

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F17 – 010

DATE: FEBRUARY 27, 2017

**SUBJECT: ONTARIO RISK SHARING POOL
– JANUARY 2017 OPERATIONAL REPORT**

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

Please be advised that the January 2017 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 -\$15.8 million and the incurred loss ratio to the end of 1 month is 123.9%, as summarized in the table below.

Amounts in \$000s	January 2017	January 2016	Year to date Jan 2017	Year to Date Jan 2016
Premiums Written	28,876	16,543	28,876	16,543
Premiums Earned	28,877	20,266	28,877	20,266
Claims Incurred	35,774	24,764	35,774	24,764
General Expenses	8,870	3,691	8,870	3,691
Operating Result	(15,767)	(8,189)	(15,767)	(8,189)
Ratios:				
Loss ratio % - Prior Accident Years	(12.9%)	(16.7%)	(12.9%)	(16.7%)
- Current Accident Year	136.8%	138.9%	136.8%	138.9%
<i>Total</i>	123.9%	122.2%	123.9%	122.2%
General Expenses %	30.7%	18.2%	30.7%	18.2%
Combined Operating Ratio	154.6%	140.4%	154.6%	140.4%

Rounding differences may apply.

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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 2017” attached to this bulletin.

Updated Projection to Year-end 2017

The projected calendar year Operating Result to December 2017 is -\$221.8 million and the estimated combined operating ratio to December 2017 is 159.2%. This updated projection to the end of the year has deteriorated by \$3.9 million from the projection provided last month (-\$217.9 million and 159.0%). The deterioration is composed of an estimated \$3.4 million unfavourable impact associated with the \$5.7 million increase in projected earned premium (at a combined ratio of 159.0%), and a \$0.1 million deterioration stemming from the overall increase in the combined ratio (from 159.0% to 159.2% applied to \$374.6 million in projected earned premium). The remaining \$0.4 million difference is due to other assumption updates.

Current Month Results

The Ontario Risk Sharing Pool produced a -\$15.8 million Operating Result in the month of January 2017, a \$7.6 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$3.5 million unfavourable impact associated with the \$8.6 million increase in earned premium (at a combined ratio of 140.4%), with the remaining \$4.1 million deterioration stemming from the overall increase in the combined ratio (from 140.4% to 154.6% applied to \$28.9 million in earned premium).

Variances from Projections

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

January 2017	Actual	Projection	Difference	Difference %
Premiums Written	28,876	22,801	6,075	26.6%
Premiums Earned	28,877	28,697	180	0.6%
Reported Losses				
Paid Losses	28,466	20,580	7,886	38.3%
Paid Expenses	2,280	2,500	(220)	(8.8%)
Change in Outstanding Losses	789	(3,115)	3,904	125.3%
Total Reported Losses	31,535	19,965	11,570	58.0%
Change in IBNR Provision*	4,239	16,520	(12,281)	
Change in Premium Deficiency (DPAC) *	51	(1,960)	2,011	

(Amounts in \$000's)

Rounding differences may occur.

*Detailed information is included in [Ontario RSP January 2017 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 January 2017, reported losses were \$11.6 million higher than projected. The Current Accident Year had a \$0.3 million favourable variance in reported losses, while the Prior Accident Years had an \$11.9 million unfavourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$10.1 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.

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, although it was noted that a significant level of unfavourable Prior Accident Year's variance related to accident year 2016 (the "1st prior"), and represented the highest level of "1st prior" experience in the month of January since 2011. The coverages impacted were collision and DCPD and it may simply reflect unusual weather in the latter half of 2016. At this point, we are satisfied assuming this reflects process variance, but have advised the valuation group as they prepare for the December 2016 valuation, and will continue to monitor. IBNR in general is discussed in more detail in the [Ontario RSP January 2017 Operational Report – Actuarial Highlights](#).

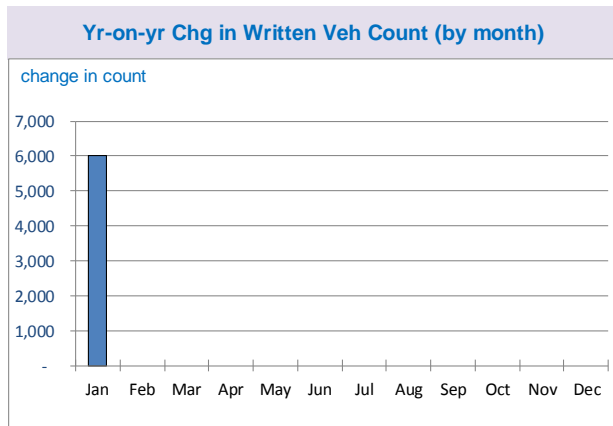
Effect of Quarterly Valuation

The January 2017 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.

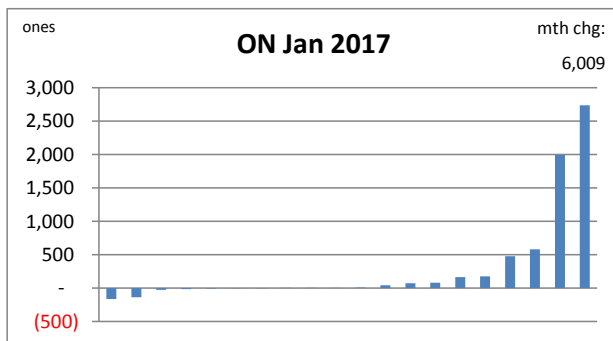
Management Comments

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 2017 vehicle count up 12.7% from 2016, being 2.9% 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.

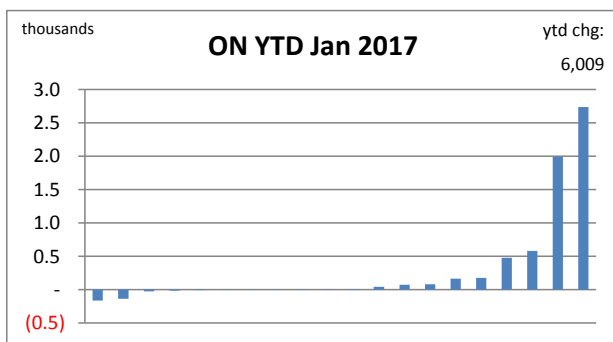


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with January reporting an increase of 6,009 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 3,039 vehicles, indicating a variance of 2,970 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in January 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. Seven member company groups transferred fewer vehicles to the pool this month compared to a year ago, while thirteen transferred more¹. Of the 7 member company groups transferring fewer vehicles, 2 member

company groups accounted for 87% of the total transfer decrease for the “decliner” members. Of the 13 member company groups transferring more vehicles, 2 member company groups accounted for 74% of the total transfer increases for the “grower” members.

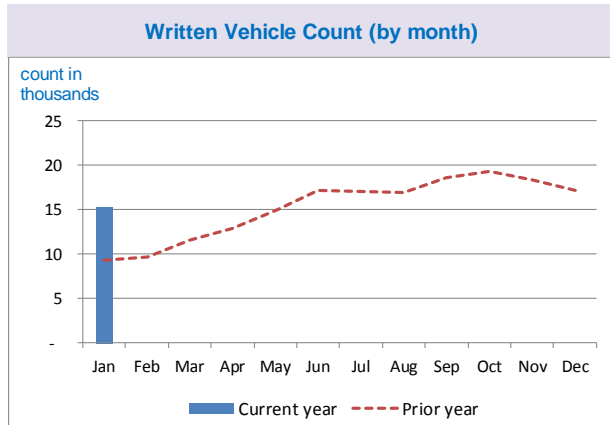


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

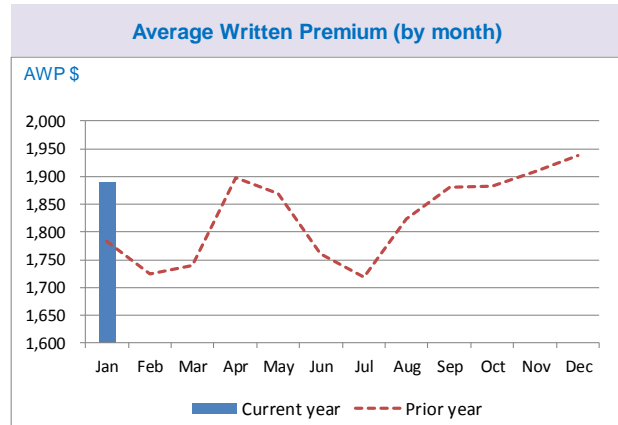
¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2016 or 2017. Groups that have not transferred vehicles in these two periods are ignored.

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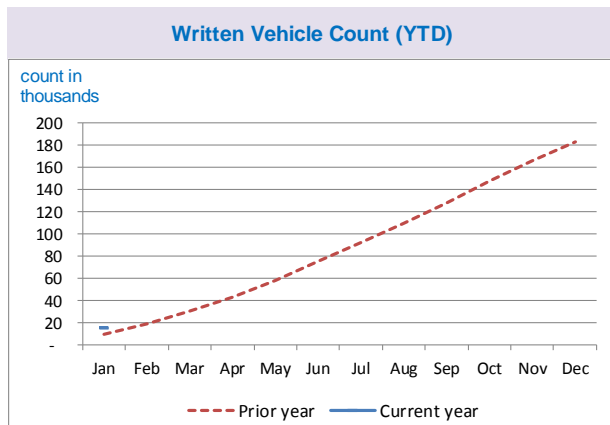
January’s year-on-year change in vehicle count transfers to the pool represents a 64.8% increase from January 2016. Average written premium was up 5.9% in January 2017 compared with the same month in 2016 (see charts immediately below).



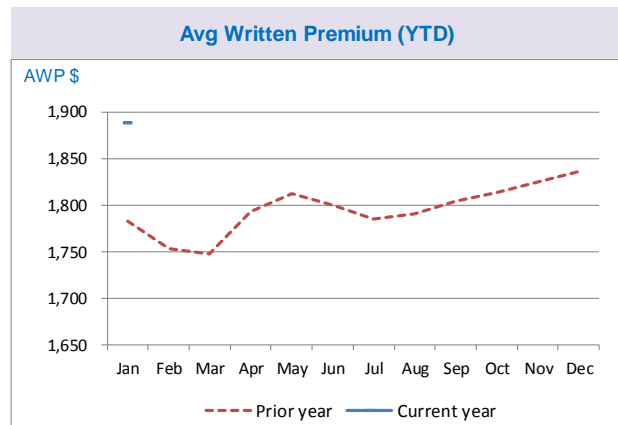
	Jan-17	Jan-16	Amt Chg	% Chg
W. Veh curr mth	15,287	9,278	6,009	64.8%



	Jan-17	Jan-16	Amt Chg	% Chg
AWP curr mth	1,889	1,783	106	5.9%



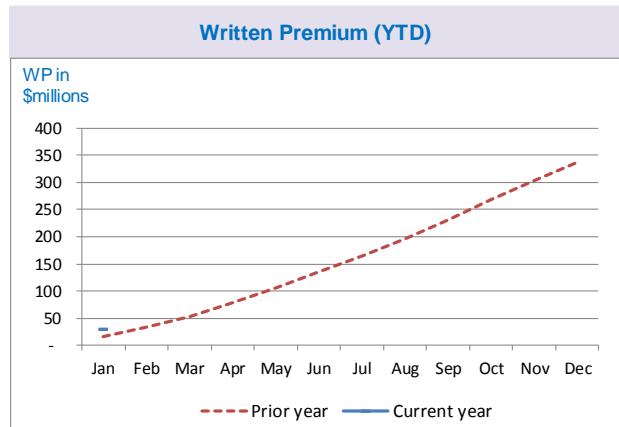
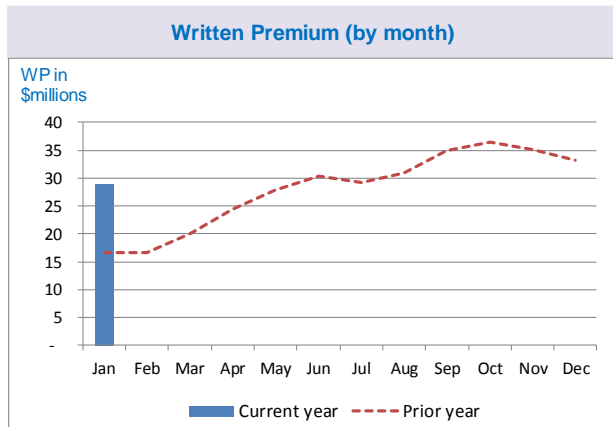
	Jan-17	Jan-16	Amt Chg	% Chg
W. Vehicles YTD	15,287	9,278	6,009	64.8%



	Jan-17	Jan-16	Amt Chg	% Chg
Avg W. Prem YTD	1,889	1,783	106	5.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 74.5% for the month compared with the 37.8% increase we projected last month (see charts at the top of the next page).

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	Jan-17	Jan-16	Amt Chg	% Chg
WP (\$000s) curr mth	28,876	16,543	12,333	74.5%

	Jan-17	Jan-16	Amt Chg	% Chg
WP (\$000s) YTD	28,876	16,543	12,333	74.5%

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 January 2017 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Ontario

Operating Results for the 1 Month Ended January 31, 2017 (Discounted basis)

EXHIBIT 1

Source: Monthly Operational Report

(thousands of dollars)

	January	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Net Premiums Written	\$28,876	\$28,876	\$385,504	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$1	(\$10,869)	(\$65,186)
Net Premiums Earned	\$28,877	\$28,877	\$374,635	\$270,863
Claims Incurred:				
Prior Accident Years:				
Undiscounted	(\$57)	(\$57)	(\$57)	(\$70,534)
Effect of Discounting	(3,669)	(3,669)	(31,394)	(36,400)
Discounted	(\$3,726)	(\$3,726)	(\$31,451)	(\$106,934)
Current Accident Year:				
Undiscounted	\$33,991	\$33,991	\$440,256	\$323,543
Effect of Discounting	5,509	5,509	57,066	38,551
Discounted	\$39,500	\$39,500	\$497,322	\$362,094
Claims Incurred	\$35,774	\$35,774	\$465,871	\$255,160
Underwriting Expenses:				
Expense Allowance	\$8,709	\$8,709	\$113,914	\$99,733
Change in UPDR/DPAC:				
Undiscounted	45	45	11,747	7,831
Effect of Discounting	6	6	3,100	11,309
Discounted	51	51	14,847	\$19,140
Underwriting Expenses	\$8,760	\$8,760	\$128,761	\$118,873
Net Underwriting Gain (Loss)	(\$15,657)	(\$15,657)	(\$219,997)	(\$103,170)
Administrative Expenses	\$110	\$110	\$1,849	\$1,308
Operating Result	(\$15,767)	(\$15,767)	(\$221,846)	(\$104,478)
Ratios:				
Claims & Expenses Incurred (Earned)				
Prior Accident Years	-12.9%	-12.9%	-8.4%	-39.5%
Current Accident Year	136.8%	136.8%	132.7%	133.7%
All Accident Years Combined	123.9%	123.9%	124.3%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.7%	34.9%	44.4%
Combined Operating Ratio	154.6%	154.6%	159.2%	138.6%

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