

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F18 – 018

DATE: MARCH 29, 2018

SUBJECT: FARM – JANUARY 2018 PARTICIPATION REPORT

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

Please be advised that the January 2018 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

Summary of Financial Results

The calendar year-to-date Operating Result is \$0.7 million and the incurred loss ratio to the end of 1 month is 74.3%, as summarized in the table below.

Amounts in \$000s	January 2018	January 2017	Year to date Jan 2018	Year to Date Jan 2017
Premium Written	14,288	10,584	14,288	10,584
Premium Earned	15,419	14,268	15,419	14,268
Incurred Losses	11,457	9,662	11,457	9,662
Underwriting & Admin Expense	3,213	2,745	3,213	2,745
Net Result from Operations	749	1,861	749	1,861
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	0.3%	(6.5%)	0.3%	(6.5%)
- Current Accident Year	74.0%	74.2%	74.0%	74.2%
<i>Total</i>	74.3%	67.7%	74.3%	67.7%
<i>Underwriting & Admin Expense</i>	21.0%	19.3%	21.0%	19.3%
<i>Combined Operating Ratio</i>	95.3%	87.0%	95.3%	87.0%

rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2018 - All jurisdictions by month”. A comparable summary by jurisdiction is included in Exhibit 2. Detailed exhibits by jurisdiction are included in a separate folder on our website called [“Summary of Operations”](#).

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Updated Projection to Year-end 2018

The projected calendar year Net Result from Operations to December 2018 is \$12.3 million and the estimated combined operating ratio to December 2018 is 93.7% as indicated in the table below. This updated projection to the end of the year has improved by \$1.1 million from the projection provided last month (\$11.2 million and 94.2%). This improvement is driven by a \$3.3 million increase in the projected written premium for the year.

FARM 2018 Year-end Projection Amounts in \$000s	Current (Jan 2018)	Prior Mth (Dec 2017)	Change	Final 2018 Outlook*
Premium Written	196,422	193,124	3,298	182,582
Premium Earned	192,287	189,125	3,161	181,347
Incurred Losses	136,011	134,538	1,473	129,462
Underwriting & Admin Expense	43,974	43,382	593	41,471
Net Result from Operations	12,301	11,206	1,095	10,414
Ratios:				
Loss ratio - Prior Accident Years	(2.6%)	(2.2%)	(0.4%)	(2.9%)
- Current Accident Year	73.3%	73.4%	(0.1%)	74.2%
<i>Total</i>	70.7%	71.1%	(0.4%)	71.4%
Underwriting & Admin Expense	23.0%	23.1%	(0.1%)	23.0%
Combined Operating Ratio	93.7%	94.2%	(0.5%)	94.4%

rounding differences may occur

*as posted to FA's website Nov. 10, 2017

Current Month Results

The Net Results from Operations in the month of January 2018 was \$0.7 million, down \$1.1 million from the same month last year. This deterioration included a \$1.3 million unfavourable impact stemming from the increase in the combined ratio (from 87.0% last year to 95.3% this year, applied to this month's \$15.4 million earned premium), offset by an approximately \$0.2 million favourable impact due to the \$1.2 million increase in earned premium (at a combined ratio of 87.0%).

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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January 2018	Actual	Projection	Difference	Difference %
Premium Written	14,288	11,092	3,196	28.8%
Premium Earned	15,419	15,397	22	0.1%
Reported Losses				
Paid Losses	12,489	11,314	1,175	10.4%
Change in Outstanding Losses	(3,491)	(139)	(3,352)	2,411.5%
Total Reported Losses	8,998	11,175	(2,177)	(19.5%)
Change in IBNR*	2,387	659	1,728	
Change in Premium Deficiency (DPAC)*	62	239	(177)	
Change in Retro Claims Expense*	72	(409)	481	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM January 2018 Participation 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 January 2018, reported indemnity amounts were \$1.7 million lower than projected (*allowed claims expenses are included in table immediately above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows -\$2.2 million*). The Current Accident Year had a \$0.8 million favourable variance in reported indemnity, and the Prior Accident Years had a favourable variance of approximately \$0.9 million. No single Prior Accident Year had a reported indemnity variance in excess of \$1.0 million.

The variances for claims activity that were beyond the set thresholds at the jurisdiction, business segment level, and accident year group (i.e. Prior Accident Years vs. Current Accident Year) were investigated by Management. Management is satisfied that the variances are appropriately accounted for in our current booking process.

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 for the most recent accident years back to 1994 (for accident years 1993 and earlier, IBNR is held at \$0). This is consistent with management's investigation into reported claims variances, concluding they were random and not necessarily indicative of a trend.

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Effect of Quarterly Valuation

The January 2018 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at September 30, 2017 for all jurisdictions and business segments. The actuarial valuation will be updated next as at December 31, 2017 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the March 2018 Participation Report.

Management Comments

As shown in the table below, the private passenger annualized vehicle counts decreased by 2.0% overall in January 2018 relative to January 2017, decreasing in Newfoundland & Labrador, New Brunswick, Northwest Territories and Nunavut.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of January 2018				Calendar YTD as of January 2018			
	2018	2017	Chg	% Chg	2018	2017	Chg	% Chg
Ontario	154	122	31	25.5%	154	122	31	25.5%
Alberta	105	101	4	3.6%	105	101	4	3.6%
Newfoundland & Labrador	580	610	(30)	(4.8%)	580	610	(30)	(4.8%)
New Brunswick	421	463	(42)	(9.1%)	421	463	(42)	(9.1%)
Nova Scotia	282	267	14	5.3%	282	267	14	5.3%
Prince Edward Island	80	70	11	15.3%	80	70	11	15.3%
Yukon	9	6	3	44.0%	9	6	3	44.0%
Northwest Territories	151	169	(19)	(11.1%)	151	169	(19)	(11.1%)
Nunavut	2	11	(9)	(84.4%)	2	11	(9)	(84.4%)
All Jurisdictions	1,783	1,820	(37)	(2.0%)	1,783	1,820	(37)	(2.0%)

Rounding differences may occur

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 link:

[FARM January 2018 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 1 month ended January 31, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 01/2018
(thousands of dollars)

	January	CY2018 YTD	CY2018 12 Months Updated Projections	CY2017 12 Months Actual
UNDERWRITING REVENUE:				
PREMIUMS WRITTEN	\$14,288	\$14,288	\$196,421	\$184,248
CHANGE IN UNEARNED PREMIUMS	1,131	1,131	(4,135)	(7,762)
NET PREMIUMS EARNED	\$15,419	\$15,419	\$192,286	\$176,486
CLAIMS INCURRED				
PRIOR ACCIDENT YEARS				
UNDISCOUNTED	21	21	23	(6,309)
EFFECT OF DISCOUNTING	27	27	(4,967)	(20,772)
DISCOUNTED	48	48	(4,944)	(27,081)
CURRENT ACCIDENT YEAR				
UNDISCOUNTED	10,750	10,750	134,404	123,688
EFFECT OF DISCOUNTING	659	659	6,552	5,657
DISCOUNTED	11,409	11,409	140,956	129,345
CLAIMS INCURRED	\$11,457	\$11,457	\$136,012	\$102,264
UNDERWRITING EXPENSES				
OPERATING & SERVICE FEES	1,470	1,470	20,094	18,983
AGENTS COMMISSIONS	1,081	1,081	16,179	15,266
DRIVER RECORD ABSTRACTS	172	172	2,677	3,004
BAD DEBTS	(1)	(1)	0	(304)
PREMIUM DEFICIENCY/(DPAC)				
UNDISCOUNTED	106	106	2	(684)
EFFECT OF DISCOUNTING	(44)	(44)	84	398
DISCOUNTED	62	62	86	(286)
UNDERWRITING EXPENSES	\$2,784	\$2,784	\$39,036	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$1,178	\$1,178	\$17,238	\$37,559
ADMINISTRATIVE EXPENSES	448	448	5,254	5,096
PREMIUM FINANCE FEE	(10)	(10)	0	(108)
INVESTMENT INCOME	29	29	314	251
OPERATING RESULTS	\$749	\$749	\$12,298	\$32,606
RATIOS:				
Claims & Adj Expenses Incurred (Earned)				
Prior Accident Year	0.3%	0.3%	-2.6%	-15.3%
Current Accident Years	74.0%	74.0%	73.3%	73.3%
All Accident Years Combined	74.3%	74.3%	70.7%	58.0%
Underwriting & Admin Exp.(Earned)	21.0%	21.0%	23.0%	23.7%
COMBINED OPERATING RATIO	95.3%	95.3%	93.7%	81.7%

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 1 month ended January 31, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 01/2018
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2018 12 Months Updated Projections	CY2017 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$4,415	\$4,838	\$1,326	\$244	\$1,425	\$1,616	\$70	\$332	\$22	\$14,288	\$196,421	\$184,248
CHANGE IN UNEARNED PREMIUMS	156	(777)	251	137	336	840	78	41	69	1,131	(\$4,135)	(\$7,762)
NET PREMIUMS EARNED	\$4,571	\$4,061	\$1,577	\$381	\$1,761	\$2,456	\$148	\$373	\$91	\$15,419	\$192,286	\$176,486
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	4	90	7	2	(20)	(65)	(2)	4	1	21	\$23	(\$6,309)
EFFECT OF DISCOUNTING	(5)	147	(8)	28	(57)	(101)	(4)	25	2	27	(\$4,967)	(\$20,772)
DISCOUNTED	(1)	237	(1)	30	(77)	(166)	(6)	29	3	48	(4,944)	(27,081)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	2,933	2,731	1,185	223	1,218	2,122	99	197	42	10,750	\$134,404	\$123,688
EFFECT OF DISCOUNTING	163	216	73	10	62	118	6	9	2	659	\$6,552	\$5,657
DISCOUNTED	3,096	2,947	1,258	233	1,280	2,240	105	206	44	11,409	140,956	129,345
CLAIMS INCURRED	\$3,095	\$3,184	\$1,257	\$263	\$1,203	\$2,074	\$99	\$235	\$47	\$11,457	\$136,012	\$102,264
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	441	523	133	25	145	161	7	33	2	1,470	\$20,094	\$18,983
AGENTS COMMISSIONS	357	258	118	25	132	148	6	33	4	1,081	\$16,179	\$15,266
DRIVER RECORD ABSTRACTS	37	12	38	13	34	30	1	6	1	172	\$2,677	\$3,004
BAD DEBTS	(4)	5	0	0	0	(2)	0	0	0	(1)	\$0	(\$304)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	13	(50)	20	11	33	63	7	3	6	106	\$2	(\$684)
EFFECT OF DISCOUNTING	0	0	(2)	0	0	(42)	0	0	0	(44)	\$84	\$398
DISCOUNTED	13	(50)	18	11	33	21	7	3	6	62	86	(286)
UNDERWRITING EXPENSES	\$844	\$748	\$307	\$74	\$344	\$358	\$21	\$75	\$13	\$2,784	\$39,036	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$632	\$129	\$13	\$44	\$214	\$24	\$28	\$63	\$31	\$1,178	\$17,238	\$37,559
ADMINISTRATIVE EXPENSES	122	157	43	13	42	42	8	15	6	448	\$5,254	\$5,096
PREMIUM FINANCE FEE	(3)	(4)	(1)	0	(1)	(1)	0	0	0	(10)	\$0	(\$108)
INVESTMENT INCOME	7	11	2	0	3	5	0	1	0	29	\$314	\$251
OPERATING RESULTS	\$514	(\$21)	(\$29)	\$31	\$174	(\$14)	\$20	\$49	\$25	\$749	\$12,298	\$32,606
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	0.0%	5.8%	-0.1%	7.9%	-4.4%	-6.8%	-4.1%	7.8%	3.3%	0.3%	-2.6%	-15.3%
Current Accident Years	67.7%	72.6%	79.8%	61.2%	72.7%	91.2%	70.9%	55.2%	48.4%	74.0%	73.3%	73.3%
All Accident Years Combined	67.7%	78.4%	79.7%	69.1%	68.3%	84.4%	66.8%	63.0%	51.7%	74.3%	70.7%	58.0%
Underwriting & Admin Exp.(Earned)	21.1%	22.3%	22.2%	22.8%	21.9%	16.3%	19.6%	24.1%	20.9%	21.0%	23.0%	23.7%
COMBINED OPERATING RATIO	88.8%	100.7%	101.9%	91.9%	90.2%	100.7%	86.4%	87.1%	72.6%	95.3%	93.7%	81.7%

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