

TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F17 – 009
DATE: FEBRUARY 27, 2017
SUBJECT: FARM – DECEMBER 2016 PARTICIPATION REPORT

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

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

Summary of Financial Results

The calendar year-to-date Operating Result is \$5.6 million and the incurred loss ratio to the end of 12 months is 74.2%, as summarized in the table below.

Amounts in \$000s	December 2016	December 2015	Year to date Dec 2016	Year to Date Dec 2015
Written Premiums	9,678	10,142	171,000	189,847
Earned Premiums	14,325	15,892	178,060	195,932
Incurred Losses	9,934	10,968	132,159	127,219
Underwriting Expenses and Others	2,643	2,608	40,282	43,099
Net Result from Operations	1,748	2,316	5,619	25,614
Ratios:				
Loss ratio % - Prior Accident Year	(6.1%)	(4.8%)	(2.1%)	(10.0%)
- Current Accident Years	75.5%	73.8%	76.3%	74.9%
<i>Total</i>	69.4%	69.0%	74.2%	64.9%
Underwriting & Admin Exp.%	18.5%	16.5%	22.7%	22.1%
Combined Operating Ratio	87.9%	85.5%	96.9%	87.0%

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”](#).

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Updated Projection to Year-end 2017

An Outlook has been prepared to provide members with an estimate of Facility Association Residual Market 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 Participation Report. This Outlook was posted on October 27, 2016 (please refer to Bulletin [F16-077](#)), and projected a Net Result from Operations for 2017 of \$15.8 million, and a combined operating ratio of 91.4%.

The projected calendar year Operating Results to December 2017 is now \$18.2 million (a \$2.4 million improvement relative to the Outlook) and the projected combined operating ratio to December 2017 is 89.8% (a 1.6 point improvement relative to the Outlook). The changes reflect updates over the four share months released after the August 2016 results (including this month), and include the impact of a valuation (the September 2016 valuation was implemented in the October 2016 Participation Reports). The improvement included a \$0.3 million unfavourable impact due to the \$3.7 million decrease in projected earned premium (at a combined ratio of 91.4%), more than offset by \$2.8 million favourable impact from the decrease in the combined ratio (from 91.4% to 89.8%, applied to this month's \$175.9 million projected earned premium). The remaining \$0.1 million difference is due to other assumption updates.

Current month results

The Operating Results in the month of December 2016 is \$1.7 million, down \$0.6 million from the same month last year. This deterioration included an estimated \$0.2 million unfavourable impact due to the \$1.6 million decrease in earned premium (at a combined ratio of 85.5%), with the remaining approximately \$0.4 million improvement stemming from the increase in the combined ratio (from 85.5% last year to 87.9% this year, applied to this month's \$14.3 million earned premium).

This month's results moved the year-to-date combined operating ratio from 97.8% at the end of 11 months to 96.9% at the end of 12 months. The 0.9 percentage point decrease is composed of a 0.4 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 0.4 percentage point decrease in the expense 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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December 2016	Actual	Projection	Difference	Difference %
Written Premiums	9,678	10,204	(526)	(5.2%)
Earned Premiums	14,325	13,809	516	3.7%
Reported Losses				
Paid Losses	15,086	19,108	(4,022)	(21.0%)
Change in Outstanding Losses	(7,351)	(6,858)	(493)	(7.2%)
Total Reported Losses	7,735	12,250	(4,515)	(36.9%)
Change in IBNR *	2,085	(2,708)	4,793	
Change in Premium Deficiency (DPAC) *	120	(70)	190	
Change in Retro Claims Expense *	114	(1,192)	1,306	

(Amounts in \$000's)

Rounding differences may occur

*Detailed information is included in [FARM December 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 December 2016, reported indemnity amounts were \$3.9 million lower 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 -\$4.5 million*). The Current Accident Year had a \$1.3 million favourable variance in reported indemnity, and the Prior Accident Years had a favourable variance of \$2.6 million. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$1.6 million favourable. 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.

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). This is consistent with management's investigation into reported claims variances, concluding they were random and not necessarily indicative of a trend.

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Effect of Quarterly Valuation

The December 2016 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at September 30, 2016 for all jurisdictions and business segments. The actuarial valuation will be updated next as at December 31, 2016 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the March 2017 Participation Report.

Management Comments

As shown in the table immediately below, the private passenger annualized vehicle counts decreased by 9.8% overall in December 2016 relative to December 2015. On a year-to-date basis, exposure counts are down by 6.6%, decreasing in all jurisdictions except Nova Scotia.

FARM Private Passenger Written Car Years¹

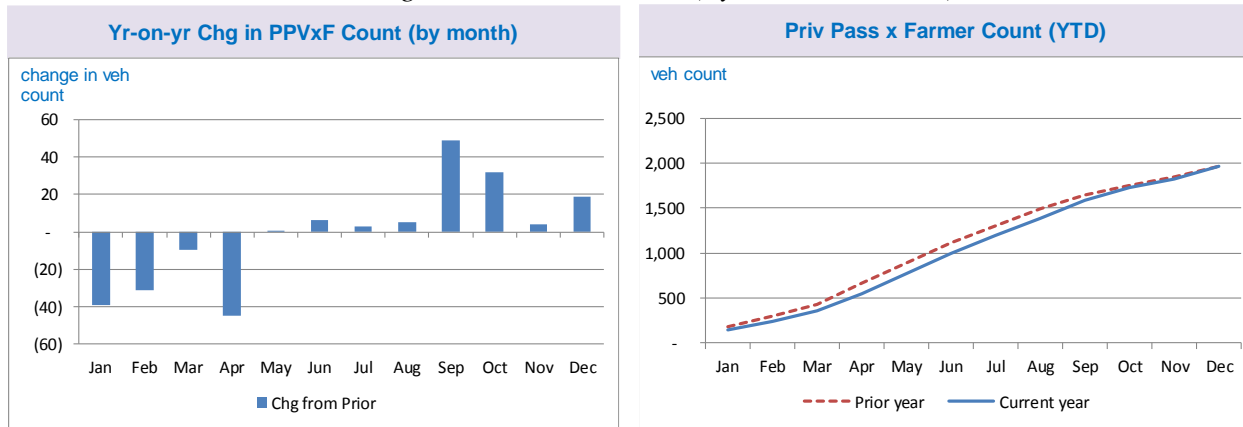
# FARM Vehicles Written								
Jurisdiction	Month of December 2016				Calendar YTD as of December 2016			
	2016	2015	Chg	% Chg	2016	2015	Chg	% Chg
Ontario	135	116	19	16.3%	1,965	1,970	(6)	(0.3%)
Alberta	86	125	(39)	(31.0%)	1,644	2,543	(899)	(35.4%)
Newfoundland & Labrador	544	604	(60)	(9.9%)	10,368	10,679	(311)	(2.9%)
New Brunswick	364	441	(76)	(17.3%)	7,275	7,587	(312)	(4.1%)
Nova Scotia	206	161	45	27.6%	3,844	3,619	225	6.2%
Prince Edward Island	69	96	(27)	(28.2%)	1,501	1,603	(102)	(6.4%)
Yukon	4	18	(14)	(78.7%)	224	430	(205)	(47.8%)
Northwest Territories	146	152	(6)	(3.9%)	2,411	2,590	(180)	(6.9%)
Nunavut	1	11	(10)	(91.8%)	311	610	(299)	(49.0%)
All Jurisdictions	1,556	1,725	(169)	(9.8%)	29,543	31,631	(2,088)	(6.6%)

December 2016 represents the eighth month in a row where the Ontario FARM private passenger counts have not decreased (see charts immediately below). Eight consecutive months of non-decreasing year-over-year counts has not occurred since at least 2008, perhaps signaling the “bottom” of the de-population in the jurisdiction.

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.

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Ontario FARM Private Passenger Written Car Years (by month and YTD)

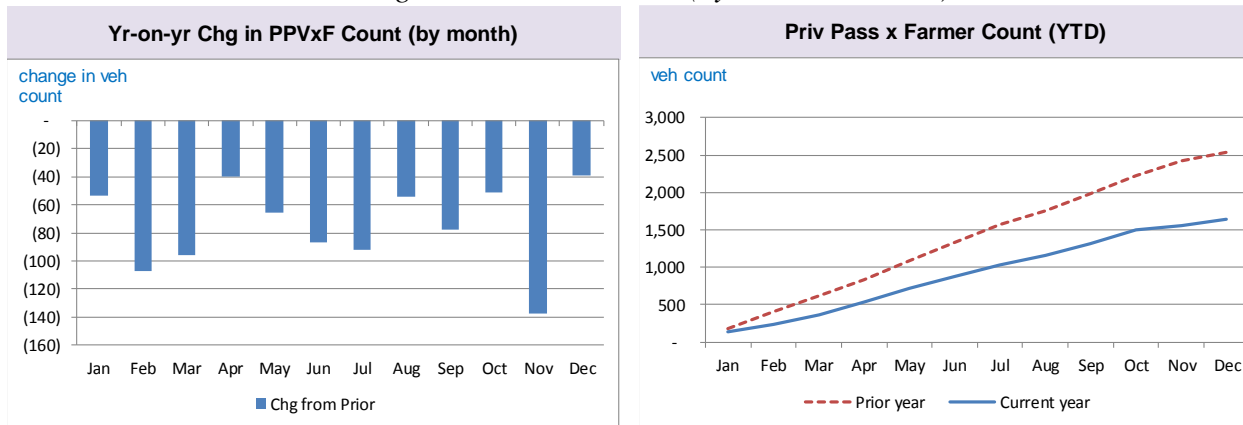


	Dec-16	Dec-16	Amt Chg	% Chg
W. Vehicles YTD	1,965	1,970	(6)	-0.3%

“Private Passenger” follows the Plan of Operation definition and so does NOT include fleet-rated private passenger vehicles.

As indicated in the chart on the left above, Ontario FARM private passenger written vehicle counts began increasing in May of 2016, and continue to do so, resulting in the full year being only marginally below 2015 in total count. In contrast, Alberta FARM private passenger written counts continued to decrease throughout 2016, finishing down 35% from 2015, as indicated in the charts below.

Alberta FARM Private Passenger Written Car Years (by month and YTD)



	Dec-16	Dec-16	Amt Chg	% Chg
W. Vehicles YTD	1,642	2,542	(900)	-35.4%

“Private Passenger” follows the Plan of Operation definition and so does NOT include fleet-rated private passenger vehicles.

The table at the top of the next page shows a share-year history of FARM private passenger vehicle written counts for Ontario and Alberta.

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Ontario vs Alberta FARM Private Passenger Written Car Years (by share year)

Share Month (All) ytd to December 31
 Business Segment PPV
 FA Minor Rating Clz Private Passenger
 (x Farmers)

Share Year <input type="button" value="v"/>	Jurisdiction <input type="button" value="v"/>		Values			
	Annualized Vehicle Count	Change in Count	% Change in Count	Annualized Vehicle Count	Change in Count	% Change in Count
2008	13,637			5,415		
2009	9,983	(3,653)	(26.8%)	4,984	(431)	(8.0%)
2010	7,829	(2,154)	(21.6%)	5,276	292	5.9%
2011	6,724	(1,106)	(14.1%)	5,150	(126)	(2.4%)
2012	4,622	(2,102)	(31.3%)	4,524	(627)	(12.2%)
2013	3,219	(1,403)	(30.4%)	4,087	(437)	(9.7%)
2014	2,474	(745)	(23.1%)	3,443	(643)	(15.7%)
2015	1,970	(504)	(20.4%)	2,542	(901)	(26.2%)
2016	1,965	(6)	(0.3%)	1,642	(900)	(35.4%)

"Private Passenger" follows the Plan of Operation definition and so does NOT include fleet-rated private passenger vehicles.

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 December 2016 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 12 months ended December 31, 2016 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 12/2016
(thousands of dollars)

	January	February	March	April	May	June	July	August	September	October	November	December	CY2016 YTD	CY2017 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	\$14,676	\$14,337	\$14,725	\$10,540	\$9,678	\$171,000	\$181,639	\$189,847
CHANGE IN UNEARNED PREMIUMS	4,378	3,624	2,270	(1,943)	(6,005)	(4,214)	(919)	653	472	442	3,655	4,647	7,060	(5,711)	6,085
NET PREMIUMS EARNED	\$15,392	\$14,061	\$14,917	\$14,380	\$15,134	\$14,860	\$15,491	\$15,329	\$14,809	\$15,167	\$14,195	\$14,325	\$178,060	\$175,928	\$195,932
CLAIMS INCURRED															
PRIOR ACCIDENT YEARS															
UNDISCOUNTED	(201)	70	(2,552)	(2)	4,266	(173)	2	(9,184)	15	5,964	(356)	22	(2,129)	0	(15,364)
EFFECT OF DISCOUNTING	(575)	(797)	(288)	(592)	368	(769)	(309)	(1,813)	(369)	5,745	(1,282)	(898)	(1,579)	(11,140)	(4,171)
DISCOUNTED	(776)	(727)	(2,840)	(594)	4,634	(942)	(307)	(10,997)	(354)	11,709	(1,638)	(876)	(3,708)	(11,140)	(19,535)
CURRENT ACCIDENT YEAR															
UNDISCOUNTED	10,458	9,614	10,300	9,851	10,354	10,175	10,572	12,078	10,326	13,152	10,172	10,241	127,293	120,341	138,707
EFFECT OF DISCOUNTING	813	664	622	530	712	450	571	806	479	1,861	497	569	8,574	8,110	8,047
DISCOUNTED	11,271	10,278	10,922	10,381	11,066	10,625	11,143	12,884	10,805	15,013	10,669	10,810	135,867	128,451	146,754
CLAIMS INCURRED	\$10,495	\$9,551	\$8,082	\$9,787	\$15,700	\$9,683	\$10,836	\$1,887	\$10,451	\$26,722	\$9,031	\$9,934	\$132,159	\$117,311	\$127,219
UNDERWRITING EXPENSES															
OPERATING & SERVICE FEES	1,170	1,059	1,381	1,666	2,156	2,000	1,704	1,496	1,466	1,499	1,071	985	17,653	18,485	19,838
AGENTS COMMISSIONS	899	873	1,083	1,366	1,706	1,607	1,382	1,242	1,209	1,280	955	814	14,416	15,289	15,658
DRIVER RECORD ABSTRACTS	175	148	396	147	291	222	180	109	218	665	256	261	3,068	2,589	3,187
BAD DEBTS	(7)	(4)	1	190	(5)	(6)	(4)	(3)	(10)	(331)	3	(3)	(179)	0	(579)
PREMIUM DEFICIENCY/(DPAC)															
UNDISCOUNTED	336	277	178	(144)	(316)	(282)	(65)	(115)	16	(9)	196	259	331	(408)	292
EFFECT OF DISCOUNTING	(16)	(5)	4	1	87	20	12	84	(28)	199	(107)	(139)	112	138	(230)
DISCOUNTED	320	272	182	(143)	(229)	(262)	(53)	(31)	(12)	190	89	120	443	(270)	62
UNDERWRITING EXPENSES	\$2,557	\$2,348	\$3,043	\$3,226	\$3,919	\$3,561	\$3,209	\$2,813	\$2,871	\$3,303	\$2,374	\$2,177	\$35,401	\$36,093	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$2,340	\$2,162	\$3,792	\$1,367	(\$4,485)	\$1,616	\$1,446	\$10,629	\$1,487	(\$14,858)	\$2,790	\$2,214	\$10,500	\$22,524	\$30,547
ADMINISTRATIVE EXPENSES	364	320	607	399	391	522	343	421	408	342	407	475	4,999	4,546	5,085
PREMIUM FINANCE FEE	(10)	(9)	(9)	(9)	(9)	(10)	(8)	(10)	(10)	(7)	(9)	(8)	(108)	0	(108)
INVESTMENT INCOME	17	16	18	15	16	18	18	23	24	23	21	17	226	172	260
OPERATING RESULTS	\$1,983	\$1,849	\$3,194	\$974	(\$4,869)	\$1,102	\$1,113	\$10,221	\$1,093	(\$15,184)	\$2,395	\$1,748	\$5,619	\$18,150	\$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%	-71.7%	-2.4%	77.2%	-11.5%	-6.1%	-2.1%	-6.3%	-10.0%
Current Accident Years	73.2%	73.1%	73.2%	72.2%	73.1%	71.5%	71.9%	84.0%	73.0%	99.0%	75.2%	75.5%	76.3%	73.0%	74.9%
All Accident Years Combined	68.2%	67.9%	54.2%	68.1%	103.7%	65.2%	69.9%	12.3%	70.6%	176.2%	63.7%	69.4%	74.2%	66.7%	64.9%
Underwriting & Admin Exp.(Earned)	19.0%	19.0%	24.5%	25.2%	28.5%	27.5%	22.9%	21.1%	22.1%	24.0%	19.6%	18.5%	22.7%	23.1%	22.1%
COMBINED OPERATING RATIO	87.2%	86.9%	78.7%	93.3%	132.2%	92.7%	92.8%	33.4%	92.7%	200.2%	83.3%	87.9%	96.9%	89.8%	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 12 months ended December 31, 2016 (Discounted Basis)

Source: Monthly (Accident Year) Member Participation Report as at 12/2016

(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2017 12 Months Updated Projections	CY2015 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$53,617	\$39,188	\$17,581	\$4,796	\$20,403	\$27,708	\$1,869	\$4,566	\$1,272	\$171,000	\$181,639	\$189,847
CHANGE IN UNEARNED PREMIUMS	5,668	882	(440)	2	116	408	133	126	165	7,060	(5,711)	6,085
NET PREMIUMS EARNED	\$59,285	\$40,070	\$17,141	\$4,798	\$20,519	\$28,116	\$2,002	\$4,692	\$1,437	\$178,060	\$175,928	\$195,932
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(7,080)	3,335	167	(269)	2,370	(1,275)	(22)	1,309	(664)	(2,129)	0	(15,364)
EFFECT OF DISCOUNTING	(1,944)	664	(132)	29	279	(603)	25	146	(43)	(1,579)	(11,140)	(4,171)
DISCOUNTED	(9,024)	3,999	35	(240)	2,649	(1,878)	3	1,455	(707)	(3,708)	(11,140)	(19,535)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	41,746	25,483	12,632	3,592	13,714	25,861	1,178	2,364	723	127,293	120,341	138,707
EFFECT OF DISCOUNTING	2,272	2,465	807	276	828	1,651	83	139	53	8,574	8,110	8,047
DISCOUNTED	44,018	27,948	13,439	3,868	14,542	27,512	1,261	2,503	776	135,867	128,451	146,754
CLAIMS INCURRED	\$34,994	\$31,947	\$13,474	\$3,628	\$17,191	\$25,634	\$1,264	\$3,958	\$69	\$132,159	\$117,311	\$127,219
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	5,386	4,257	1,784	485	2,065	2,853	204	468	151	17,653	18,485	19,838
AGENTS COMMISSIONS	4,659	2,421	1,555	461	1,949	2,622	168	463	118	14,416	15,289	15,658
DRIVER RECORD ABSTRACTS	757	198	754	185	546	455	28	129	16	3,068	2,589	3,187
BAD DEBTS	103	(150)	(29)	(36)	2	(58)	(10)	(15)	14	(179)	0	(579)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	513	57	(43)	0	5	(243)	14	11	17	331	(408)	292
EFFECT OF DISCOUNTING	0	0	0	0	0	112	0	0	0	112	138	(230)
DISCOUNTED	513	57	(43)	0	5	(131)	14	11	17	443	(270)	62
UNDERWRITING EXPENSES	\$11,418	\$6,783	\$4,021	\$1,095	\$4,567	\$5,741	\$404	\$1,056	\$316	\$35,401	\$36,093	\$38,166
NET UNDERWRITING GAIN (LOSS)	\$12,873	\$1,340	(\$354)	\$75	(\$1,239)	(\$3,259)	\$334	(\$322)	\$1,052	\$10,500	\$22,524	\$30,547
ADMINISTRATIVE EXPENSES	1,461	1,101	520	176	598	789	99	169	86	4,999	4,546	5,085
PREMIUM FINANCE FEE	(34)	(34)	(11)	0	(12)	(17)	0	0	0	(108)	0	(108)
INVESTMENT INCOME	53	77	20	6	23	42	1	4	0	226	172	260
OPERATING RESULTS	\$11,431	\$282	(\$865)	(\$95)	(\$1,826)	(\$4,023)	\$236	(\$487)	\$966	\$5,619	\$18,150	\$25,614
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-15.2%	10.0%	0.2%	-5.0%	12.9%	-6.7%	0.1%	31.0%	-49.2%	-2.1%	-6.3%	-10.0%
Current Accident Years	74.2%	69.7%	78.4%	80.6%	70.9%	97.9%	63.0%	53.3%	54.0%	76.3%	73.0%	74.9%
All Accident Years Combined	59.0%	79.7%	78.6%	75.6%	83.8%	91.2%	63.1%	84.3%	4.8%	74.2%	66.7%	64.9%
Underwriting & Admin Exp.(Earned)	21.7%	19.7%	26.5%	26.5%	25.2%	23.2%	25.1%	26.1%	28.0%	22.7%	23.1%	22.1%
COMBINED OPERATING RATIO	80.7%	99.4%	105.1%	102.1%	109.0%	114.4%	88.2%	110.4%	32.8%	96.9%	89.8%	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