



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F17 – 080**

**DATE: OCTOBER 30, 2017**

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

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

Please be advised that the September 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 August 2017 Operational Report, bringing members' sharing current to the third quarter 2017. The usage update is reflected in the September 2017 Operational Report.

### **Summary of Financial Results**

The calendar year-to-date Operating Result is -\$88.0 million and the incurred loss ratio to the end of 9 months is 96.7%, as summarized in the table at the top of the next page.

Amounts in \$000s	September 2017	September 2016	Year to date Sep 2017	Year to Date Sep 2016
Premium Written	27,093	35,021	291,778	231,332
Premium Earned	32,037	23,814	280,499	190,955
Incurred Losses	40,214	30,072	271,060	154,535
Underwriting & Admin Expense	7,295	14,257	97,351	81,459
<b>Operating Result</b>	<b>(15,472)</b>	<b>(20,515)</b>	<b>(87,912)</b>	<b>(45,039)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(5.1%)	(5.5%)	(36.5%)	(52.4%)
- Current Accident Year	130.6%	131.8%	133.2%	133.3%
<i>Total</i>	<b>125.5%</b>	<b>126.3%</b>	<b>96.7%</b>	<b>80.9%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>22.8%</b>	<b>59.9%</b>	<b>34.7%</b>	<b>42.7%</b>
<b>Combined Operating Ratio</b>	<b>148.3%</b>	<b>186.2%</b>	<b>131.4%</b>	<b>123.6%</b>

*rounding differences may occur*

These results are discussed in some detail in the “Current Month Results” section. 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 -\$129.7 million and the estimated combined operating ratio to December 2017 is 134.6%, as summarized in the table at the top of the next page. The \$6.4 million reduction in the projected net operating surplus from last month’s projection is due to a significant reduction in projected written premium resulting from the \$7.4 million lower-than-projected written premium in September (i.e. this month).

<b>ON RSP Yr-end Projection</b> <b>Amounts in \$000s</b>	<b>Current</b> <b>(Sep 2017)</b>	Prior Mth (Aug 2017)	<b>Change</b>	Final 2017 Outlook*
Premium Written	369,265	376,652	(7,387)	342,156
Premium Earned	376,074	374,862	1,212	342,151
Incurred Losses	389,356	389,536	(180)	422,925
Underwriting & Admin Expense	116,433	121,448	(5,015)	112,562
<b>Net Result from Operations</b>	<b>(129,715)</b>	<b>(136,122)</b>	<b>6,407</b>	<b>(193,336)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(28.8%)	(28.8%)	0.0%	(8.8%)
- Current Accident Year	132.4%	132.7%	(0.3%)	132.4%
<i>Total</i>	<b>103.6%</b>	<b>103.9%</b>	<b>(0.3%)</b>	<b>123.6%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>31.0%</b>	<b>32.4%</b>	<b>(1.4%)</b>	<b>32.9%</b>
<b>Combined Operating Ratio</b>	<b>134.6%</b>	<b>136.3%</b>	<b>(1.7%)</b>	<b>156.5%</b>

*rounding differences may occur*

\*as posted to FA's website Sep. 28, 2016

### Current Month Results

The Ontario Risk Sharing Pool produced a -\$15.5 million Operating Result in the month of September 2017, a \$5.0 million improvement compared with the same month last year. This improvement is composed of a \$12.1 million improvement stemming from the overall decrease in the combined ratio (from 186.2% to 148.3% applied to \$32.0 million in earned premium), offset by an estimated \$7.1 million unfavourable impact associated with the \$8.2 million increase in earned premium (at a combined ratio of 186.2%).

This month's results moved the year-to-date combined operating ratio from 129.1% at the end of 8 months to 131.4% at the end of 9 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 0.3 percentage point decrease in the Current Accident Year loss ratio, further offset by a 1.5 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.

**Bulletin F17-080**  
**Ontario Risk Sharing Pool – September 2017 Operational Report**

---

September 2017	Actual	Projection	Difference	Difference %
Written Premium	27,093	34,480	(7,387)	(21.4%)
Earned Premium	32,037	32,241	(204)	(0.6%)
Reported Losses				
Paid Losses	32,256	27,355	4,901	17.9%
Paid Expenses	(388)	1,554	(1,942)	(125.0%)
Change in Outstanding Losses	5,934	3,941	1,993	50.6%
<b>Total Reported Losses</b>	<b>37,802</b>	<b>32,850</b>	<b>4,952</b>	<b>15.1%</b>
Change in IBNR Provision*	2,412	7,839	(5,427)	
Change in Premium Deficiency (DPAC)*	(1,111)	1,483	(2,594)	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP September 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 September 2017, reported losses were \$5.0 million higher than projected. The Current Accident Year had a \$1.8 million unfavourable variance in reported losses, and the Prior Accident Years had a \$3.2 million unfavourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$2.1 million unfavourable, followed by Accident Year 2014 at \$1.4 million unfavourable and Accident Year 2016 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 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.

Through 2016 and 2017, a member has been conducting a comprehensive review of their open claims transactions as reported to the FA RSP system with correcting transactions posted in the current month (September 2017), and included in the above results. The correcting transaction amounts were not high relative to unpaid balances, however, the corrections are being reviewed and discussed with the member, in conjunction with the FA internal audit team, to ensure our records are accurate in relation to the member's own records on their RSP claims' portfolio.

Booking IBNR

The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of

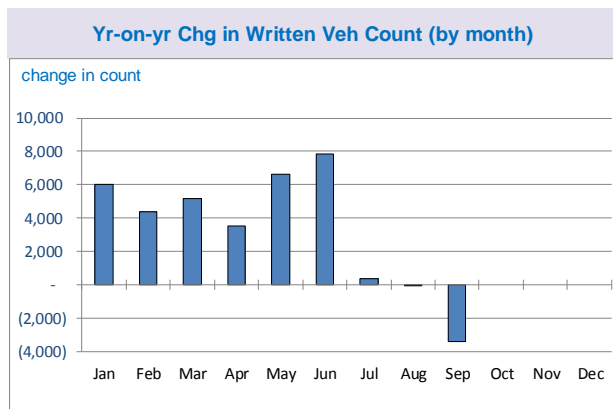
discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium variances (as IBNR is based on loss ratios). This is consistent with management’s 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 September 2017 Operational Report – Actuarial Highlights](#).

### Effect of Quarterly Valuation

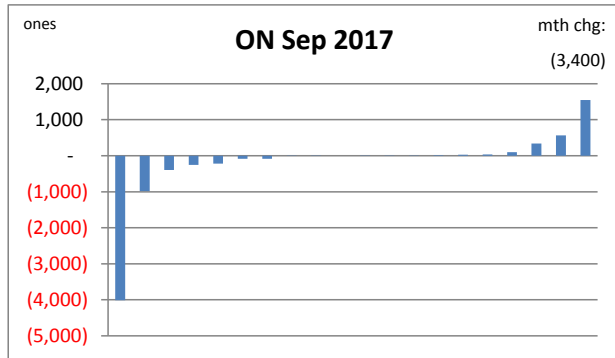
The September 2017 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at June 30, 2017). The actuarial valuation will be updated next as at September 30, 2017 and we anticipate that the results will be reflected in the October 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 including farmers (as we don’t have an industry count yet for 2017, we continue to use the 2016 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.

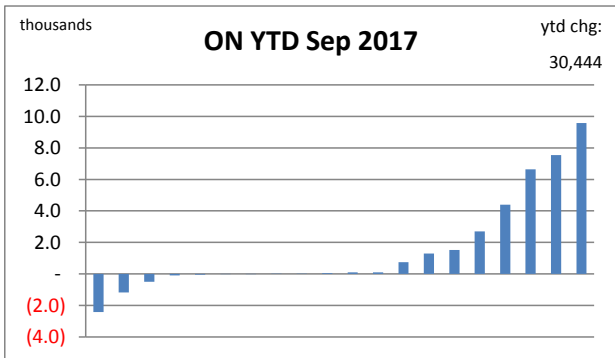


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with September reporting a decrease of 3,400 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 153 vehicles, indicating a variance of 3,247 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in September 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 ten transferred more<sup>1</sup>, and one remained the same. Of the 9 member company groups transferring

fewer vehicles, 1 member company group accounted for 66% of the total transfer decrease for the “decliner” members. Of the 10 member company groups transferring more vehicles, 1 member company group accounted for 59% 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

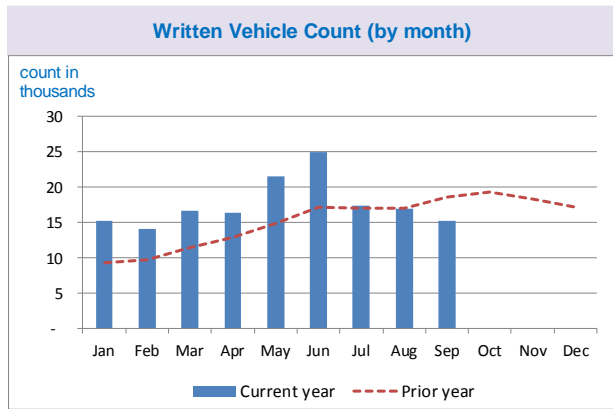
period, whereas 13 have transferred more.

Management believes the preceding chart is an important one, clearly showing that the year-to-date increase of 30,444 vehicles (a 23.7% increase over the same period in 2016) is not due to a single member’s actions, but is part of what appears to be a significant shift in view of relative rate adequacy by several member groups.

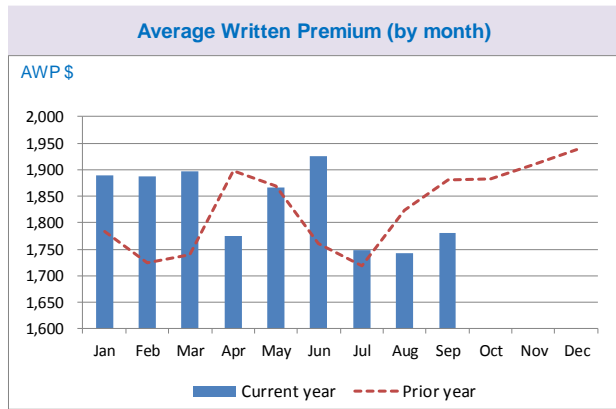
September’s year-on-year change in vehicle count transfers to the pool represents an 18.3% decrease from September 2016, but counts were up 23.7% year-to-date. Average written premium was down 5.4% in September 2017 compared with the same month in 2016, but up 1.9% year-to-date (see charts at the top of the next page).

<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.

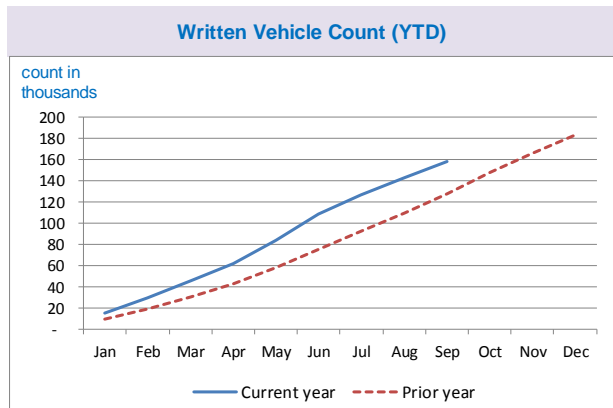
**Bulletin F17-080**  
**Ontario Risk Sharing Pool – September 2017 Operational Report**



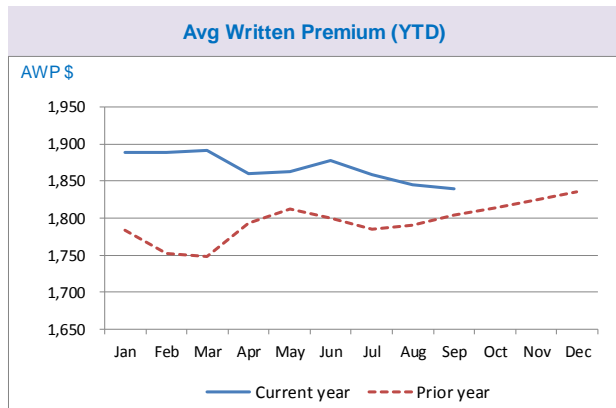
	Sep-17	Sep-16	Amt Chg	% Chg
W. Veh curr mth	15,220	18,620	(3,400)	-18.3%



	Sep-17	Sep-16	Amt Chg	% Chg
AWP curr mth	1,780	1,881	(101)	-5.4%

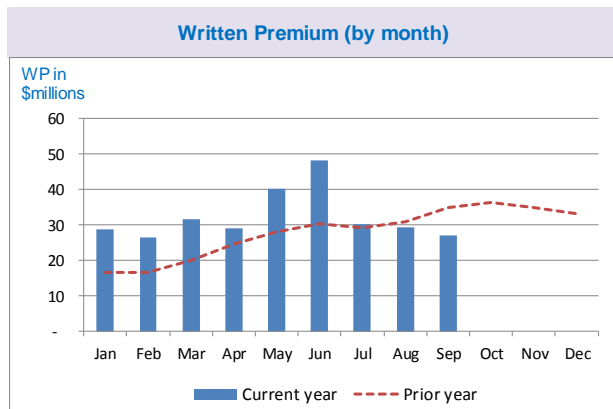


	Sep-17	Sep-16	Amt Chg	% Chg
W. Vehicles YTD	158,676	128,232	30,444	23.7%

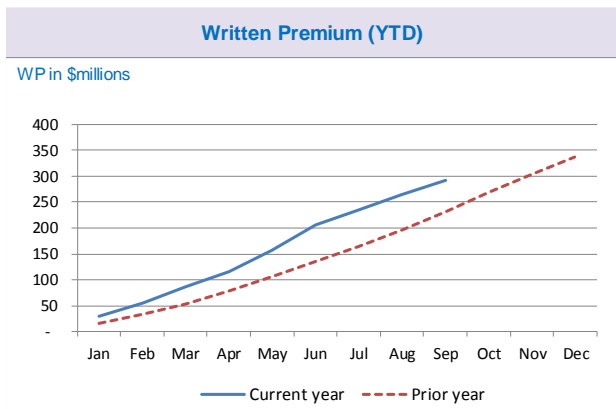


	Sep-17	Sep-16	Amt Chg	% Chg
Avg W. Prem YTD	1,839	1,804	35	1.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 22.6% for the month compared with the 1.5% decrease we projected last month, but was up 26.1% year-to-date (see charts immediately below).



	Sep-17	Sep-16	Amt Chg	% Chg
WP (\$000s) curr mth	27,093	35,021	(7,927)	-22.6%



	Sep-17	Sep-16	Amt Chg	% Chg
WP (\$000s) YTD	291,778	231,332	60,446	26.1%

**Bulletin F17-080**  
**Ontario Risk Sharing Pool – September 2017 Operational Report**

---

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 September 2017 Operational Report – Actuarial Highlights](#)



**SUMMARY OF OPERATIONS - CALENDAR YEAR 2017**

Risk Sharing Pool - Ontario

Operating Results for the 9 Months Ended September 30, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	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	\$29,455	\$27,093	\$291,778	\$369,265	\$336,049
Decrease (Increase) in Unearned Premiums	\$1	\$513	(\$833)	\$1,213	(\$8,307)	(\$15,216)	\$2,787	\$3,619	\$4,944	(\$11,279)	\$6,809	(\$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>\$33,123</b>	<b>\$33,074</b>	<b>\$32,037</b>	<b>\$280,499</b>	<b>\$376,074</b>	<b>\$270,863</b>
<b>Claims Incurred:</b>												
Prior Accident Years:												
Undiscounted	(\$57)	(\$181)	(\$36,952)	(\$90)	\$4,559	(\$146)	(\$364)	(\$16,452)	\$11	(\$49,672)	(\$49,672)	(\$70,534)
Effect of Discounting	(3,669)	(2,916)	(17,985)	(1,748)	1,150	(2,144)	(1,702)	(22,190)	(1,636)	(52,840)	(58,770)	(36,400)
Discounted	(\$3,726)	(\$3,097)	(\$54,937)	(\$1,838)	\$5,709	(\$2,290)	(\$2,066)	(\$38,642)	(\$1,625)	(\$102,512)	(\$108,442)	(\$106,934)
Current Accident Year:												
Undiscounted	\$33,991	\$31,994	\$36,797	\$35,910	\$39,022	\$39,296	\$39,643	\$42,625	\$38,401	\$337,679	\$452,275	\$323,543
Effect of Discounting	5,509	4,205	2,857	4,011	4,656	4,255	4,085	2,877	3,438	35,893	45,523	38,551
Discounted	\$39,500	\$36,199	\$39,654	\$39,921	\$43,678	\$43,551	\$43,728	\$45,502	\$41,839	\$373,572	\$497,798	\$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>\$41,662</b>	<b>\$6,860</b>	<b>\$40,214</b>	<b>\$271,060</b>	<b>\$389,356</b>	<b>\$255,160</b>
<b>Underwriting Expenses:</b>												
Expense Allowance	\$8,709	\$8,005	\$9,598	\$8,938	\$12,275	\$14,620	\$9,367	\$9,049	\$8,306	\$88,867	\$111,726	\$99,733
Change in UPDR/DPAC:												
Undiscounted	45	48	1,238	279	3,393	3,840	273	1,005	(483)	9,638	7,751	7,831
Effect of Discounting	6	(63)	(3,226)	(113)	1,533	2,319	(308)	(1,723)	(628)	(2,203)	(4,517)	11,309
Discounted	51	(15)	(1,988)	166	4,926	6,159	(35)	(718)	(1,111)	7,435	3,234	\$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>\$9,332</b>	<b>\$8,331</b>	<b>\$7,195</b>	<b>\$96,302</b>	<b>\$114,960</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>(\$17,871)</b>	<b>\$17,883</b>	<b>(\$15,372)</b>	<b>(\$86,863)</b>	<b>(\$128,242)</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>\$105</b>	<b>\$114</b>	<b>\$100</b>	<b>\$1,049</b>	<b>\$1,473</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>(\$17,976)</b>	<b>\$17,769</b>	<b>(\$15,472)</b>	<b>(\$87,912)</b>	<b>(\$129,715)</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%	-6.2%	-116.8%	-5.1%	-36.5%	-28.8%	-39.5%
Current Accident Year	136.8%	133.7%	128.4%	131.4%	136.3%	131.9%	132.0%	137.6%	130.6%	133.2%	132.4%	133.7%
All Accident Years Combined	123.9%	122.3%	-49.5%	125.4%	154.1%	125.0%	125.8%	20.8%	125.5%	96.7%	103.6%	94.2%
Underwriting & Administrative Expenses (Earned)	30.7%	30.0%	25.0%	30.4%	54.1%	63.3%	28.5%	25.5%	22.8%	34.7%	31.0%	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>188.3%</b>	<b>154.3%</b>	<b>46.3%</b>	<b>148.3%</b>	<b>131.4%</b>	<b>134.6%</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