

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F17 – 062

DATE: AUGUST 29, 2017

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

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

Please be advised that the July 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 -\$90.2 million and the incurred loss ratio to the end of 7 months is 104.0%, as summarized in the table below.

| Amounts in \$000s | July 2017 | July 2016 | Year to date Jul 2017 | Year to Date Jul 2016 |
|--|-----------------|-----------------|-----------------------|-----------------------|
| Premiums Written | 30,336 | 29,255 | 235,230 | 165,356 |
| Premiums Earned | 33,123 | 22,378 | 215,388 | 143,829 |
| Claims Incurred | 41,662 | 26,237 | 223,986 | 127,957 |
| General Expenses | 9,437 | 11,341 | 81,611 | 53,102 |
| Operating Result | (17,976) | (15,200) | (90,209) | (37,230) |
| Ratios: | | | | |
| Loss ratio % - Prior Accident Years | (6.2%) | (12.9%) | (28.9%) | (41.8%) |
| - Current Accident Year | 132.0% | 130.1% | 132.9% | 130.8% |
| <i>Total</i> | 125.8% | 117.2% | 104.0% | 89.0% |
| General Expenses % | 28.5% | 50.7% | 37.9% | 36.9% |
| Combined Operating Ratio | 154.3% | 167.9% | 141.9% | 125.9% |

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 -\$170.1 million and the estimated combined operating ratio to December 2017 is 145.3%. This updated projection to the end of the year has deteriorated by \$2.4 million from the projection provided last month (-\$167.7 million and 144.4%). While projected written premium decreased by \$0.6 million, the projected ending unearned premium has increased, effectively “pushing” projected earned premium into calendar year 2018 – this generates a higher current operating loss as accident year 2018 has a higher assumed loss ratio than 2017. In addition, the projected paid indemnity for calendar year 2017 decreased by \$13.7 million (and is instead now projected to be paid beyond 2017) – as a result, the associated “releases” of actuarial present value adjustments are now also projected to occur beyond 2017, resulting in a higher projected net operating loss during 2017 (this is a timing issue in recognizing the operating result).

Current Month Results

The Ontario Risk Sharing Pool produced a -\$18.0 million Operating Result in the month of July 2017, a \$2.8 million deterioration compared with the same month last year. This deterioration is composed of an estimated \$7.3 million unfavourable impact associated with the \$10.7 million increase in earned premium (at a combined ratio of 167.9%), offset by a \$4.5 million improvement stemming from the overall decrease in the combined ratio (from 167.9% to 154.3% applied to \$33.1 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 139.6% at the end of 6 months to 141.9% at the end of 7 months. The 2.3 percentage point increase is composed of a 4.1 percentage point increase in the Prior Accident Year loss ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio, further offset by a 1.7 percentage point decrease in the expense 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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| July 2017 | Actual | Projection | Difference | Difference % |
|---------------------------------------|---------------|-------------------|-------------------|---------------------|
| Premiums Written | 30,336 | 31,580 | (1,244) | (3.9%) |
| Premiums Earned | 33,123 | 33,588 | (465) | (1.4%) |
| Reported Losses | | | | |
| Paid Losses | 25,265 | 28,507 | (3,242) | (11.4%) |
| Paid Expenses | 1,736 | 2,240 | (504) | (22.5%) |
| Change in Outstanding Losses | (1,707) | (294) | (1,413) | 480.6% |
| Total Reported Losses | 25,294 | 30,453 | (5,159) | (16.9%) |
| Change in IBNR Provision* | 16,368 | 11,130 | 5,238 | |
| Change in Premium Deficiency (DPAC) * | (35) | 258 | (293) | |

(Amounts in \$000's)

Rounding differences may occur.

*Detailed information is included in [Ontario RSP July 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 July 2017, reported losses were \$5.2 million lower than projected. The Current Accident Year had a \$1.1 million favourable variance in reported losses, and the Prior Accident Years had a \$4.1 million favourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$2.4 million favourable. 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

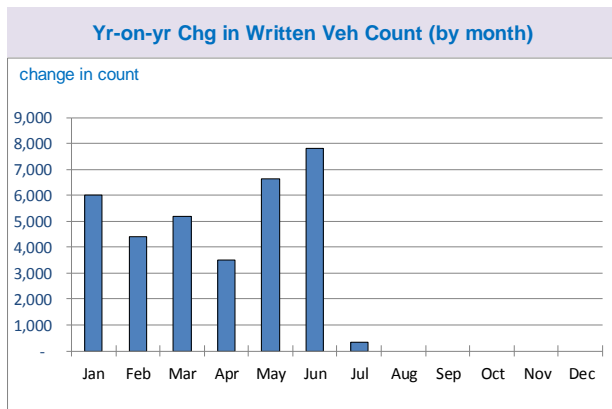
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 July 2017 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

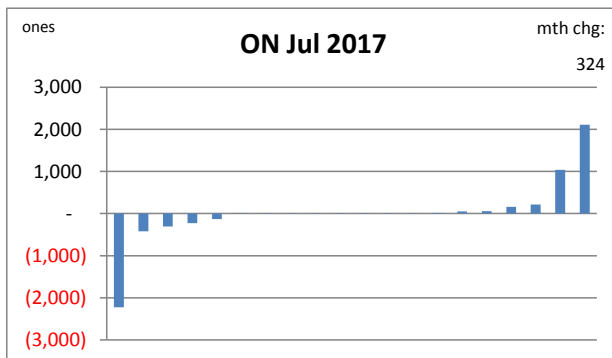
The July 2017 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2017). The actuarial valuation will be updated next as at June 30, 2017 and we anticipate that the results will be reflected in the August 2017 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 9.9% 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 July reporting an increase of 324 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 116 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the pool in July than projected.

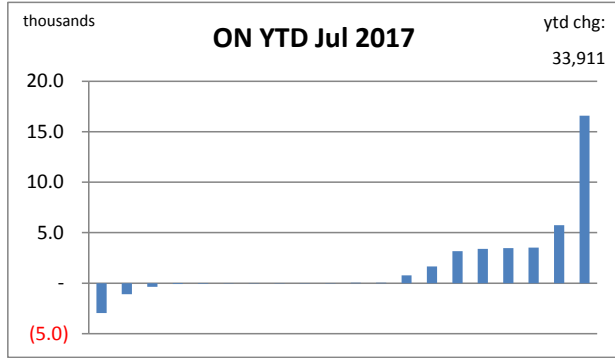


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Ten member company groups transferred fewer vehicles to the pool this month compared to a year ago, while ten transferred more¹. Of the 10 member company groups transferring fewer vehicles, 1 member

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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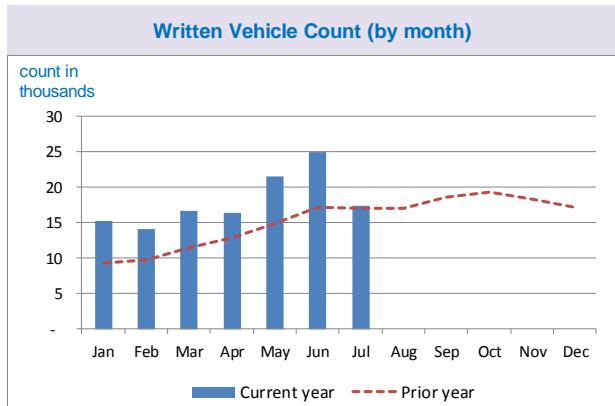
company group accounted for 67% of the total transfer decrease for the “decliner” members. Of the 10 member company groups transferring more vehicles, 2 member company groups accounted for 86% of the total transfer increases for the “grower” members.



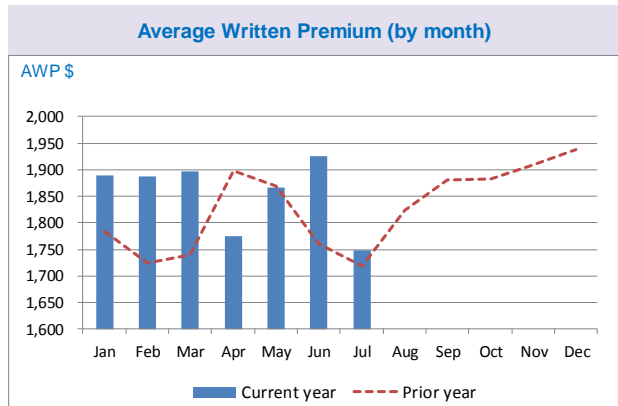
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Year-to-date, 6 member company groups have transferred fewer vehicles from last year as at the same

period, whereas 14 have transferred more.

July’s year-on-year change in vehicle count transfers to the pool represents a 1.9% increase from July 2016, and counts were up 36.6% year-to-date. Average written premium was up 1.7% in July 2017 compared with the same month in 2016, and up 4.1% year-to-date (see charts immediately below and at the top of the next page).

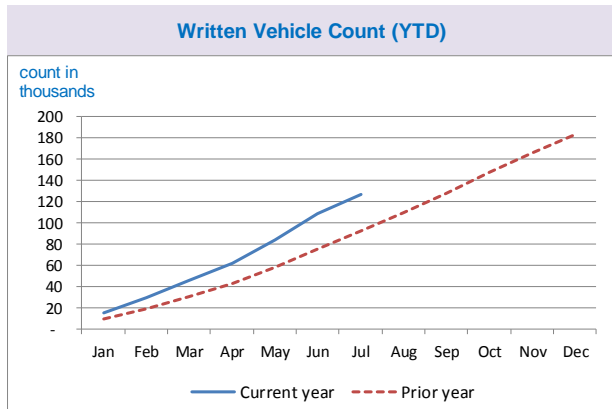


| | Jul-17 | Jul-16 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Veh curr mth | 17,356 | 17,031 | 324 | 1.9% |

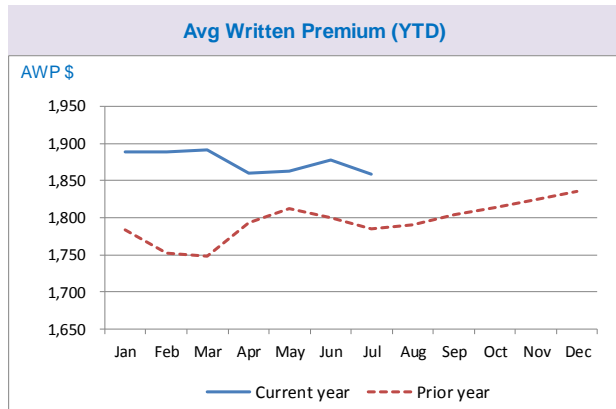


| | Jul-17 | Jul-16 | Amt Chg | % Chg |
|--------------|--------|--------|---------|-------|
| AWP curr mth | 1,748 | 1,718 | 30 | 1.7% |

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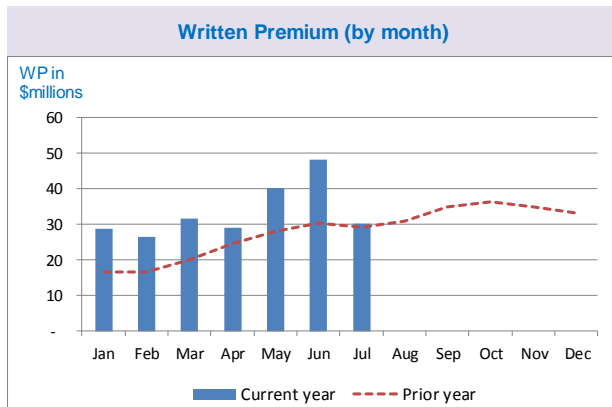


| | Jul-17 | Jul-16 | Amt Chg | % Chg |
|-----------------|---------|--------|---------|-------|
| W. Vehicles YTD | 126,544 | 92,633 | 33,911 | 36.6% |

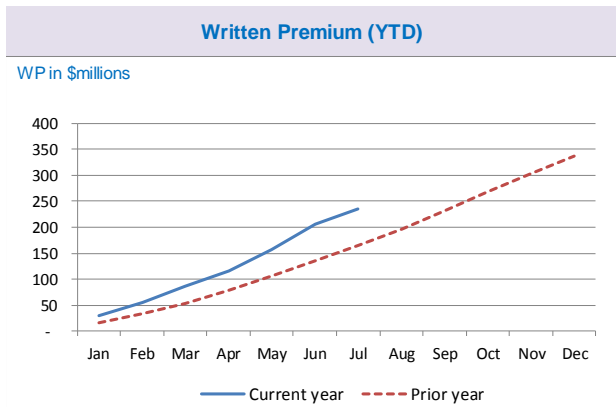


| | Jul-17 | Jul-16 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| Avg W. Prem YTD | 1,859 | 1,785 | 74 | 4.1% |

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 3.7% for the month compared with the 7.9% increase we projected last month (even though counts for the month were 0.7% higher than projected, average written premium was 4.6% lower than projected) and was up 42.3% year-to-date (see charts immediately below).



| | Jul-17 | Jul-16 | Amt Chg | % Chg |
|----------------------|--------|--------|---------|-------|
| WP (\$000s) curr mth | 30,336 | 29,255 | 1,081 | 3.7% |



| | Jul-17 | Jul-16 | Amt Chg | % Chg |
|-----------------|---------|---------|---------|-------|
| WP (\$000s) YTD | 235,230 | 165,356 | 69,874 | 42.3% |

Should you require any further information, please call Norm Seney, 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 July 2017 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Ontario

Operating Results for the 7 Months Ended July 31, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

| | January | February | March | April | May | June | July | 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 | \$30,336 | \$235,230 | \$374,809 | \$336,049 |
| Decrease (Increase) in Unearned Premiums | \$1 | \$513 | (\$833) | \$1,213 | (\$8,307) | (\$15,216) | \$2,787 | (\$19,842) | \$1,027 | (\$65,186) |
| Net Premiums Earned | \$28,877 | \$27,075 | \$30,883 | \$30,382 | \$32,037 | \$33,011 | \$33,123 | \$215,388 | \$375,836 | \$270,863 |
| Claims Incurred: | | | | | | | | | | |
| Prior Accident Years: | | | | | | | | | | |
| Undiscounted | (\$57) | (\$181) | (\$36,952) | (\$90) | \$4,559 | (\$146) | (\$364) | (\$33,231) | (\$33,231) | (\$70,534) |
| Effect of Discounting | (3,669) | (2,916) | (17,985) | (1,748) | 1,150 | (2,144) | (1,702) | (29,014) | (39,771) | (36,400) |
| Discounted | (\$3,726) | (\$3,097) | (\$54,937) | (\$1,838) | \$5,709 | (\$2,290) | (\$2,066) | (\$62,245) | (\$73,002) | (\$106,934) |
| Current Accident Year: | | | | | | | | | | |
| Undiscounted | \$33,991 | \$31,994 | \$36,797 | \$35,910 | \$39,022 | \$39,296 | \$39,643 | \$256,653 | \$446,945 | \$323,543 |
| Effect of Discounting | 5,509 | 4,205 | 2,857 | 4,011 | 4,656 | 4,255 | 4,085 | 29,578 | 49,590 | 38,551 |
| Discounted | \$39,500 | \$36,199 | \$39,654 | \$39,921 | \$43,678 | \$43,551 | \$43,728 | \$286,231 | \$496,535 | \$362,094 |
| Claims Incurred | \$35,774 | \$33,102 | (\$15,283) | \$38,083 | \$49,387 | \$41,261 | \$41,662 | \$223,986 | \$423,533 | \$255,160 |
| Underwriting Expenses: | | | | | | | | | | |
| Expense Allowance | \$8,709 | \$8,005 | \$9,598 | \$8,938 | \$12,275 | \$14,620 | \$9,367 | \$71,512 | \$112,689 | \$99,733 |
| Change in UPDR/DPAC: | | | | | | | | | | |
| Undiscounted | 45 | 48 | 1,238 | 279 | 3,393 | 3,840 | 273 | 9,116 | 10,352 | 7,831 |
| Effect of Discounting | 6 | (63) | (3,226) | (113) | 1,533 | 2,319 | (308) | 148 | (2,237) | 11,309 |
| Discounted | 51 | (15) | (1,988) | 166 | 4,926 | 6,159 | (35) | 9,264 | 8,115 | \$19,140 |
| Underwriting Expenses | \$8,760 | \$7,990 | \$7,610 | \$9,104 | \$17,201 | \$20,779 | \$9,332 | \$80,776 | \$120,804 | \$118,873 |
| Net Underwriting Gain (Loss) | (\$15,657) | (\$14,017) | \$38,556 | (\$16,805) | (\$34,551) | (\$29,029) | (\$17,871) | (\$89,374) | (\$168,501) | (\$103,170) |
| Administrative Expenses | \$110 | \$121 | \$111 | \$131 | \$142 | \$115 | \$105 | \$835 | \$1,556 | \$1,308 |
| Operating Result | (\$15,767) | (\$14,138) | \$38,445 | (\$16,936) | (\$34,693) | (\$29,144) | (\$17,976) | (\$90,209) | (\$170,057) | (\$104,478) |
| Ratios: | | | | | | | | | | |
| Claims & Expenses Incurred (Earned) | | | | | | | | | | |
| Prior Accident Years | -12.9% | -11.4% | -177.9% | -6.0% | 17.8% | -6.9% | -6.2% | -28.9% | -19.4% | -39.5% |
| Current Accident Year | 136.8% | 133.7% | 128.4% | 131.4% | 136.3% | 131.9% | 132.0% | 132.9% | 132.1% | 133.7% |
| All Accident Years Combined | 123.9% | 122.3% | -49.5% | 125.4% | 154.1% | 125.0% | 125.8% | 104.0% | 112.7% | 94.2% |
| Underwriting & Administrative Expenses (Earned) | 30.7% | 30.0% | 25.0% | 30.4% | 54.1% | 63.3% | 28.5% | 37.9% | 32.6% | 44.4% |
| Combined Operating Ratio | 154.6% | 152.3% | -24.5% | 155.8% | 208.2% | 188.3% | 154.3% | 141.9% | 145.3% | 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