



TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F17 – 025
DATE: APRIL 28, 2017
SUBJECT: FARM – FEBRUARY 2017 PARTICIPATION REPORT

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

Please be advised that the February 2017 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

New This Month

Retroactive Claims Fees Adjustments

FARM Servicing Carrier compensation is largely formula driven, and the relevant formulas are specified in the Facility Association Plan of Operation. Annually, claims handling compensation is adjusted via retroactive claims fees adjustments based on changes in FARM loss ratios. Settlement with Servicing Carriers is performed in accordance with the Plan of Operation and the [Accounting & Statistical Manual Chapter 7 Servicing Carrier Claims Expense Allowance – Retroactive Adjustment](#) for the final and interim adjustments. These adjustments were made and taken into account for this month’s Participation Report, with accident year 2011 receiving final payment/(recovery), accident year 2014 receiving 2nd interim payment/(recovery), and accident year 2016 receiving 1st interim payment/(recovery). The payments/(recoveries) and changes in provision are summarized below. As indicated, the retroactive claims fees adjustments incurred have little impact on the operational results.

\$000s	<u>Accident Year</u> <u>2016</u>	<u>Accident Year</u> <u>2014</u>	<u>Accident Year</u> <u>2011</u>	<u>TOTAL</u>
Retro Adj Paid	(1,228)	(695)	(184)	(2,107)
unpaid @ Jan 31	(1,321)	(701)	(325)	(2,347)
unpaid @ Feb 29	(104)	(9)	-	(113)
change:	1,217	692	325	2,234
incurred:	(11)	(3)	141	127

TTC Insurance Company Limited Redistribution

TTC Insurance Company Limited (“TTC Insurance”) was incorporated on March 9, 1994 under the Ontario Corporations Act and is a subsidiary of Toronto Coach Terminal Inc. (“TCTI”), with its ultimate parent company being the Toronto Transit Commission (the “TTC”). The TTC is one of the agencies, boards and commissions of the City of Toronto. TTC Insurance provides insurance coverage for compulsory automobile personal injury and accident benefit claims for the TTC. As such, it was initially treated as a member of Facility Association, per Section 7 of the Compulsory Automobile Insurance Act.

On February 21, 2005, the Province of Ontario passed regulation O. Reg. 51/05 (amending the Compulsory Automobile Insurance Act R.R.O. 1990 Regulation 95 – Exemptions) that exempted TTC Insurance from Section 7 of the Compulsory Automobile Insurance Act, thereby exempting TTC Insurance from participating as a member in Facility Association. At that time, TTC Insurance had been included within the share base for non-private passenger vehicle (non-PPV) results for accident year 2002 in the jurisdictions of Ontario, Yukon, Northwest Territories and Nunavut. As a result of regulation O. Reg. 51/05, TTC Insurance’s share (\$435k) of these results had to be removed from Facility Association’s share base, which was successfully extracted during 2006. This extracted share was redistributed to all remaining members in proportion to each member’s share of the non-PPV results for accident year 2002 within each of the applicable jurisdictions. Due to a system limitation at that time, these amounts were distributed to members as “Funds Held” via a Member Statement of Account in October 2006 rather than through the Participation Report itself.

As a result of a recent system enhancement, we are now able to process a “true-up” to properly reflect the 2006 TTC Insurance redistribution within each member’s Participation Report for the February 2017 Participation Report released this month (as “Available Funds Distributed”). Since the amounts shown in the “Due to /(from) members” line on page 21 for each member already reflects the amounts paid to/(received from) members in accordance with the Statement of Account provided in October, 2006, **no settlement of this amount is required.**

Following this adjustment, the “Available Funds Distributed” balance shown in each member’s Participation Report, should be equal to the amount carried within each Member’s books (as available funds distributed to the member). This amount is a liability of the member as it is due to Facility Association upon demand.

If you have questions on any of the above, please contact Angela El Dewy at (416) 644-4971.

Summary of Financial Results

The calendar year-to-date Operating Result is \$2.9 million and the incurred loss ratio to the end of 2 months is 68.7%, as summarized in the table at the top of the next page.

Bulletin F17-025
FARM – February 2017 Participation Report

Amounts in \$000s	Feb 2017	Feb 2016	Year to date Feb 2017	Year to Date Feb 2016
Written Premiums	10,637	10,437	21,221	21,451
Earned Premiums	12,751	14,061	27,019	29,453
Incurred Losses	8,902	9,551	18,564	20,046
Underwriting Expenses and Others	2,802	2,661	5,547	5,575
Net Result from Operations	1,047	1,849	2,908	3,832
Ratios:				
Loss ratio % - Prior Accident Year	(4.3%)	(5.2%)	(5.5%)	(5.1%)
- Current Accident Years	74.1%	73.1%	74.2%	73.2%
<i>Total</i>	69.8%	67.9%	68.7%	68.1%
Underwriting & Admin Exp. %	22.0%	19.0%	20.6%	19.0%
Combined Operating Ratio	91.8%	86.9%	89.3%	87.1%

Rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2017 - 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”](#).

Updated Projection to Year-end 2017

The projected calendar year Net Result from Operations to December 2017 is \$17.4 million and the estimated combined operating ratio to December 2017 is 90.1%. This updated projection to the end of the year has deteriorated \$0.7 million from the projection provided last month (\$18.1 million and 89.8%). This deterioration included a \$0.2 million unfavourable impact due to a \$1.5 million decrease in projected earned premium (at a combined ratio of 89.8%), with the remaining \$0.5 million unfavourable impact stemming from the increase in the combined ratio (from 89.8% last month to 90.1% this month, applied to this month’s \$174.1 million earned premium). The change in the combined ratio generally reflects changes in the mix of business by jurisdiction and business segment.

Current month results

The Net Results from Operations in the month of February 2017 was \$1.0 million, down \$0.8 million from the same month last year. This deterioration resulted from an estimated \$0.2 million unfavourable impact due to the \$1.3 million decrease in earned premium (at a combined ratio of 86.9%), with the remaining \$0.6 million deterioration stemming from the increase in the combined ratio (from 86.9% last year to 91.8% this year, applied to this month’s \$12.8 million earned premium).

This month’s results moved the year-to-date combined operating ratio from 87.0% at the end of 1 month to 89.3% at the end of 2 months. The 2.3 percentage point increase is composed of a

Bulletin F17-025
FARM – February 2017 Participation Report

1.0 percentage point increase in the Prior Accident Years loss ratio, and a 1.3 percentage point increase in the expense ratio.

Variances from Projections

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

February 2017	Actual	Projection	Difference	Difference %
Written Premiums	10,637	11,084	(447)	(4.0%)
Earned Premiums	12,751	13,762	(1,011)	(7.3%)
Reported Losses				
Paid Losses	6,879	8,319	(1,440)	(17.3%)
Change in Outstanding Losses	3,148	(427)	3,575	837.2%
Total Reported Losses	10,027	7,892	2,135	27.1%
Change in IBNR *	(2,808)	(111)	(2,697)	
Change in Premium Deficiency (DPAC) *	184	93	91	
Change in Retro Claims Expense *	1,683	1,223	460	

(Amounts in \$000's)

Rounding differences may occur

*Detailed information is included in [FARM February 2017 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 February 2017, reported indemnity amounts were \$2.2 million higher 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 \$2.1 million*). The Current Accident Year had a \$0.6 million favourable variance in reported indemnity, while the Prior Accident Years had an unfavourable variance of approximately \$2.8 million. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$2.4 million unfavourable, followed by Accident Year 2012 at \$1.9 million favourable, Accident Year 2016 at \$1.5 million unfavourable and Accident Year 2007 at \$1.4 million unfavourable. 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.

Bulletin F17-025
FARM – February 2017 Participation Report

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.

Effect of Quarterly Valuation

The February 2017 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 below, the private passenger annualized vehicle counts decreased by 1.6% overall in February 2017 relative to February 2016. On a year-to-date basis, exposure counts are down by 3.0%, decreasing in all jurisdictions except Ontario, New Brunswick and Nova Scotia.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of February 2017				Calendar YTD as of February 2017			
	2017	2016	Chg	% Chg	2017	2016	Chg	% Chg
Ontario	151	88	63	72.2%	273	234	39	16.6%
Alberta	97	110	(13)	(11.5%)	198	241	(43)	(17.8%)
Newfoundland & Labrador	639	642	(3)	(0.4%)	1,249	1,278	(28)	(2.2%)
New Brunswick	464	498	(35)	(7.0%)	927	908	18	2.0%
Nova Scotia	248	232	16	6.8%	515	493	22	4.4%
Prince Edward Island	74	67	7	11.1%	144	191	(47)	(24.7%)
Yukon	6	15	(9)	(61.8%)	12	31	(19)	(61.4%)
Northwest Territories	170	213	(43)	(20.3%)	339	377	(38)	(10.0%)
Nunavut	(0)	13	(13)	(103.3%)	11	29	(18)	(62.4%)
All Jurisdictions	1,848	1,878	(30)	(1.6%)	3,669	3,783	(114)	(3.0%)

Rounding differences may occur

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

Bulletin F17-025
FARM – February 2017 Participation Report

David J. Simpson, M.B.A., FCIP, C. Dir.
President & CEO

Related link:

[FARM February 2017 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 2 months ended February 28, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2017
(thousands of dollars)

	January	February	CY2017 YTD	CY2017 12 Months Updated Projections	CY2016 12 Months Actual
UNDERWRITING REVENUE:					
PREMIUMS WRITTEN	\$10,584	\$10,637	\$21,221	\$179,509	\$171,000
CHANGE IN UNEARNED PREMIUMS	3,684	2,114	5,798	(5,438)	7,060
NET PREMIUMS EARNED	\$14,268	\$12,751	\$27,019	\$174,071	\$178,060
CLAIMS INCURRED					
PRIOR ACCIDENT YEARS					
UNDISCOUNTED	(132)	156	24	23	(2,129)
EFFECT OF DISCOUNTING	(790)	(707)	(1,497)	(10,622)	(1,579)
DISCOUNTED	(922)	(551)	(1,473)	(10,599)	(3,708)
CURRENT ACCIDENT YEAR					
UNDISCOUNTED	9,713	8,799	18,512	119,091	127,293
EFFECT OF DISCOUNTING	871	654	1,525	7,911	8,574
DISCOUNTED	10,584	9,453	20,037	127,002	135,867
CLAIMS INCURRED	\$9,662	\$8,902	\$18,564	\$116,403	\$132,159
UNDERWRITING EXPENSES					
OPERATING & SERVICE FEES	1,080	1,093	2,173	18,272	17,653
AGENTS COMMISSIONS	873	869	1,742	15,107	14,416
DRIVER RECORD ABSTRACTS	177	239	416	2,596	3,068
BAD DEBTS	(2)	(1)	(3)	(2)	(179)
PREMIUM DEFICIENCY/(DPAC)					
UNDISCOUNTED	266	183	449	(400)	331
EFFECT OF DISCOUNTING	(24)	1	(23)	252	112
DISCOUNTED	242	184	426	(148)	443
UNDERWRITING EXPENSES	\$2,370	\$2,384	\$4,754	\$35,825	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$2,236	\$1,465	\$3,701	\$21,843	\$10,500
ADMINISTRATIVE EXPENSES	379	421	800	4,622	4,999
PREMIUM FINANCE FEE	(9)	(8)	(17)	(9)	(108)
INVESTMENT INCOME	13	11	24	200	226
OPERATING RESULTS	\$1,861	\$1,047	\$2,908	\$17,412	\$5,619
RATIOS:					
Claims & Adj Expenses Incurred (Earned)					
Prior Accident Year	-6.5%	-4.3%	-5.5%	-6.1%	-2.1%
Current Accident Years	74.2%	74.1%	74.2%	73.0%	76.3%
All Accident Years Combined	67.7%	69.8%	68.7%	66.9%	74.2%
Underwriting & Admin Exp.(Earned)	19.3%	22.0%	20.6%	23.2%	22.7%
COMBINED OPERATING RATIO	87.0%	91.8%	89.3%	90.1%	96.9%

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 2 months ended February 28, 2017 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2017
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2017 12 Months Updated Projections	CY2016 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$6,730	\$4,978	\$2,291	\$490	\$2,477	\$3,375	\$155	\$662	\$63	\$21,221	\$179,509	\$171,000
CHANGE IN UNEARNED PREMIUMS	1,847	1,028	534	258	779	1,036	128	50	138	5,798	(\$5,438)	\$7,060
NET PREMIUMS EARNED	\$8,577	\$6,006	\$2,825	\$748	\$3,256	\$4,411	\$283	\$712	\$201	\$27,019	\$174,071	\$178,060
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(42)	50	49	2	(14)	(23)	0	(1)	3	24	\$23	(\$2,129)
EFFECT OF DISCOUNTING	(469)	(557)	(137)	(27)	(156)	(121)	(14)	(16)	0	(1,497)	(\$10,622)	(\$1,579)
DISCOUNTED	(511)	(507)	(88)	(25)	(170)	(144)	(14)	(17)	3	(1,473)	(10,599)	(3,708)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	5,561	3,942	2,053	434	2,173	3,701	185	375	88	18,512	\$119,091	\$127,293
EFFECT OF DISCOUNTING	422	416	152	38	165	281	14	30	7	1,525	\$7,911	\$8,574
DISCOUNTED	5,983	4,358	2,205	472	2,338	3,982	199	405	95	20,037	127,002	135,867
CLAIMS INCURRED	\$5,472	\$3,851	\$2,117	\$447	\$2,168	\$3,838	\$185	\$388	\$98	\$18,564	\$116,403	\$132,159
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	674	539	230	49	258	336	15	66	6	2,173	\$18,272	\$17,653
AGENTS COMMISSIONS	578	283	197	48	239	312	14	66	5	1,742	\$15,107	\$14,416
DRIVER RECORD ABSTRACTS	99	27	93	20	88	66	5	14	4	416	\$2,596	\$3,068
BAD DEBTS	1	(1)	0	0	0	(3)	0	0	0	(3)	(\$2)	(\$179)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	159	63	46	23	69	59	12	4	14	449	(\$400)	\$331
EFFECT OF DISCOUNTING	0	0	0	0	0	(23)	0	0	0	(23)	\$252	\$112
DISCOUNTED	159	63	46	23	69	36	12	4	14	426	(148)	443
UNDERWRITING EXPENSES	\$1,511	\$911	\$566	\$140	\$654	\$747	\$46	\$150	\$29	\$4,754	\$35,825	\$35,401
NET UNDERWRITING GAIN (LOSS)	\$1,594	\$1,244	\$142	\$161	\$434	(\$174)	\$52	\$174	\$74	\$3,701	\$21,843	\$10,500
ADMINISTRATIVE EXPENSES	224	173	86	28	90	132	18	34	15	800	\$4,622	\$4,999
PREMIUM FINANCE FEE	(6)	(6)	(2)	0	(1)	(2)	0	0	0	(17)	(\$9)	(\$108)
INVESTMENT INCOME	6	9	2	0	3	4	0	0	0	24	\$200	\$226
OPERATING RESULTS	\$1,370	\$1,074	\$56	\$133	\$346	(\$304)	\$34	\$140	\$59	\$2,908	\$17,412	\$5,619
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-6.0%	-8.4%	-3.1%	-3.3%	-5.2%	-3.3%	-4.9%	-2.4%	1.5%	-5.5%	-6.1%	-2.1%
Current Accident Years	69.8%	72.6%	78.1%	63.1%	71.8%	90.3%	70.3%	56.9%	47.3%	74.2%	73.0%	76.3%
All Accident Years Combined	63.8%	64.2%	75.0%	59.8%	66.6%	87.0%	65.4%	54.5%	48.8%	68.7%	66.9%	74.2%
Underwriting & Admin Exp.(Earned)	20.2%	18.0%	23.1%	22.5%	22.9%	19.9%	22.6%	25.8%	21.9%	20.6%	23.2%	22.7%
COMBINED OPERATING RATIO	84.0%	82.2%	98.1%	82.3%	89.5%	106.9%	88.0%	80.3%	70.7%	89.3%	90.1%	96.9%

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