



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F17 – 056**

**DATE: JULY 28, 2017**

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

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

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

### **New This Month**

#### *Quarterly Sharing Update*

An update of the "Member's Usage" of the Ontario Risk Sharing Pool ("RSP") was performed since the release of the May 2017 Operational Report, bringing members' sharing current to the second quarter 2017. The usage update is reflected in the June 2017 Operational Report.

### **Summary of Financial Results**

The calendar year-to-date Operating Result is -\$72.2 million and the incurred loss ratio to the end of 6 months is 100.0%, as summarized in the table at the top of the next page.

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**Ontario Risk Sharing Pool – June 2017 Operational Report**

Amounts in \$000s	June 2017	June 2016	Year to date Jun 2017	Year to Date Jun 2016
Premiums Written	48,227	30,327	204,894	136,101
Premiums Earned	33,011	21,011	182,265	121,451
Claims Incurred	41,261	25,180	182,324	101,720
General Expenses	20,894	12,379	72,174	41,761
<b>Operating Result</b>	<b>(29,144)</b>	<b>(16,548)</b>	<b>(72,233)</b>	<b>(22,030)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Years</b>	<b>(6.9%)</b>	<b>(9.5%)</b>	<b>(33.0%)</b>	<b>(47.1%)</b>
- Current Accident Year	131.9%	129.4%	133.0%	130.9%
<i>Total</i>	<b>125.0%</b>	<b>119.9%</b>	<b>100.0%</b>	<b>83.8%</b>
<b>General Expenses %</b>	<b>63.3%</b>	<b>58.9%</b>	<b>39.6%</b>	<b>34.4%</b>
<b>Combined Operating Ratio</b>	<b>188.3%</b>	<b>178.8%</b>	<b>139.6%</b>	<b>118.2%</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 -\$167.7 million and the estimated combined operating ratio to December 2017 is 144.4%. This updated projection to the end of the year has deteriorated by approximately \$15.0 million from the projection provided last month (-\$152.7 million and 141.5%). This deterioration is driven by a \$21.6 million increase in the projected written premium for the year, compared with the \$63.7 million decrease in projected written premium last month. In fact, as shown in the table below, written premium projections so far during 2017 have been unusually volatile, as indicated in the table below.

Facility Association  
Written Premium (\$m) Projection for Full Year, as Projected over first 6 months of the Year

RSP Ontario	2014			2015			2016			2017		
	projection	change	% change									
Outlook	291.6			285.0			288.9			342.2		
Jan	262.6			268.9			279.0			385.5		
Feb	252.8	(9.8)	(3.7%)	266.1	(2.8)	(1.0%)	280.7	1.7	0.6%	412.2	26.7	6.9%
Mar	275.4	22.6	8.9%	267.9	1.8	0.7%	306.3	25.6	9.1%	425.0	12.8	3.1%
Apr	288.7	13.3	4.8%	267.9	-	-	308.2	1.9	0.6%	417.5	(7.5)	(1.8%)
May	287.9	(0.8)	(0.3%)	269.1	1.2	0.4%	324.9	16.7	5.4%	353.8	(63.7)	(15.3%)
Jun	288.2	0.3	0.1%	262.6	(6.5)	(2.4%)	323.4	(1.5)	(0.5%)	375.4	21.6	6.1%
	average	std dev.	coeff var.									
mthly	275.9	15.5	5.6%	267.1	2.5	1.0%	303.8	17.8	5.9%	394.9	30.7	7.8%

Written premium projections are based largely on projections provided by larger RSP user members. These members are provided quarterly with their historical vehicle count and premium amounts by share month, and are asked to project forward, by month, to the end of the next calendar year (that is, we are currently requesting projections by month to the end of calendar year 2018). As responses are provided, we incorporate them into the next applicable projection.

To provide a sense of the relative volatility in the projections, the last row in the table at the bottom of the preceding page provides the average projection (i.e. the average of the 6 months of projections), the standard deviation of those projections (i.e. the “average” change, in absolute values), and the coefficient of variation (the standard deviation divided by the average). The latter two measures directly relate to volatility. The standard deviation provides an *absolute* measure of volatility in the projections, and the coefficient of variation provides a *relative* measure of volatility, by comparing the absolute volatility in monthly projections to the average monthly projection. As a relative measure, the coefficient of variation can be used to compare full-year projection volatility across the 4 share years shown. At 7.8%, 2017 has had significantly higher projection volatility than the preceding 3 years.

#### Current Month Results

The Ontario Risk Sharing Pool produced a -\$29.1 million Operating Result in the month of June 2017, a \$12.6 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$9.5 million unfavourable impact associated with the \$12.0 million increase in earned premium (at a combined ratio of 178.8%), with the remaining \$3.1 million deterioration stemming from the overall increase in the combined ratio (from 178.8% to 188.3% applied to \$33.0 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 128.9% at the end of 5 months to 139.6% at the end of 6 months. The 10.7 percentage point increase is composed of a 5.8 percentage point increase in the Prior Accident Year loss ratio, and a 5.2 percentage point increase in the expense ratio, offset by a 0.3 percentage point decrease in the Current Accident Year loss 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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<b>June 2017</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Premiums Written	48,227	28,664	19,563	68.2%
Premiums Earned	33,011	31,798	1,213	3.8%
Reported Losses				
Paid Losses	27,124	25,836	1,288	5.0%
Paid Expenses	1,711	1,868	(157)	(8.4%)
Change in Outstanding Losses	2,801	5,042	(2,241)	(44.4%)
<b>Total Reported Losses</b>	<b>31,636</b>	<b>32,746</b>	<b>(1,110)</b>	<b>(3.4%)</b>
Change in IBNR Provision*	9,625	6,856	2,769	
Change in Premium Deficiency (DPAC) *	6,159	(424)	6,583	

(Amounts in \$000's)

Rounding differences may occur.

\*Detailed information is included in [Ontario RSP June 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.

Two member company groups accounted for \$18.2 million of the overall \$19.6 million written premium projection variance, and management has discussed the variances with those member company groups.

For the month of June 2017, reported losses were \$1.1 million lower than projected. The Current Accident Year had a \$0.1 million unfavourable variance in reported losses, while the Prior Accident Years had a \$1.2 million favourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$3.1 million favourable, followed by Accident Year 2013 at \$1.3 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for paid claims activity were beyond the set thresholds for the Prior Accident Years for the month. Management investigated paid 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.

**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

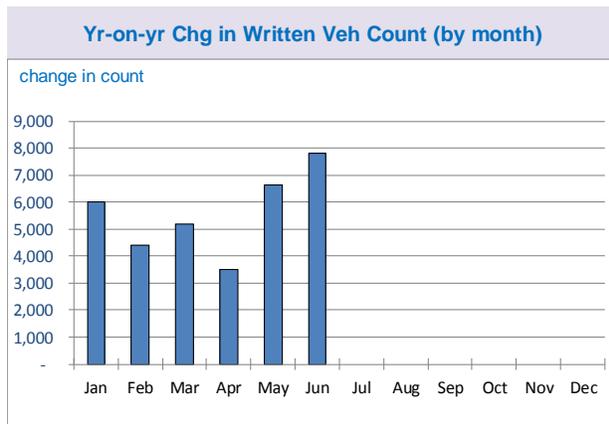
with management’s investigation into reported claims variances concluding they were random and not necessarily indicative of a trend. IBNR is discussed in more detail in the [Ontario RSP June 2017 Operational Report – Actuarial Highlights](#).

**Effect of Quarterly Valuation**

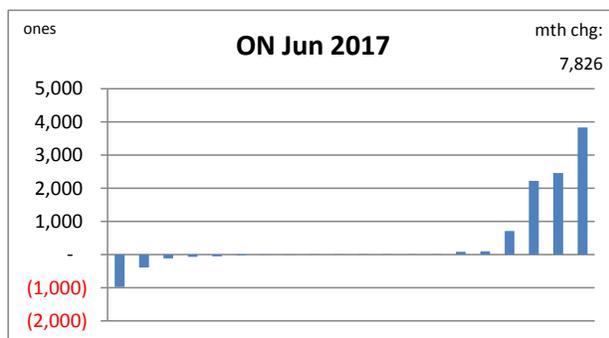
The June 2017 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2017). The actuarial valuation will be updated next as at June 30, 2017 and we anticipate that the results will be reflected in the August 2017 Operational Report.

**Management Comments**

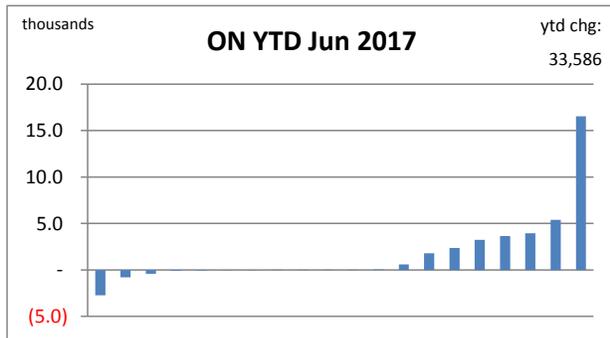
For the Ontario RSP, the transfer limit is 5.0% of exposures written in the prior year at the member company group level (that is, within a group under common management or ownership, a single member can transfer the entire transfer limit for the group). System programming prevents member groups from 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 9.6% from 2016, being 2.7% 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.



The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with June reporting an increase of 7,826 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 208 vehicles, indicating a variance of 7,618 from the actual transfers. This variance was mainly due to two member company groups transferring a greater number of vehicles to the pool in June than projected.



month compared to a year ago, while twelve transferred more<sup>1</sup>. Of the 8 member company groups transferring fewer vehicles, 1 member company group accounted for 60% of the total transfer decrease for the “decliner” members. Of the 12 member company groups transferring more vehicles, 3 member company groups accounted for 90% of the total transfer increases for the “grower” members.



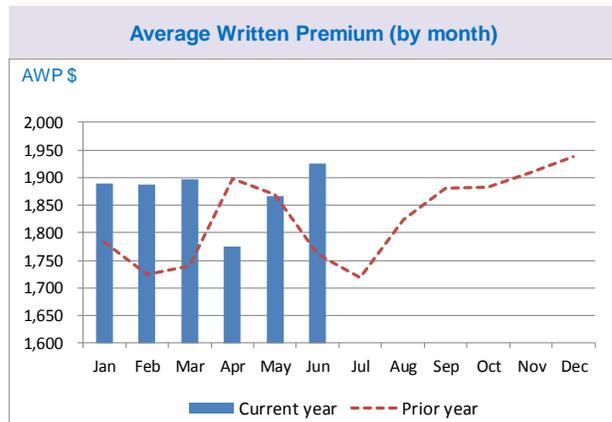
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

June’s year-on-year change in vehicle count transfers to the pool represents a 45.4% increase from June 2016, and counts were up 44.4% year-to-date. Average written premium was up 9.4% in June 2017 compared with the same month in 2016, and up 4.3% year-to-date (see charts immediately below and at the top of the next page).



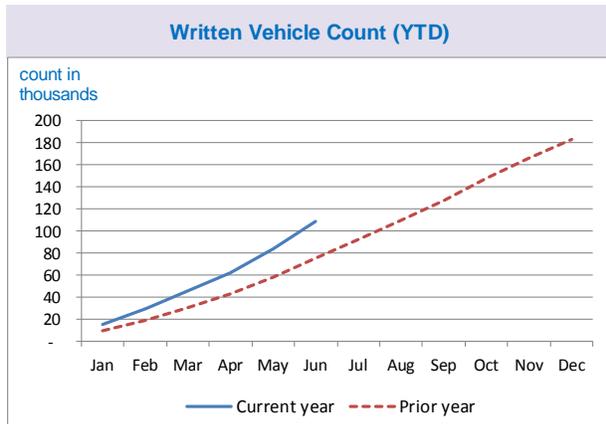
	Jun-17	Jun-16	Amt Chg	% Chg
W. Veh curr mth	25,059	17,233	7,826	45.4%



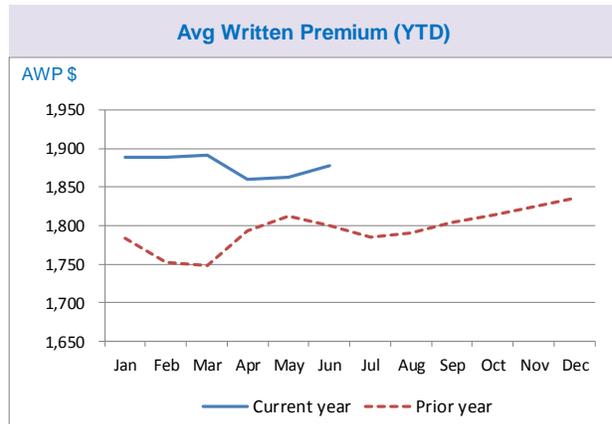
	Jun-17	Jun-16	Amt Chg	% Chg
AWP curr mth	1,925	1,760	165	9.4%

<sup>1</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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	Jun-17	Jun-16	Amt Chg	% Chg
W. Vehicles YTD	109,188	75,602	33,586	44.4%

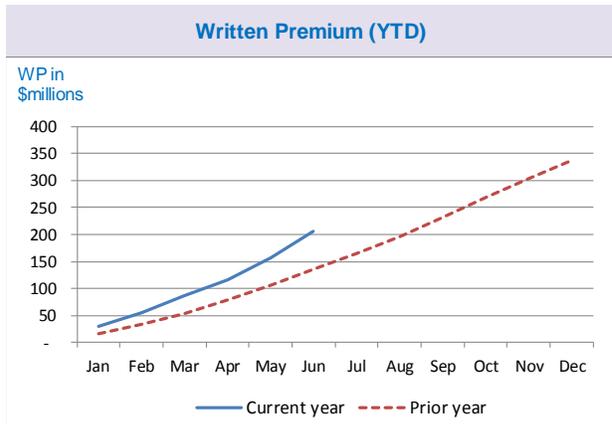


	Jun-17	Jun-16	Amt Chg	% Chg
Avg W. Prem YTD	1,877	1,800	77	4.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 59.0% for the month compared with the 7.9% increase we projected last month, and was up 50.5% year-to-date (see charts immediately below).



	Jun-17	Jun-16	Amt Chg	% Chg
WP (\$000s) curr mth	48,227	30,327	17,900	59.0%



	Jun-17	Jun-16	Amt Chg	% Chg
WP (\$000s) YTD	204,894	136,102	68,792	50.5%

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 June 2017 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2017**

Risk Sharing Pool - Ontario

Operating Results for the 6 Months Ended June 30, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Net Premiums Written	\$28,876	\$26,562	\$31,716	\$29,169	\$40,344	\$48,227	\$204,894	\$375,422	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$513	(\$833)	\$1,213	(\$8,307)	(\$15,216)	(\$22,629)	\$1,706	(\$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>\$33,011</b>	<b>\$182,265</b>	<b>\$377,128</b>	<b>\$270,863</b>
<b>Claims Incurred:</b>									
Prior Accident Years:									
Undiscounted	(\$57)	(\$181)	(\$36,952)	(\$90)	\$4,559	(\$146)	(\$32,867)	(\$32,867)	(\$70,534)
Effect of Discounting	(3,669)	(2,916)	(17,985)	(1,748)	1,150	(2,144)	(27,312)	(40,646)	(36,400)
Discounted	(\$3,726)	(\$3,097)	(\$54,937)	(\$1,838)	\$5,709	(\$2,290)	(\$60,179)	(\$73,513)	(\$106,934)
Current Accident Year:									
Undiscounted	\$33,991	\$31,994	\$36,797	\$35,910	\$39,022	\$39,296	\$217,010	\$448,118	\$323,543
Effect of Discounting	5,509	4,205	2,857	4,011	4,656	4,255	25,493	48,301	38,551
Discounted	\$39,500	\$36,199	\$39,654	\$39,921	\$43,678	\$43,551	\$242,503	\$496,419	\$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>\$41,261</b>	<b>\$182,324</b>	<b>\$422,906</b>	<b>\$255,160</b>
<b>Underwriting Expenses:</b>									
Expense Allowance	\$8,709	\$8,005	\$9,598	\$8,938	\$12,275	\$14,620	\$62,145	\$112,452	\$99,733
Change in UPDR/DPAC:									
Undiscounted	45	48	1,238	279	3,393	3,840	8,843	10,191	7,831
Effect of Discounting	6	(63)	(3,226)	(113)	1,533	2,319	456	(2,340)	11,309
Discounted	51	(15)	(1,988)	166	4,926	6,159	9,299	7,851	\$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>\$20,779</b>	<b>\$71,444</b>	<b>\$120,303</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>(\$29,029)</b>	<b>(\$71,503)</b>	<b>(\$166,081)</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>\$115</b>	<b>\$730</b>	<b>\$1,587</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>(\$29,144)</b>	<b>(\$72,233)</b>	<b>(\$167,668)</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%	-6.9%	-33.0%	-19.5%	-39.5%
Current Accident Year	136.8%	133.7%	128.4%	131.4%	136.3%	131.9%	133.0%	131.6%	133.7%
All Accident Years Combined	123.9%	122.3%	-49.5%	125.4%	154.1%	125.0%	100.0%	112.1%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.0%	25.0%	30.4%	54.1%	63.3%	39.6%	32.3%	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>188.3%</b>	<b>139.6%</b>	<b>144.4%</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