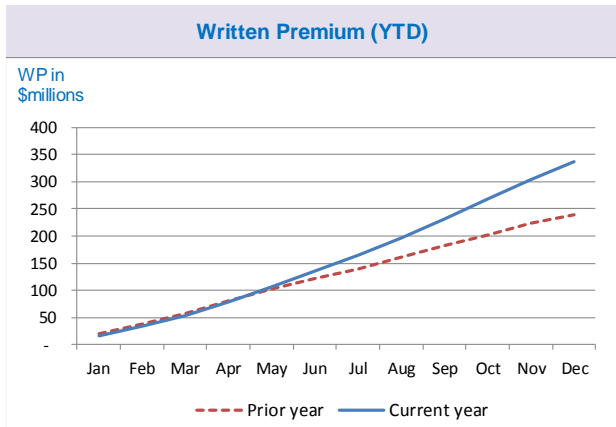


	Dec-16	Dec-15	Amt Chg	% Chg
Avg W. Prem YTD	1,836	1,760	76	4.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 105.6% for the month compared with the 47.5% increase we projected last month, and was up 40.6% year-to-date (see charts immediately below).



	Dec-16	Dec-15	Amt Chg	% Chg
WP (\$000s) curr mth	33,250	16,171	17,079	105.6%



	Dec-16	Dec-15	Amt Chg	% Chg
WP (\$000s) YTD	336,049	239,007	97,043	40.6%

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 links:

[Ontario RSP December 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Ontario

Operating Results for the 12 Months Ended December 31, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2016 YTD	CY2017 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	\$33,250	\$336,049	\$379,429	\$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)	(\$5,185)	(\$65,186)	(\$10,535)	\$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	\$28,065	\$270,863	\$368,894	\$262,568
Claims Incurred:															
Prior Accident Years:															
Undiscounted	(\$98)	(\$96)	(\$42,766)	(\$50)	(\$3,134)	(\$50)	(\$65)	(\$23,117)	(\$23)	(\$1,101)	(\$24)	(\$10)	(\$70,534)	\$0	(\$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)	(2,372)	(36,400)	(30,899)	(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)	(\$2,382)	(\$106,934)	(\$30,899)	(\$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	\$33,464	\$323,543	\$433,451	\$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	3,585	38,551	55,807	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	\$37,049	\$362,094	\$489,258	\$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	\$34,667	\$255,160	\$458,359	\$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	\$9,919	\$99,733	\$111,934	\$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	481	7,831	11,671	(8,667)
Effect of Discounting	(570)	(336)	(219)	749	1,713	1,517	1,135	2,240	1,838	1,050	1,416	776	11,309	3,044	(1,893)
Discounted	(1,315)	(712)	(4,275)	1,833	1,994	3,364	2,627	4,845	3,711	3,138	2,673	1,257	19,140	14,715	(\$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	\$11,176	\$118,873	\$126,649	\$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)	(\$17,778)	(\$103,170)	(\$216,114)	\$48,855
Administrative Expenses	\$80	\$128	\$142	\$104	\$116	\$109	\$98	\$105	\$91	\$99	\$94	\$142	\$1,308	\$1,821	\$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)	(\$17,920)	(\$104,478)	(\$217,935)	\$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%	-8.5%	-39.5%	-8.4%	-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%	132.0%	133.7%	132.6%	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%	123.5%	94.2%	124.2%	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%	51.0%	40.3%	44.4%	34.8%	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%	163.8%	138.6%	159.0%	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