

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F17 – 026

DATE: APRIL 28, 2017

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

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

Please be advised that the March 2017 Ontario Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

New This Month

Valuation

A valuation of the Ontario RSP as at December 31, 2016 has been completed since last month’s Operational Report and the results of that valuation have been incorporated into this month’s Operational Report. The valuation was completed by the Facility Association’s internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

The implementation of the new valuation resulted in an estimated overall **\$56.1 million favourable** impact on the month’s net result from operations, subtracting an estimated 64.6 points to the year-to-date Combined Operating Ratio (ending at 90.1%). The impact on the month’s results is summarized in the table immediately below¹.

Ontario	unfav / (fav) for the month and ytd						ytd EP 86,835 (actual)								
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:								
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins		TOTAL		
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL				
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]				
PAYs	(36,789)	(2,927)	(39,716)	(12,651)	-	(52,367)	(42.4%)	(3.4%)	(45.7%)	(14.6%)	-	(60.3%)			
CAY	348	142	490	(1,627)	-	(1,137)	0.4%	0.2%	0.6%	(1.9%)	-	(1.3%)			
Prem Def	776	145	921	(3,547)	-	(2,626)	0.9%	0.2%	1.1%	(4.1%)	-	(3.0%)			
TOTAL	(35,665)	(2,640)	(38,305)	(17,825)	-	(56,130)	(41.1%)	(3.0%)	(44.1%)	(20.5%)	-	(64.6%)			

¹In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dsct rate” refers to the impact of changes in the selected discount rate applied to projected cashflows; and “apv adj.” refers to “actuarial present value adjustments”.

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$38.3 million favourable impact – see column [3] in the left table at the bottom of the previous page), and the impact of a 50 basis point increase in the selected discount rate (from 0.62% to 1.12%, generating a \$17.8 million favourable impact – see column [4] in the left table at the bottom of the previous page). There was no change in the margin for adverse deviation in investment yield (remains at 25 basis points), and no changes to the margins for adverse deviation for claims development as selected at the coverage / accident year level with this valuation (therefore generating no impact – see column [5] in the left table at the bottom of the previous page).

Management has observed favourable total valuation impacts over the last 8 valuation implementations, with only a single valuation implementation being unfavourable over that period, as shown in the table below (summarizing the same information as provided in the left table at the bottom of the previous page as relates to the most recent 8 valuation implementations).

RSP: Ontario, as at: 2016 Q4		Valuation Implementation Impact (\$000s)					\$000s	
Valuation	updated LRs & exp	updated LRs & exp	APVs @ prior assumptions	updated dsct rate	updated margins	Total Impact	Booked Policy Liabilities	Total Impact as % Book Liabs
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
						=sum([1] to [6])		= [6] / [7]
2015 Q1	May	(39,099)	(6,530)	23,418	(9,706)	(31,917)	1,288,110	(2.5%)
2015 Q2	Aug	(50,090)	(8,485)	(12,573)	(17,845)	(88,993)	1,211,700	(7.3%)
2015 Q3	Oct	(40,983)	(5,717)	8,493	-	(38,207)	1,185,206	(3.2%)
2015 Q4	Mar	(49,197)	(2,815)	2,623	-	(49,389)	1,116,877	(4.4%)
2016 Q1	May	(5,109)	(214)	3,318	-	(2,005)	1,137,087	(0.2%)
2016 Q2	Aug	(18,614)	(528)	4,692	(14,996)	(29,446)	1,142,149	(2.6%)
2016 Q3	Oct	1,048	(965)	1,885	-	1,968	1,184,757	0.2%
2016 Q4	Mar	(35,665)	(2,640)	(17,825)	-	(56,130)	1,174,423	(4.8%)
8-qtrs		(237,709)	(27,894)	14,031	(42,547)	(294,119)		
% of total		80.8%	9.5%	(4.8%)	14.5%	100.0%		
Averages								
8-qtrs		(29,714)	(3,487)	1,754	(5,318)	(36,765)	1,180,039	
2015 Q4 to 2015 Q1		(44,842)	(5,887)	5,490	(6,888)	(52,127)	1,200,473	
2016 Q1 to 2015 Q2		(14,585)	(1,087)	(1,983)	(3,749)	(21,403)	1,159,604	

The FA valuation approach is focused on providing best estimates on a nominal basis, and we expect this to manifest itself as a close-to-zero 8-quarter impact for column [2] in the table above. While this objective has not been met, we are encouraged that the average impact over the most recent 4 valuations has been much smaller than the earlier 4 valuations shown. It is also important to bear in mind that the impacts in column [4] are largely outside of the control of FA (as being related to macroeconomic factors).

Please see “Effect of Quarterly Valuation” on page 5 for additional detail.

Summary of Financial Results

The calendar year-to-date Operating Result is \$8.5 million and the incurred loss ratio to the end of 3 months is 61.7%, as summarized in the table below.

Amounts in \$000s	March 2017	March 2016	Year to date Mar 2017	Year to Date Mar 2016
Premiums Written	31,716	20,046	87,154	53,300
Premiums Earned	30,883	20,308	86,835	59,517
Claims Incurred	(15,283)	(19,795)	53,593	28,464
General Expenses	7,721	1,826	24,702	9,914
Operating Result	38,445	38,277	8,540	21,139
Ratios:				
Loss ratio % - Prior Accident Years	(177.9%)	(220.9%)	(71.1%)	(84.7%)
- Current Accident Year	128.4%	123.4%	132.8%	132.5%
Total	(49.5%)	(97.5%)	61.7%	47.8%
General Expenses %	25.0%	9.0%	28.4%	16.7%
Combined Operating Ratio	(24.5%)	(88.5%)	90.1%	64.5%

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 2017” attached to this bulletin.

Updated Projection to Year-end 2017

The projected calendar year Operating Result to December 2017 is -\$189.9 million and the estimated combined operating ratio to December 2017 is 148.7%. This updated projection to the end of the year has improved by \$50.6 million from the projection provided last month (-\$240.5 million and 162.1%), mainly due to the overall favourable impact of the valuation as at December 31, 2016, as summarized in the table immediately below (see more information under “Effect of Quarterly Valuation” on page 5). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

Ontario	unfav / (fav) projected for full year						year EP 390,090 (projected this month)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % full year EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(36,789)	(2,849)	(39,638)	(10,172)	-	(49,810)	(9.4%)	(0.7%)	(10.2%)	(2.6%)	-	(12.8%)
CAY	1,562	(2,669)	(1,107)	(6,601)	-	(7,708)	0.4%	(0.7%)	(0.3%)	(1.7%)	-	(2.0%)
Prem Def	1,545	258	1,803	(4,384)	-	(2,581)	0.4%	0.1%	0.5%	(1.1%)	-	(0.7%)
TOTAL	(33,682)	(5,260)	(38,942)	(21,157)	-	(60,099)	(8.6%)	(1.3%)	(10.0%)	(5.4%)	-	(15.4%)

Bulletin F17-026
Ontario Risk Sharing Pool – March 2017 Operational Report

Current Month Results

The Ontario Risk Sharing Pool produced a \$38.4 million Operating Result in the month of March 2017, a \$0.2 million improvement compared with the same month last year. This improvement is composed of an estimated \$19.9 million favourable impact associated with the \$10.6 million increase in earned premium (at a combined ratio of -88.5%), offset by an approximately \$19.7 million deterioration stemming from the overall increase in the combined ratio (from -88.5% to -24.5% applied to \$30.9 million in earned premium). The primary driver of the difference in combined ratios is the difference in the respective valuation implementation impacts.

This month's results moved the year-to-date combined operating ratio from 153.4% at the end of 2 months to 90.1% at the end of 3 months. The 63.3 percentage point decrease is composed of a 58.9 percentage point decrease in the Prior Accident Year loss ratio, coupled with a 2.5 percentage point decrease in the Current Accident Year loss ratio, and a 1.9 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.

March 2017	Actual	Projection	Difference	Difference %
Premiums Written	31,716	29,243	2,473	8.5%
Premiums Earned	30,883	30,859	24	0.1%
Reported Losses				
Paid Losses	26,767	25,744	1,023	4.0%
Paid Expenses	1,692	2,138	(446)	(20.9%)
Change in Outstanding Losses	2,396	(4,179)	6,575	157.3%
Total Reported Losses	30,855	23,703	7,152	30.2%
Change in IBNR Provision*	(46,138)	14,485	(60,623)	
Change in Premium Deficiency (DPAC) *	(1,988)	(234)	(1,754)	

(Amounts in \$000's)

Rounding differences may occur.

*Detailed information is included in [Ontario RSP March 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 March 2017, reported losses were \$7.2 million higher than projected. The

Current Accident Year had a \$3.9 million unfavourable variance in reported losses, and the Prior Accident Years had a \$3.3 million unfavourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$1.9 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

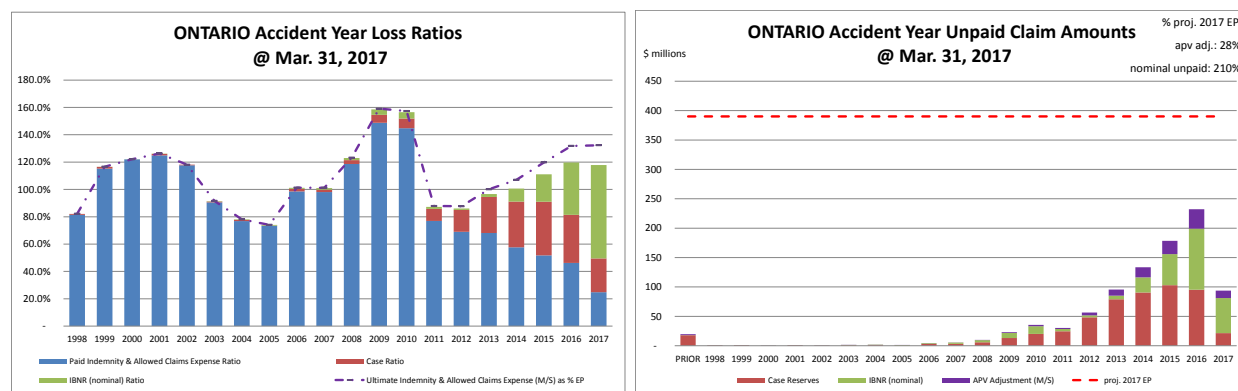
The variances for reported claims activity were beyond the set thresholds for the Prior Accident Years for the month. Management investigated reported claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

Effect of Quarterly Valuation

The March 2017 Ontario Risk Sharing Pool Operational Report reflects the results of an updated valuation as at December 31, 2016, with the associated impacts in relation to the results for March 2017 summarized in the table below.

Ontario	unfav / (fav) for the month and ytd						mth EP 30,883 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	(36,789)	(2,927)	(39,716)	(12,651)	-	(52,367)	(119.1%)	(9.5%)	(128.6%)	(41.0%)	-	(169.6%)
CAY	348	142	490	(1,627)	-	(1,137)	1.1%	0.5%	1.6%	(5.3%)	-	(3.7%)
Prem Def	776	145	921	(3,547)	-	(2,626)	2.5%	0.5%	3.0%	(11.5%)	-	(8.5%)
TOTAL	(35,665)	(2,640)	(38,305)	(17,825)	-	(56,130)	(115.5%)	(8.5%)	(124.0%)	(57.7%)	-	(181.8%)

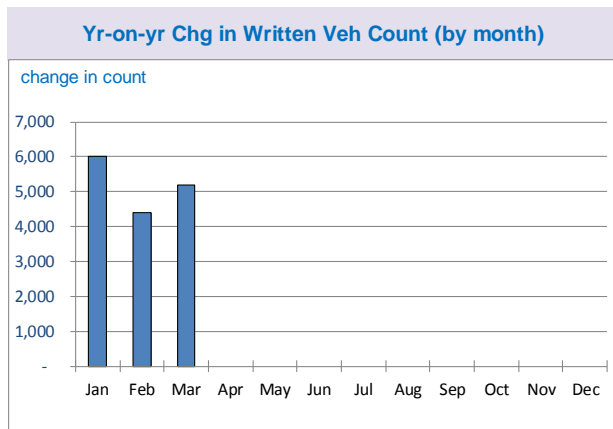
The charts below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.



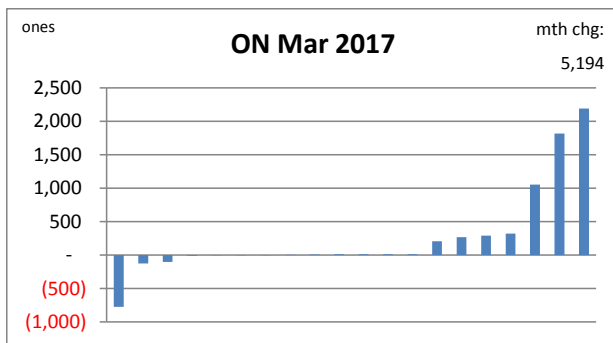
The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Ontario RSP March 2017 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at December 31, 2016](#). The actuarial valuation will be updated next as at March 31, 2017 and we anticipate that the results will be reflected in the May 31, 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 20.8% from 2016, being 3.1% 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.



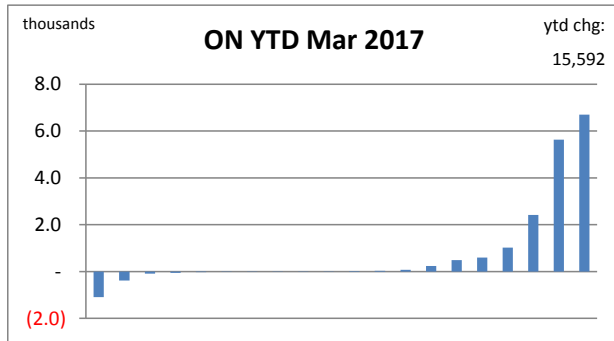
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with March reporting an increase of 5,194 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 3,820 vehicles, indicating a variance of 1,374 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in March 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 more². Of the 7 member company groups transferring fewer vehicles, 1 member company group accounted for 76% of the total transfer decrease for the “decliner” members. Of the 13 member company groups transferring more vehicles, 2 member company groups accounted for 65% of the total transfer increases for the “grower” members.

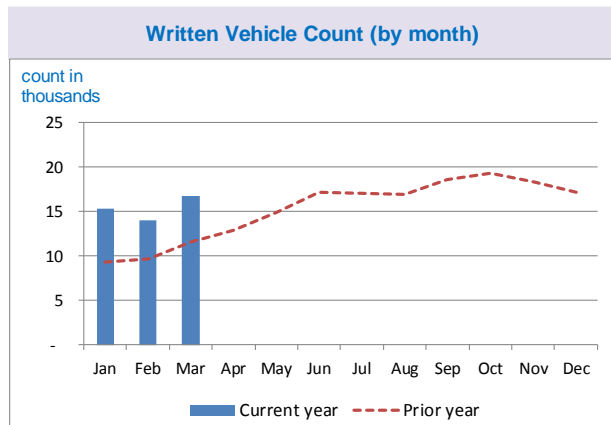
company group accounted for 76% of the total transfer decrease for the “decliner” members. Of the 13 member company groups transferring more vehicles, 2 member company groups accounted for 65% of the total transfer increases for the “grower” members.

²For 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.

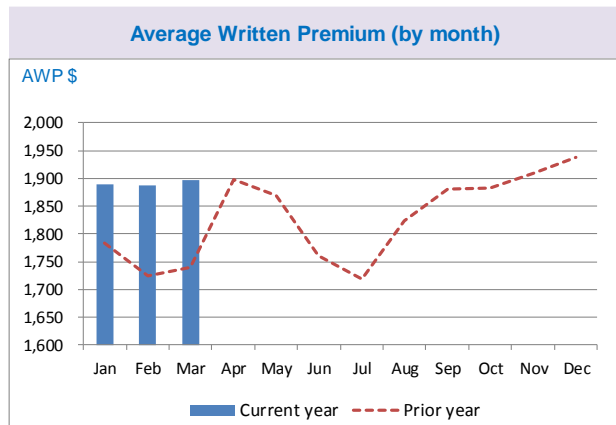


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

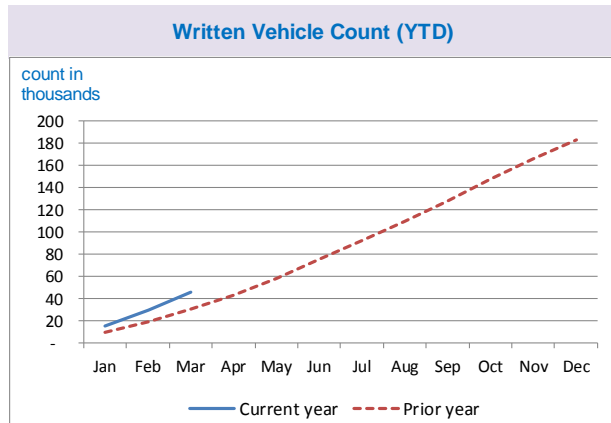
March’s year-on-year change in vehicle count transfers to the pool represents a 45.1% increase from March 2016, and counts were up 51.1% year-to-date. Average written premium was up 9.1% in March 2017 compared with the same month in 2016, and up 8.2% year-to-date (see charts immediately below).



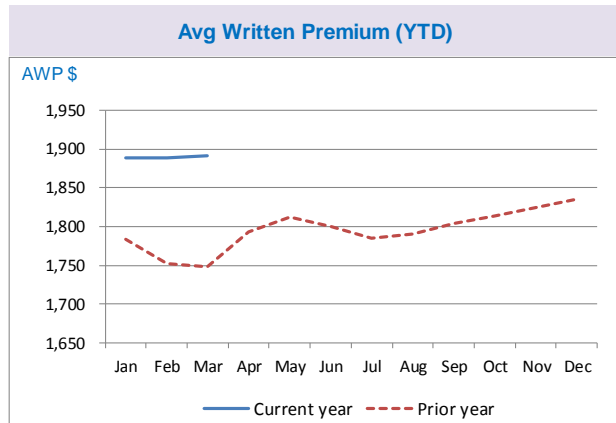
	Mar-17	Mar-16	Amt Chg	% Chg
W. Veh curr mth	16,720	11,526	5,194	45.1%



	Mar-17	Mar-16	Amt Chg	% Chg
AWP curr mth	1,897	1,739	158	9.1%

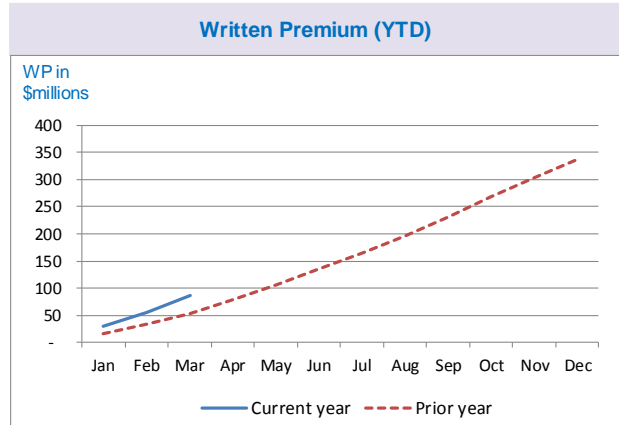
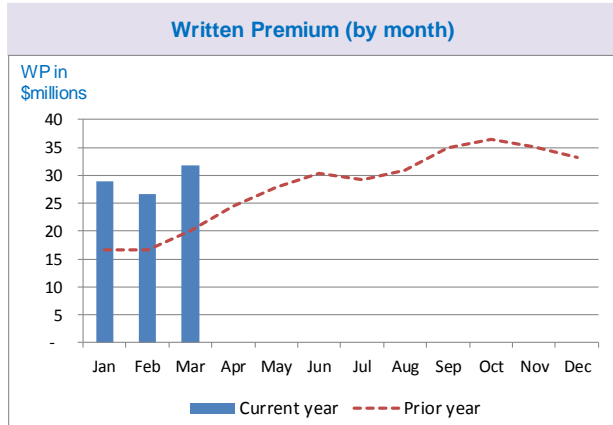


	Mar-17	Mar-16	Amt Chg	% Chg
W. Vehicles YTD	46,087	30,495	15,592	51.1%



	Mar-17	Mar-16	Amt Chg	% Chg
Avg W. Prem YTD	1,891	1,748	143	8.2%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 58.2% for the month compared with the 45.9% increase we projected last month, and was up 63.5% year-to-date (see charts immediately below).



	Mar-17	Mar-16	Amt Chg	% Chg
WP (\$000s) curr mth	31,716	20,046	11,670	58.2%

	Mar-17	Mar-16	Amt Chg	% Chg
WP (\$000s) YTD	87,154	53,300	33,854	63.5%

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 March 2017 Operational Report – Actuarial Highlights](#)

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at December 31, 2016](#)

[Actuarial Quarterly Valuation Highlights Exhibits – Ontario RSP](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Ontario

Operating Results for the 3 Months Ended March 31, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Net Premiums Written	\$28,876	\$26,562	\$31,716	\$87,154	\$425,017	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$513	(\$833)	(\$319)	(\$34,927)	(\$65,186)
Net Premiums Earned	\$28,877	\$27,075	\$30,883	\$86,835	\$390,090	\$270,863
Claims Incurred:						
Prior Accident Years:						
Undiscounted	(\$57)	(\$181)	(\$36,952)	(\$37,190)	(\$37,190)	(\$70,534)
Effect of Discounting	(3,669)	(2,916)	(17,985)	(24,570)	(43,900)	(36,400)
Discounted	(\$3,726)	(\$3,097)	(\$54,937)	(\$61,760)	(\$81,090)	(\$106,934)
Current Accident Year:						
Undiscounted	\$33,991	\$31,994	\$36,797	\$102,782	\$460,321	\$323,543
Effect of Discounting	5,509	4,205	2,857	12,571	50,993	38,551
Discounted	\$39,500	\$36,199	\$39,654	\$115,353	\$511,314	\$362,094
Claims Incurred	\$35,774	\$33,102	(\$15,283)	\$53,593	\$430,224	\$255,160
Underwriting Expenses:						
Expense Allowance	\$8,709	\$8,005	\$9,598	\$26,312	\$125,982	\$99,733
Change in UPDR/DPAC:						
Undiscounted	45	48	1,238	1,331	18,766	7,831
Effect of Discounting	6	(63)	(3,226)	(3,283)	3,022	11,309
Discounted	51	(15)	(1,988)	(1,952)	21,788	\$19,140
Underwriting Expenses	\$8,760	\$7,990	\$7,610	\$24,360	\$147,770	\$118,873
Net Underwriting Gain (Loss)	(\$15,657)	(\$14,017)	\$38,556	\$8,882	(\$187,904)	(\$103,170)
Administrative Expenses	\$110	\$121	\$111	\$342	\$2,000	\$1,308
Operating Result	(\$15,767)	(\$14,138)	\$38,445	\$8,540	(\$189,904)	(\$104,478)
Ratios:						
Claims & Expenses Incurred (Earned)						
Prior Accident Years	-12.9%	-11.4%	-177.9%	-71.1%	-20.8%	-39.5%
Current Accident Year	136.8%	133.7%	128.4%	132.8%	131.1%	133.7%
All Accident Years Combined	123.9%	122.3%	-49.5%	61.7%	110.3%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.0%	25.0%	28.4%	38.4%	44.4%
Combined Operating Ratio	154.6%	152.3%	-24.5%	90.1%	148.7%	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