

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 005

DATE: JANUARY 30, 2018

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

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

Please be advised that the December 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 -\$118.3 million and the incurred loss ratio to the end of 12 months is 102.2%, as summarized in the table below.

| Amounts in \$000s | December 2017 | December 2016 | Year to date Dec 2017 | Year to Date Dec 2016 |
|---|-----------------|-----------------|-----------------------|-----------------------|
| Premium Written | 20,764 | 33,250 | 362,505 | 336,049 |
| Premium Earned | 30,511 | 28,065 | 373,658 | 270,863 |
| Incurred Losses | 38,717 | 34,667 | 381,566 | 255,160 |
| Underwriting & Admin Expense | 3,557 | 11,318 | 110,426 | 120,181 |
| Operating Result | (11,763) | (17,920) | (118,334) | (104,478) |
| Ratios: | | | | |
| Loss ratio | | | | |
| - Prior Accident Years | (5.8%) | (8.5%) | (30.5%) | (39.5%) |
| - Current Accident Year | 132.7% | 132.0% | 132.7% | 133.7% |
| <i>Total</i> | 126.9% | 123.5% | 102.2% | 94.2% |
| <i>Underwriting & Admin Expense</i> | 11.7% | 40.3% | 29.6% | 44.4% |
| <i>Combined Operating Ratio</i> | 138.6% | 163.8% | 131.8% | 138.6% |

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 2018

An Outlook had been prepared to provide Members with an estimate of Ontario RSP operating results for calendar year 2018 based on the actuarial valuation at June 30, 2017, and reflecting actual experience to date as detailed in the August 2017 Operational Report. This Outlook was posted on October 3, 2017 (please refer to Bulletin [F17-078](#)), and projected a Net Result from Operations for 2018 of -\$253.4 million, and a combined operating ratio of 166.3%. Projections for 2018 have been updated each month since as per our usual practice (although until this month, the bulletins have focused on projections to the end of 2017).

The projected calendar year Operating Result to December 2018 is now -\$268.5 million (a \$15.1 million deterioration relative to the Outlook) and the estimated combined operating ratio to December 2018 is 171.8% (a 5.5 point deterioration relative to the Outlook). The deterioration is composed of a \$20.6 million deterioration stemming from the overall increase in the combined ratio (from 166.3% to 171.8% applied to \$374.1 million in projected earned premium), offset by an estimated \$5.4 million favourable impact associated with the \$8.1 million decrease in projected earned premium (at a combined ratio of 166.3%). The remaining \$0.1 million difference is due to other assumption updates.

| ON RSP 2018 Yr-end Projection Amounts in \$000s | Current (Dec 2017) | Prior Mth (Nov 2017) | Change | Final 2018 Outlook* |
|--|-------------------------------------|-------------------------|---------------|------------------------|
| Premium Written | 434,481 | 437,289 | (2,808) | 413,190 |
| Premium Earned | 374,075 | 376,333 | (2,258) | 382,147 |
| Incurred Losses | 477,735 | 480,394 | (2,659) | 487,967 |
| Underwriting & Admin Expense | 164,795 | 165,964 | (1,169) | 147,584 |
| Net Result from Operations | (268,455) | (270,025) | 1,570 | (253,404) |
| Ratios: | | | | |
| Loss ratio - Prior Accident Years | (5.5%) | (5.4%) | (0.1%) | (7.5%) |
| - Current Accident Year | 133.2% | 133.1% | 0.1% | 135.2% |
| <i>Total</i> | 127.7% | 127.7% | 0.0% | 127.7% |
| <i>Underwriting & Admin Expense</i> | 44.1% | 44.1% | 0.0% | 38.6% |
| <i>Combined Operating Ratio</i> | 171.8% | 171.8% | 0.0% | 166.3% |

rounding differences may occur

*as posted to FA's website Oct. 3, 2017

Current Month Results

The Ontario Risk Sharing Pool produced a -\$11.8 million Operating Result in the month of

December 2017, a \$6.2 million improvement compared with the same month last year. This improvement is composed of a \$7.7 million improvement stemming from the overall decrease in the combined ratio (from 163.8% to 138.6% applied to \$30.5 million in earned premium), offset by an estimated \$1.5 million unfavourable impact associated with a \$2.4 million increase in earned premium (at a combined ratio of 163.8%).

This month's results moved the year-to-date combined operating ratio from 131.1% at the end of 11 months to 131.8% at the end of 12 months. The 0.7 percentage point increase is composed of a 2.2 percentage point increase in the Prior Accident Year loss ratio, offset by a 1.5 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.

| December 2017 | Actual | Projection | Difference | Difference % |
|--------------------------------------|---------------|---------------|--------------|--------------|
| Written Premium | 20,764 | 23,094 | (2,330) | (10.1%) |
| Earned Premium | 30,511 | 30,953 | (442) | (1.4%) |
| Reported Losses | | | | |
| Paid Losses | 26,743 | 34,215 | (7,472) | (21.8%) |
| Paid Expenses | 1,436 | 3,006 | (1,570) | (52.2%) |
| Change in Outstanding Losses | 16,426 | 2,040 | 14,386 | 705.2% |
| Total Reported Losses | 44,605 | 39,261 | 5,344 | 13.6% |
| Change in IBNR Provision* | (5,888) | (944) | (4,944) | |
| Change in Premium Deficiency (DPAC)* | (3,013) | (2,354) | (659) | |

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP December 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 December 2017, reported losses were \$5.3 million higher than projected. The Current Accident Year had a \$4.7 million favourable variance in reported losses, while the Prior Accident Years had a \$10.0 million unfavourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$4.9 million unfavourable, followed by Accident Year 2014 at \$3.7 million unfavourable, Accident Year 2012 at \$2.0 million unfavourable and Accident Year 2015 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.

Booking IBNR

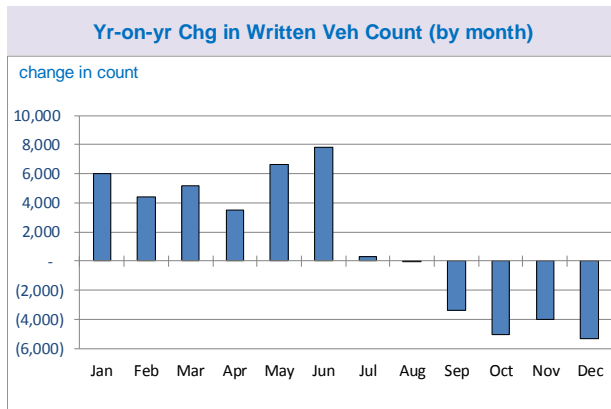
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 (other than the member reporting issue discussed in the previous section). IBNR is discussed in more detail in the [Ontario RSP December 2017 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

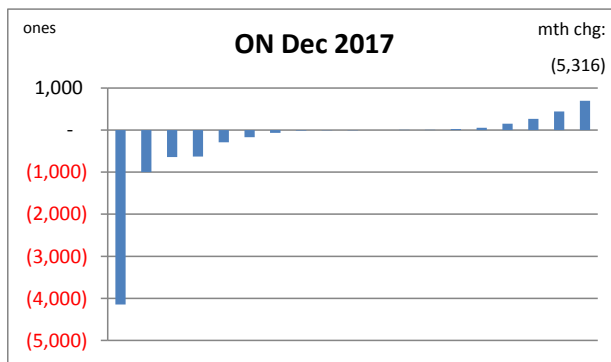
The December 2017 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2017). The actuarial valuation will be updated next as at December 31, 2017 and we anticipate that the results will be reflected in the March 2018 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 2018 vehicle count up 13.8% from 2017, being 3.0% 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.

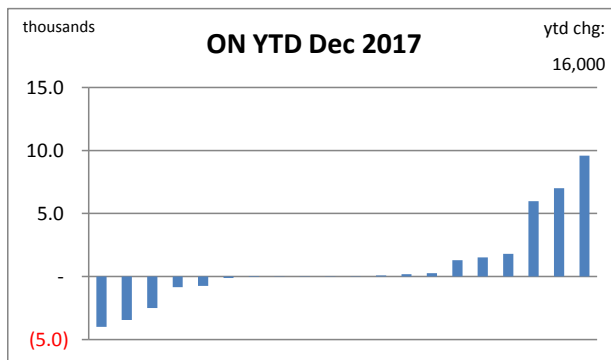


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with December reporting a decrease of 5,316 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 4,756 vehicles, indicating a variance of 560 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in December 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 eight transferred more¹, and one remained the same. Of the 10 member company groups

transferring fewer vehicles, 1 member company group accounted for 60% of the total transfer decrease for the “decliner” members. Of the 8 member company groups transferring more vehicles, 2 member company groups accounted for 69% of the total transfer increases for the “grower” members.



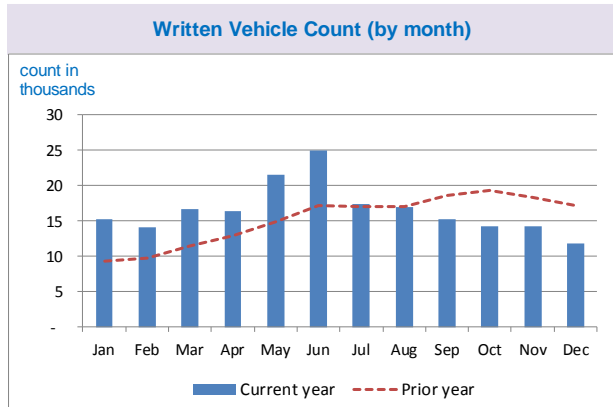
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Year-to-date, 10 member company groups have transferred fewer vehicles from last year as at the same

period, and 10 have transferred more.

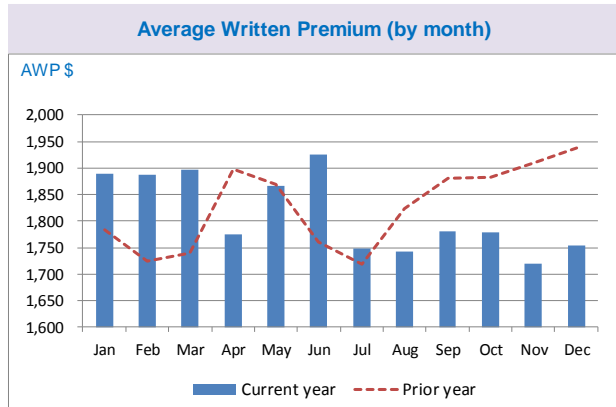
December’s year-on-year change in vehicle count transfers to the pool represents a 31.0% decrease from December 2016, but counts were up 8.7% year-to-date. Average written premium

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.

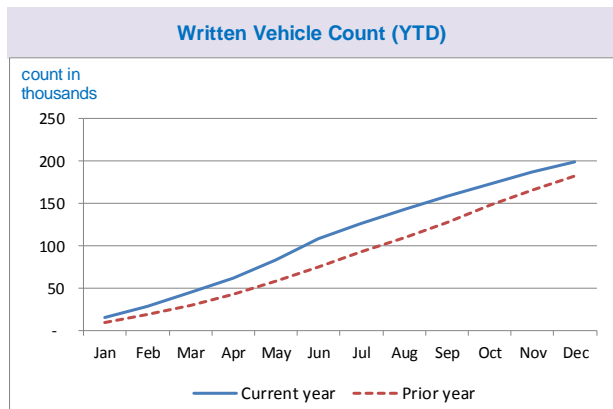
was down 9.5% in December 2017 compared with the same month in 2016, and down 0.8% year-to-date (see charts immediately below).



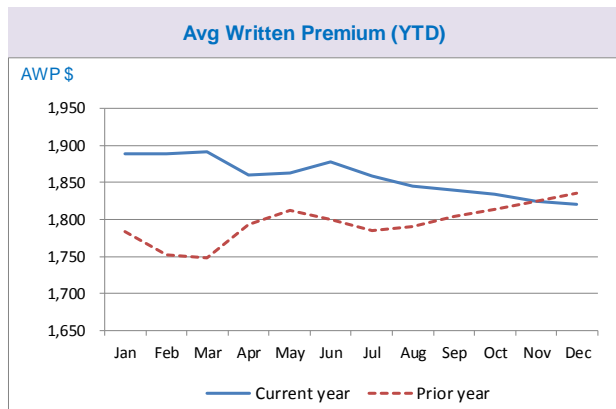
| | Dec-17 | Dec-16 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|--------|
| W. Veh curr mth | 11,845 | 17,161 | (5,316) | -31.0% |



| | Dec-17 | Dec-16 | Amt Chg | % Chg |
|--------------|--------|--------|---------|-------|
| AWP curr mth | 1,753 | 1,938 | (185) | -9.5% |

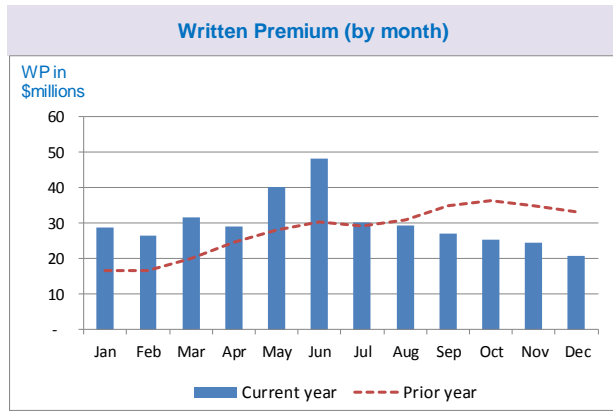


| | Dec-17 | Dec-16 | Amt Chg | % Chg |
|-----------------|---------|---------|---------|-------|
| W. Vehicles YTD | 199,082 | 183,082 | 16,000 | 8.7% |

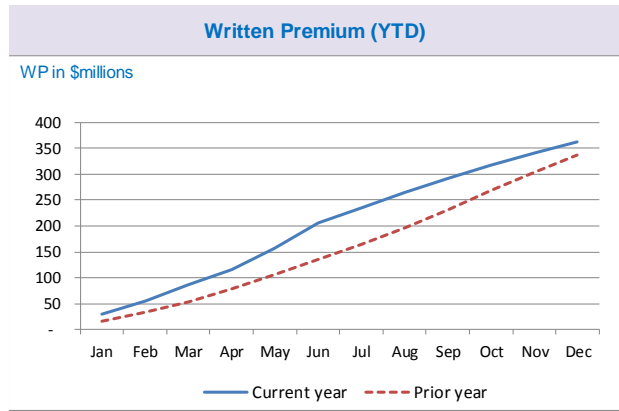


| | Dec-17 | Dec-16 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| Avg W. Prem YTD | 1,821 | 1,836 | (15) | -0.8% |

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 37.6% for the month compared with the 30.5% decrease we projected last month, but was up 7.9% year-to-date (see charts at the top of the next page).



| | Dec-17 | Dec-16 | Amt Chg | % Chg |
|----------------------|--------|--------|----------|--------|
| WP (\$000s) curr mth | 20,764 | 33,250 | (12,486) | -37.6% |



| | Dec-17 | Dec-16 | Amt Chg | % Chg |
|-----------------|---------|---------|---------|-------|
| WP (\$000s) YTD | 362,505 | 336,049 | 26,456 | 7.9% |

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 December 2017 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Ontario

Operating Results for the 12 Months Ended December 31, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

| | January | February | March | April | May | June | July | August | September | October | November | December | CY2017 YTD | CY2018 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 | \$25,323 | \$24,640 | \$20,764 | \$362,505 | \$434,481 | \$336,049 |
| Decrease (Increase) in Unearned Premiums | \$1 | \$513 | (\$833) | \$1,213 | (\$8,307) | (\$15,216) | \$2,787 | \$3,619 | \$4,944 | \$6,984 | \$5,701 | \$9,747 | \$11,153 | (\$60,406) | (\$65,186) |
| Net Premiums Earned | \$28,877 | \$27,075 | \$30,883 | \$30,382 | \$32,037 | \$33,011 | \$33,123 | \$33,074 | \$32,037 | \$32,307 | \$30,341 | \$30,511 | \$373,658 | \$374,075 | \$270,863 |
| Claims Incurred: | | | | | | | | | | | | | | | |
| Prior Accident Years: | | | | | | | | | | | | | | | |
| Undiscounted | (\$57) | (\$181) | (\$36,952) | (\$90) | \$4,559 | (\$146) | (\$364) | (\$16,452) | \$11 | \$3,049 | (\$553) | (\$497) | (\$47,673) | \$0 | (\$70,534) |
| Effect of Discounting | (3,669) | (2,916) | (17,985) | (1,748) | 1,150 | (2,144) | (1,702) | (22,190) | (1,636) | (11,289) | (1,036) | (1,266) | (66,431) | (20,604) | (36,400) |
| Discounted | (\$3,726) | (\$3,097) | (\$54,937) | (\$1,838) | \$5,709 | (\$2,290) | (\$2,066) | (\$38,642) | (\$1,625) | (\$8,240) | (\$1,589) | (\$1,763) | (\$114,104) | (\$20,604) | (\$106,934) |
| Current Accident Year: | | | | | | | | | | | | | | | |
| Undiscounted | \$33,991 | \$31,994 | \$36,797 | \$35,910 | \$39,022 | \$39,296 | \$39,643 | \$42,625 | \$38,401 | \$43,150 | \$37,374 | \$37,519 | \$455,722 | \$458,240 | \$323,543 |
| Effect of Discounting | 5,509 | 4,205 | 2,857 | 4,011 | 4,656 | 4,255 | 4,085 | 2,877 | 3,438 | (1,393) | 2,487 | 2,961 | 39,948 | 40,099 | 38,551 |
| Discounted | \$39,500 | \$36,199 | \$39,654 | \$39,921 | \$43,678 | \$43,551 | \$43,728 | \$45,502 | \$41,839 | \$41,757 | \$39,861 | \$40,480 | \$495,670 | \$498,339 | \$362,094 |
| Claims Incurred | \$35,774 | \$33,102 | (\$15,283) | \$38,083 | \$49,387 | \$41,261 | \$41,662 | \$6,860 | \$40,214 | \$33,517 | \$38,272 | \$38,717 | \$381,566 | \$477,735 | \$255,160 |
| Underwriting Expenses: | | | | | | | | | | | | | | | |
| Expense Allowance | \$8,709 | \$8,005 | \$9,598 | \$8,938 | \$12,275 | \$14,620 | \$9,367 | \$9,049 | \$8,306 | \$7,795 | \$7,701 | \$6,402 | \$110,765 | \$129,910 | \$99,733 |
| Change in UPDR/DPAC: | | | | | | | | | | | | | | | |
| Undiscounted | 45 | 48 | 1,238 | 279 | 3,393 | 3,840 | 273 | 1,005 | (483) | (56) | (961) | (1,852) | 6,769 | 24,319 | 7,831 |
| Effect of Discounting | 6 | (63) | (3,226) | (113) | 1,533 | 2,319 | (308) | (1,723) | (628) | (4,510) | (664) | (1,161) | (8,538) | 8,479 | 11,309 |
| Discounted | 51 | (15) | (1,988) | 166 | 4,926 | 6,159 | (35) | (718) | (1,111) | (4,566) | (1,625) | (3,013) | (1,769) | 32,798 | \$19,140 |
| Underwriting Expenses | \$8,760 | \$7,990 | \$7,610 | \$9,104 | \$17,201 | \$20,779 | \$9,332 | \$8,331 | \$7,195 | \$3,229 | \$6,076 | \$3,389 | \$108,996 | \$162,708 | \$118,873 |
| Net Underwriting Gain (Loss) | (\$15,657) | (\$14,017) | \$38,556 | (\$16,805) | (\$34,551) | (\$29,029) | (\$17,871) | \$17,883 | (\$15,372) | (\$4,439) | (\$14,007) | (\$11,595) | (\$116,904) | (\$266,368) | (\$103,170) |
| Administrative Expenses | \$110 | \$121 | \$111 | \$131 | \$142 | \$115 | \$105 | \$114 | \$100 | \$115 | \$98 | \$168 | \$1,430 | \$2,087 | \$1,308 |
| Operating Result | (\$15,767) | (\$14,138) | \$38,445 | (\$16,936) | (\$34,693) | (\$29,144) | (\$17,976) | \$17,769 | (\$15,472) | (\$4,554) | (\$14,105) | (\$11,763) | (\$118,334) | (\$268,455) | (\$104,478) |
| Ratios: | | | | | | | | | | | | | | | |
| Claims & Expenses Incurred (Earned) | | | | | | | | | | | | | | | |
| Prior Accident Years | -12.9% | -11.4% | -177.9% | -6.0% | 17.8% | -6.9% | -6.2% | -116.8% | -5.1% | -25.5% | -5.2% | -5.8% | -30.5% | -5.5% | -39.5% |
| Current Accident Year | 136.8% | 133.7% | 128.4% | 131.4% | 136.3% | 131.9% | 132.0% | 137.6% | 130.6% | 129.3% | 131.4% | 132.7% | 132.7% | 133.2% | 133.7% |
| All Accident Years Combined | 123.9% | 122.3% | -49.5% | 125.4% | 154.1% | 125.0% | 125.8% | 20.8% | 125.5% | 103.8% | 126.2% | 126.9% | 102.2% | 127.7% | 94.2% |
| Underwriting & Administrative Expenses (Earned) | 30.7% | 30.0% | 25.0% | 30.4% | 54.1% | 63.3% | 28.5% | 25.5% | 22.8% | 10.4% | 20.3% | 11.7% | 29.6% | 44.1% | 44.4% |
| Combined Operating Ratio | 154.6% | 152.3% | -24.5% | 155.8% | 208.2% | 188.3% | 154.3% | 46.3% | 148.3% | 114.2% | 146.5% | 138.6% | 131.8% | 171.8% | 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