



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F17 – 043**

**DATE: JUNE 29, 2017**

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

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

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

### **New This Month**

#### *Annual Update of Member Sharing Ratios*

The May 2017 Operational Report reflects the annual update of member sharing ratios for Accident Years 2015, 2016, 2017 and 2018. Please refer to Bulletin [F17-049](#) for additional information.

#### *Valuation*

A valuation of the Ontario RSP as at March 31, 2017 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 **\$10.8 million unfavourable** impact on the month's net result from operations, adding an estimated 7.2 points to the year-to-date Combined Operating Ratio (ending at 128.9%). The impact on the month's results is summarized in the table at the top of the next page<sup>1</sup>.

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<sup>1</sup>In the tables, "ults & payout patterns" refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; "dscst 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".

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Ontario	unfav / (fav) for the month and ytd					ytd EP 149,254 (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	
	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	4,763	764	5,527	2,194	-	7,721	3.2%	0.5%	3.7%	1.5%	-	5.2%
CAY	1,049	162	1,211	479	-	1,690	0.7%	0.1%	0.8%	0.3%	-	1.1%
Prem Def	1,117	(280)	837	531	-	1,368	0.7%	(0.2%)	0.6%	0.4%	-	0.9%
<b>TOTAL</b>	<b>6,929</b>	<b>646</b>	<b>7,575</b>	<b>3,204</b>	<b>-</b>	<b>10,779</b>	<b>4.6%</b>	<b>0.4%</b>	<b>5.1%</b>	<b>2.1%</b>	<b>-</b>	<b>7.2%</b>

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$7.6 million unfavourable impact – see column [3] in the left table above), and the impact of an 8 basis point decrease in the selected discount rate (from 1.12% to 1.04%, generating a \$3.2 million unfavourable impact – see column [4] in the left table above). 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 above).

Management has observed favourable *total* valuation impacts over the last 8 valuation implementations, with this latest quarter being only the second valuation implementation being unfavourable over that 8-quarter period, as shown in the table below (summarizing the same information as provided in the left table above as relates to the most recent 8 valuation implementations).

RSP: Ontario, as at: 2017 Q1		unfavourable / (favourable) 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 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%)
2017 Q1	May	6,929	646	3,204	-	10,779	1,224,460	0.9%
8-qtrs		(191,681)	(20,718)	(6,183)	(32,841)	(251,423)		
% of total		76.2%	8.2%	2.5%	13.1%	100.0%		
Averages								
8-qtrs		(23,960)	(2,590)	(773)	(4,105)	(31,428)	1,172,082	(2.7%)
2015 Q2 to 2016 Q1		(36,345)	(4,308)	465	(4,461)	(44,649)	1,162,718	(3.8%)
2016 Q2 to 2017 Q1		(11,576)	(872)	(2,011)	(3,749)	(18,207)	1,181,447	(1.5%)

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 earliest 4 valuations shown. It is

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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 -\$43.1 million and the incurred loss ratio to the end of 5 months is 94.5%, as summarized in the table below.

<b>Amounts in \$000s</b>	<b>May 2017</b>	May 2016	<b>Year to date May 2017</b>	Year to Date May 2016
Premiums Written	40,344	27,953	156,667	105,774
Premiums Earned	32,037	21,046	149,254	100,440
Claims Incurred	49,387	24,045	141,063	76,540
General Expenses	17,343	10,319	51,280	29,382
<b>Operating Result</b>	<b>(34,693)</b>	<b>(13,318)</b>	<b>(43,089)</b>	<b>(5,482)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Years</b>	17.8%	(13.8%)	(38.8%)	(55.0%)
<b>- Current Accident Year</b>	136.3%	128.0%	133.3%	131.2%
<b>Total</b>	<b>154.1%</b>	<b>114.2%</b>	<b>94.5%</b>	<b>76.2%</b>
<b>General Expenses %</b>	<b>54.1%</b>	<b>49.0%</b>	<b>34.4%</b>	<b>29.3%</b>
<b>Combined Operating Ratio</b>	<b>208.2%</b>	<b>163.2%</b>	<b>128.9%</b>	<b>105.5%</b>

*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 -\$152.7 million and the estimated combined operating ratio to December 2017 is 141.5%. This updated projection to the end of the year has improved by \$33.1 million from the projection provided last month (-\$185.8 million and 148.3%), mainly due to a significant reduction (\$63.8 million, from \$417.5 million to \$353.8 million) in projected written premium, generating a significant reduction in the net operating loss for the year. The impact of this was partially offset by the \$9.6 million unfavourable impact of the valuation as at March 31, 2017, as summarized in the table at the top of the next page (see more information under “Effect of Quarterly Valuation” on page 5).

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Ontario	unfav / (fav) projected for full year						year EP 367,710 (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		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	4,763	630	5,393	1,857	-	7,250	1.3%	0.2%	1.5%	0.5%	-	2.0%	
CAY	2,579	(1,413)	1,166	1,045	-	2,211	0.7%	(0.4%)	0.3%	0.3%	-	0.6%	
Prem Def	3	(378)	(375)	487	-	112	-	(0.1%)	(0.1%)	0.1%	-	-	
<b>TOTAL</b>	<b>7,345</b>	<b>(1,161)</b>	<b>6,184</b>	<b>3,389</b>	<b>-</b>	<b>9,573</b>	<b>2.0%</b>	<b>(0.3%)</b>	<b>1.7%</b>	<b>0.9%</b>	<b>-</b>	<b>2.6%</b>	

Current Month Results

The Ontario Risk Sharing Pool produced a -\$34.7 million Operating Result in the month of May 2017, a \$21.4 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$7.0 million unfavourable impact associated with the \$11.0 million increase in earned premium (at a combined ratio of 163.2%), with the remaining \$14.4 million deterioration stemming from the overall increase in the combined ratio (from 163.2% to 208.2% applied to \$32.0 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 107.2% at the end of 4 months to 128.9% at the end of 5 months. The 21.7 percentage point increase is composed of a 15.5 percentage point increase in the Prior Accident Year loss ratio, coupled with a 0.8 percentage point increase in the Current Accident Year loss ratio, and a 5.4 percentage point increase 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.

May 2017	Actual	Projection	Difference	Difference %
Premiums Written	40,344	39,977	367	0.9%
Premiums Earned	32,037	32,392	(355)	(1.1%)
Reported Losses				
Paid Losses	25,395	25,765	(370)	(1.4%)
Paid Expenses	839	2,046	(1,207)	(59.0%)
Change in Outstanding Losses	7,736	(1,377)	9,113	661.8%
<b>Total Reported Losses</b>	<b>33,970</b>	<b>26,434</b>	<b>7,536</b>	<b>28.5%</b>
Change in IBNR Provision*	15,417	13,738	1,679	
Change in Premium Deficiency (DPAC) *	4,926	3,306	1,620	

(Amounts in \$000's)

Rounding differences may occur.

\*Detailed information is included in [Ontario RSP May 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

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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 May 2017, reported losses were \$7.5 million higher than projected. The Current Accident Year had a \$3.3 million unfavourable variance in reported losses, and the Prior Accident Years had a \$4.2 million unfavourable variance. Of the Prior Accident Years, 2013 had the largest variance in reported losses at \$2.3 million unfavourable, followed by Accident Year 1996 at \$1.8 million unfavourable and Accident Year 2015 at \$1.2 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

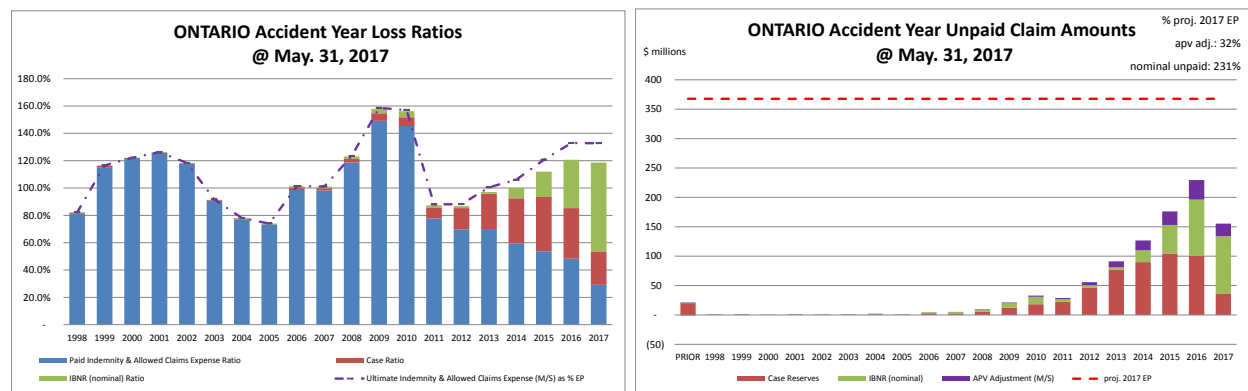
The variances for reported claims activity were beyond the set thresholds for the Prior Accident Years for the month. Management investigated reported claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the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

**Effect of Quarterly Valuation**

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

Ontario	unfav / (fav) for the month and ytd						mth EP 32,037 (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	4,763	764	5,527	2,194	-	7,721	14.9%	2.4%	17.3%	6.8%	-	24.1%
CAY	1,049	162	1,211	479	-	1,690	3.3%	0.5%	3.8%	1.5%	-	5.3%
Prem Def	1,117	(280)	837	531	-	1,368	3.5%	(0.9%)	2.6%	1.7%	-	4.3%
<b>TOTAL</b>	<b>6,929</b>	<b>646</b>	<b>7,575</b>	<b>3,204</b>	<b>-</b>	<b>10,779</b>	<b>21.6%</b>	<b>2.0%</b>	<b>23.6%</b>	<b>10.0%</b>	<b>-</b>	<b>33.6%</b>

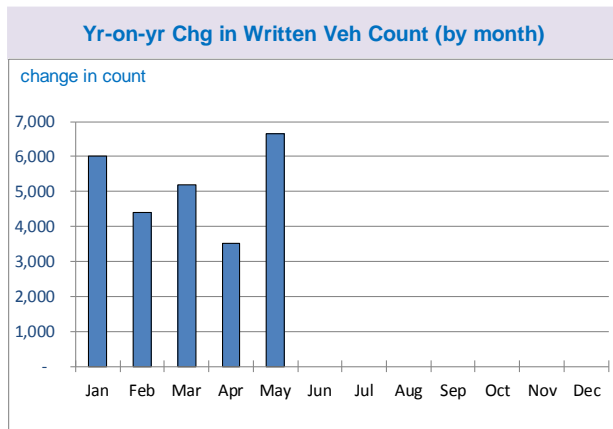
The charts immediately below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.



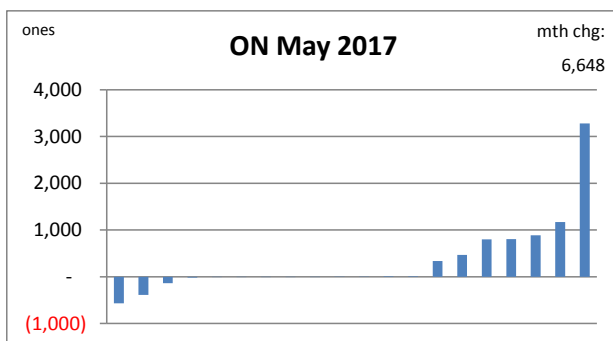
The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Ontario RSP May 2017 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at March 31, 2017](#). The actuarial valuation will be updated next as at June 30, 2017 and we anticipate that the results will be reflected in the August 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 4.5% from 2016, being 2.5% of the 2016 industry private passenger vehicle count (excluding farmers) and the 2015 industry private passenger vehicle farmers count (as we don't have an industry count for farmers 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. As an example, based on projection information provided to last month, the projected count increase was 19.6%, considerably higher than the 4.5% increase now projected (due mainly to changes in projections provided by one member group).



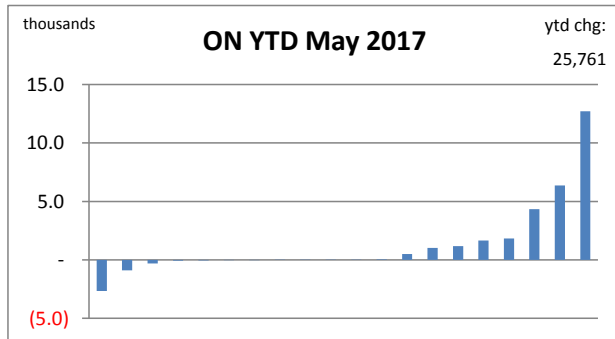
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with May reporting an increase of 6,648 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 5,737 vehicles, indicating a variance of 911 from the actual transfers. This variance was mainly due to one member company transferring a greater number of vehicles to the pool in May 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. Nine member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eleven

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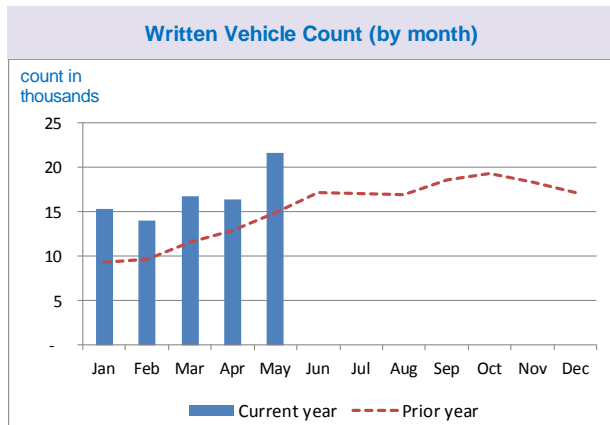
transferred more<sup>2</sup> and one remained the same. Of the 9 member company groups transferring fewer vehicles, 2 member company groups accounted for 85% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 1 member company group accounted for 42% of the total transfer increases for the “grower” members.



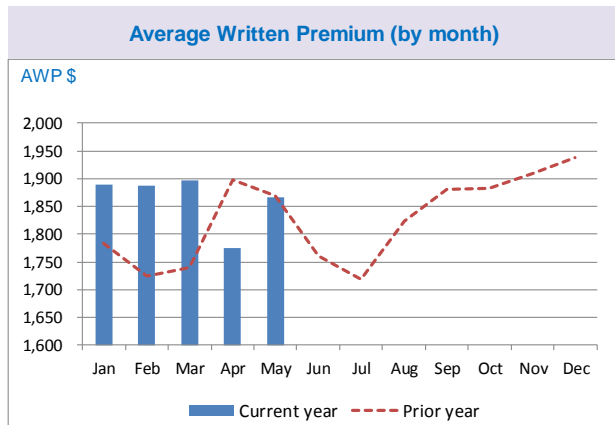
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Year-to-date, 7 member company groups have transferred fewer vehicles from last year as at the same

period, whereas 13 have transferred more.

May’s year-on-year change in vehicle count transfers to the pool represents a 44.4% increase from May 2016, and counts were up 44.1% year-to-date. Average written premium was down 0.1% in May 2017 compared with the same month in 2016, but up 2.8% year-to-date (see charts immediately below and at the top of the next page).



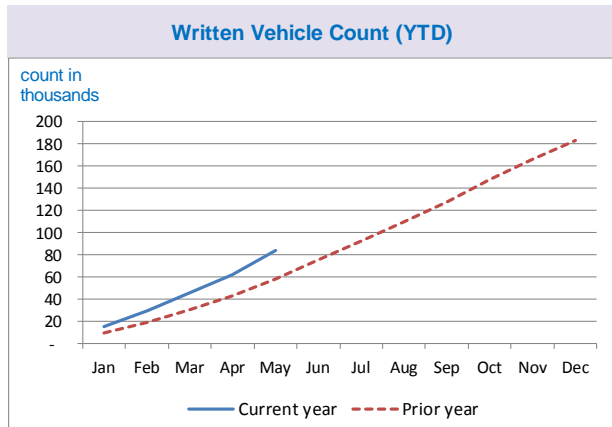
	May-17	May-16	Amt Chg	% Chg
W. Veh curr mth	21,603	14,956	6,648	44.4%



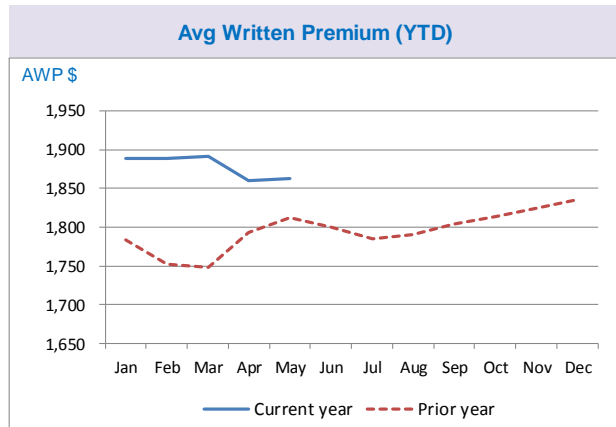
	May-17	May-16	Amt Chg	% Chg
AWP curr mth	1,867	1,869	(2)	-0.1%

<sup>2</sup>For 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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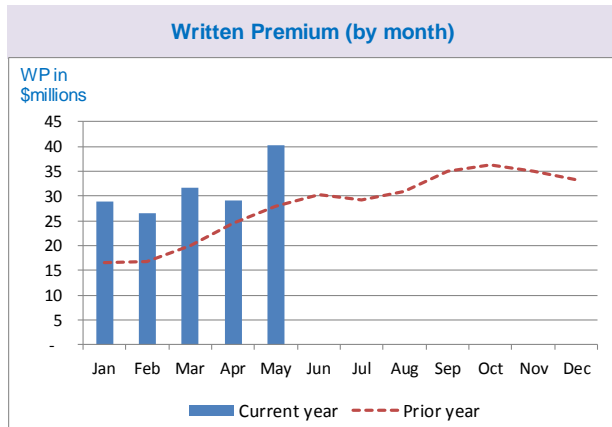


	May-17	May-16	Amt Chg	% Chg
W. Vehicles YTD	84,130	58,369	25,761	44.1%

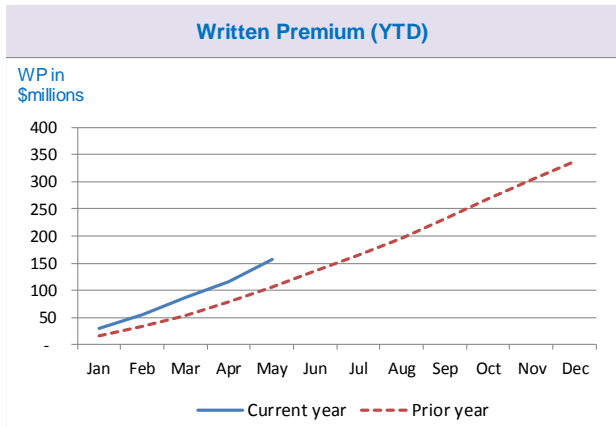


	May-17	May-16	Amt Chg	% Chg
Avg W. Prem YTD	1,862	1,812	50	2.8%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 44.3% for the month compared with the 43.0% increase we projected last month, and was up 48.1% year-to-date (see charts immediately below).



	May-17	May-16	Amt Chg	% Chg
WP (\$000s) curr mth	40,344	27,953	12,391	44.3%



	May-17	May-16	Amt Chg	% Chg
WP (\$000s) YTD	156,667	105,774	50,893	48.1%

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 May 2017 Operational Report – Actuarial Highlights](#)

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at March 31, 2017](#)

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

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2017**

Risk Sharing Pool - Ontario

Operating Results for the 5 Months Ended May 31, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Net Premiums Written	\$28,876	\$26,562	\$31,716	\$29,169	\$40,344	\$156,667	\$353,777	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$513	(\$833)	\$1,213	(\$8,307)	(\$7,413)	\$13,933	(\$65,186)
<b>Net Premiums Earned</b>	<b>\$28,877</b>	<b>\$27,075</b>	<b>\$30,883</b>	<b>\$30,382</b>	<b>\$32,037</b>	<b>\$149,254</b>	<b>\$367,710</b>	<b>\$270,863</b>
<b>Claims Incurred:</b>								
Prior Accident Years:								
Undiscounted	(\$57)	(\$181)	(\$36,952)	(\$90)	\$4,559	(\$32,721)	(\$32,721)	(\$70,534)
Effect of Discounting	(3,669)	(2,916)	(17,985)	(1,748)	1,150	(25,168)	(40,399)	(36,400)
Discounted	(\$3,726)	(\$3,097)	(\$54,937)	(\$1,838)	\$5,709	(\$57,889)	(\$73,120)	(\$106,934)
Current Accident Year:								
Undiscounted	\$33,991	\$31,994	\$36,797	\$35,910	\$39,022	\$177,714	\$436,803	\$323,543
Effect of Discounting	5,509	4,205	2,857	4,011	4,656	21,238	46,388	38,551
Discounted	\$39,500	\$36,199	\$39,654	\$39,921	\$43,678	\$198,952	\$483,191	\$362,094
<b>Claims Incurred</b>	<b>\$35,774</b>	<b>\$33,102</b>	<b>(\$15,283)</b>	<b>\$38,083</b>	<b>\$49,387</b>	<b>\$141,063</b>	<b>\$410,071</b>	<b>\$255,160</b>
<b>Underwriting Expenses:</b>								
Expense Allowance	\$8,709	\$8,005	\$9,598	\$8,938	\$12,275	\$47,525	\$105,673	\$99,733
Change in UPDR/DPAC:								
Undiscounted	45	48	1,238	279	3,393	5,003	7,317	7,831
Effect of Discounting	6	(63)	(3,226)	(113)	1,533	(1,863)	(4,175)	11,309
Discounted	51	(15)	(1,988)	166	4,926	3,140	3,142	\$19,140
<b>Underwriting Expenses</b>	<b>\$8,760</b>	<b>\$7,990</b>	<b>\$7,610</b>	<b>\$9,104</b>	<b>\$17,201</b>	<b>\$50,665</b>	<b>\$108,815</b>	<b>\$118,873</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$15,657)</b>	<b>(\$14,017)</b>	<b>\$38,556</b>	<b>(\$16,805)</b>	<b>(\$34,551)</b>	<b>(\$42,474)</b>	<b>(\$151,176)</b>	<b>(\$103,170)</b>
<b>Administrative Expenses</b>	<b>\$110</b>	<b>\$121</b>	<b>\$111</b>	<b>\$131</b>	<b>\$142</b>	<b>\$615</b>	<b>\$1,570</b>	<b>\$1,308</b>
<b>Operating Result</b>	<b>(\$15,767)</b>	<b>(\$14,138)</b>	<b>\$38,445</b>	<b>(\$16,936)</b>	<b>(\$34,693)</b>	<b>(\$43,089)</b>	<b>(\$152,746)</b>	<b>(\$104,478)</b>
<b>Ratios:</b>								
<b>Claims &amp; Expenses Incurred (Earned)</b>								
Prior Accident Years	-12.9%	-11.4%	-177.9%	-6.0%	17.8%	-38.8%	-19.9%	-39.5%
Current Accident Year	136.8%	133.7%	128.4%	131.4%	136.3%	133.3%	131.4%	133.7%
All Accident Years Combined	123.9%	122.3%	-49.5%	125.4%	154.1%	94.5%	111.5%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.0%	25.0%	30.4%	54.1%	34.4%	30.0%	44.4%
<b>Combined Operating Ratio</b>	<b>154.6%</b>	<b>152.3%</b>	<b>-24.5%</b>	<b>155.8%</b>	<b>208.2%</b>	<b>128.9%</b>	<b>141.5%</b>	<b>138.6%</b>

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