



TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F18 – 026
DATE: APRIL 27, 2018
SUBJECT: FARM – FEBRUARY 2018 PARTICIPATION REPORT

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

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

New This Month

Retroactive Claims Fees Adjustments

FARM Servicing Carrier compensation is largely formula driven, and the relevant formulas are specified in the Facility Association Plan of Operation. Annually, claims handling compensation is adjusted via retroactive claims fees adjustments based on changes in FARM indemnity loss ratios. Settlement with Servicing Carriers is performed for the final and interim adjustments in accordance with the Facility Association Plan of Operation and Chapter 7 (Servicing Carrier Claims Expense Allowance – Retroactive Adjustment) of the Facility Association Accounting & Statistical Manual available through the link below:

[Accounting & Statistical Manual](#)

[Plan of Operation](#)

Servicing Carrier claims expense allowance retroactive adjustments were calculated and taken into account for this month's Participation Report, with accident year 2012 receiving final payment/(recovery), accident year 2015 receiving 2nd interim payment/(recovery), and accident year 2017 receiving 1st interim payment/(recovery). The payments/(recoveries) and changes in provision are summarized in the table at the top of the next page. As indicated, the retroactive claims fees adjustments incurred have little impact on the operational results (\$94 thousand on total incurred claims of \$9,719 thousand), as unpaid balances are updated monthly to remain current.

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\$000s	Accident Year 2017	Accident Year 2015	Accident Year 2012	TOTAL
Retro Adj Paid	(1,300)	169	360	(772)
unpaid @ Jan 31	(1,320)	65	255	(1,000)
unpaid @ Feb 28	(47)	(87)	-	(134)
change:	1,273	(152)	(255)	866
incurred:	(27)	17	105	94

Summary of Financial Results

The calendar year-to-date Operating Result is \$2.0 million and the incurred loss ratio to the end of 2 months is 71.8%, as summarized in the table below.

Amounts in \$000s	February 2018	February 2017	Year to date Feb 2018	Year to Date Feb 2017
Premium Written	14,220	10,637	28,508	21,221
Premium Earned	14,097	12,751	29,516	27,019
Incurring Losses	9,719	8,902	21,176	18,564
Underwriting & Admin Expense	3,123	2,802	6,336	5,547
Net Result from Operations	1,255	1,047	2,004	2,908
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(5.0%)	(4.3%)	(2.2%)	(5.5%)
- Current Accident Year	74.0%	74.1%	74.0%	74.2%
<i>Total</i>	69.0%	69.8%	71.8%	68.7%
<i>Underwriting & Admin Expense</i>	22.3%	22.0%	21.6%	20.6%
<i>Combined Operating Ratio</i>	91.3%	91.8%	93.4%	89.3%

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”](#).

Updated Projection to Year-end 2018

The projected calendar year Net Result from Operations to December 2018 is \$12.8 million and the estimated combined operating ratio to December 2018 is 93.6% as indicated in the table at the top of the next page. This updated projection to the end of the year has improved by \$0.5 million from the projection provided last month (\$12.3 million and 93.7%). This improvement is driven by a \$3.1 million increase in the projected written premium for the year.

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FARM 2018 Year-end Projection	Current	Prior Mth		Final 2018
Amounts in \$000s	(Feb 2018)	(Jan 2018)	Change	Outlook*
Premium Written	199,523	196,422	3,101	182,582
Premium Earned	195,044	192,287	2,758	181,347
Incurred Losses	137,785	136,011	1,774	129,462
Underwriting & Admin Expense	44,503	43,974	529	41,471
Net Result from Operations	12,756	12,301	455	10,414
Ratios:				
Loss ratio - Prior Accident Years	(2.6%)	(2.6%)	0.0%	(2.9%)
- Current Accident Year	73.2%	73.3%	(0.1%)	74.2%
<i>Total</i>	70.6%	70.7%	(0.1%)	71.4%
<i>Underwriting & Admin Expense</i>	23.0%	23.0%	0.0%	23.0%
<i>Combined Operating Ratio</i>	93.6%	93.7%	(0.1%)	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 February 2018 was \$1.3 million, up \$0.2 million from the same month last year. This improvement included a \$0.1 million favourable impact due to the \$1.3 million increase in earned premium (at a combined ratio of 91.8%), with the remaining \$0.1 million favourable impact stemming from the decrease in the combined ratio (from 91.8% last year to 91.3% this year, applied to this month's \$14.1 million earned premium).

This month's results moved the year-to-date combined operating ratio from 95.3% at the end of 1 month to 93.4% at the end of 2 months. The 1.9 percentage point decrease is composed of a 2.5 percentage point decrease in the Prior Accident Years loss ratio, offset by a 0.6 percentage point increase 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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February 2018	Actual	Projection	Difference	Difference %
Premium Written	14,220	11,119	3,101	27.9%
Premium Earned	14,097	15,712	(1,615)	(10.3%)
Reported Losses				
Paid Losses	10,710	9,931	779	7.8%
Change in Outstanding Losses	(1,165)	1,325	(2,490)	(187.9%)
Total Reported Losses	9,545	11,256	(1,711)	(15.2%)
Change in IBNR*	(137)	(719)	582	
Change in Premium Deficiency (DPAC)*	15	300	(285)	
Change in Retro Claims Expense*	311	340	(29)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM February 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 February 2018, reported indemnity amounts were \$1.6 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 -\$1.7 million*). The Current Accident Year had a \$1.5 million unfavourable variance in reported indemnity, while the Prior Accident Years had a favourable variance of \$3.1 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 February 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 2.1% overall in February 2018 relative to February 2017. On a year-to-date basis, exposure counts are down by 2.1%, decreasing in all jurisdictions except Ontario, Prince Edward Island and Yukon.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of February 2018				Calendar YTD as of February 2018			
	2018	2017	Chg	% Chg	2018	2017	Chg	% Chg
Ontario	176	151	25	16.9%	330	273	57	20.8%
Alberta	88	97	(10)	(10.0%)	192	198	(6)	(3.1%)
Newfoundland & Labrador	638	639	(1)	(0.2%)	1,219	1,249	(31)	(2.5%)
New Brunswick	426	464	(37)	(8.0%)	847	927	(79)	(8.5%)
Nova Scotia	219	248	(29)	(11.5%)	501	515	(14)	(2.8%)
Prince Edward Island	84	74	9	12.4%	164	144	20	13.8%
Yukon	11	6	5	92.6%	20	12	8	67.1%
Northwest Territories	163	170	(6)	(3.8%)	314	339	(25)	(7.4%)
Nunavut	4	(0)	5	(1,080.2%)	6	11	(5)	(46.2%)
All Jurisdictions	1,810	1,848	(39)	(2.1%)	3,593	3,669	(76)	(2.1%)

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 February 2018 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 2 months ended February 28, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2018
(thousands of dollars)

	January	February	CY2018 YTD	CY2018 12 Months Updated Projections	CY2017 12 Months Actual
UNDERWRITING REVENUE:					
PREMIUMS WRITTEN	\$14,288	\$14,220	\$28,508	\$199,523	\$184,248
CHANGE IN UNEARNED PREMIUMS	1,131	(123)	1,008	(4,479)	(7,762)
NET PREMIUMS EARNED	\$15,419	\$14,097	\$29,516	\$195,044	\$176,486
CLAIMS INCURRED					
PRIOR ACCIDENT YEARS					
UNDISCOUNTED	21	53	74	75	(6,309)
EFFECT OF DISCOUNTING	27	(762)	(735)	(5,138)	(20,772)
DISCOUNTED	48	(709)	(661)	(5,063)	(27,081)
CURRENT ACCIDENT YEAR					
UNDISCOUNTED	10,750	9,918	20,668	136,243	123,688
EFFECT OF DISCOUNTING	659	510	1,169	6,604	5,657
DISCOUNTED	11,409	10,428	21,837	142,847	129,345
CLAIMS INCURRED	\$11,457	\$9,719	\$21,176	\$137,784	\$102,264
UNDERWRITING EXPENSES					
OPERATING & SERVICE FEES	1,470	1,464	2,934	20,428	18,983
AGENTS COMMISSIONS	1,081	1,100	2,181	16,319	15,266
DRIVER RECORD ABSTRACTS	172	128	300	2,685	3,004
BAD DEBTS	(1)	(2)	(3)	(2)	(304)
PREMIUM DEFICIENCY/(DPAC)					
UNDISCOUNTED	106	31	137	(19)	(684)
EFFECT OF DISCOUNTING	(44)	(16)	(60)	85	398
DISCOUNTED	62	15	77	66	(286)
UNDERWRITING EXPENSES	\$2,784	\$2,705	\$5,489	\$39,496	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$1,178	\$1,673	\$2,851	\$17,764	\$37,559
ADMINISTRATIVE EXPENSES	448	435	883	5,373	5,096
PREMIUM FINANCE FEE	(10)	(9)	(19)	(10)	(108)
INVESTMENT INCOME	29	26	55	373	251
OPERATING RESULTS	\$749	\$1,255	\$2,004	\$12,754	\$32,606
RATIOS:					
Claims & Adj Expenses Incurred (Earned)					
Prior Accident Year	0.3%	-5.0%	-2.2%	-2.6%	-15.3%
Current Accident Years	74.0%	74.0%	74.0%	73.2%	73.3%
All Accident Years Combined	74.3%	69.0%	71.8%	70.6%	58.0%
Underwriting & Admin Exp.(Earned)	21.0%	22.3%	21.6%	23.0%	23.7%
COMBINED OPERATING RATIO	95.3%	91.3%	93.4%	93.6%	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 2 months ended February 28, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2018
(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	\$8,257	\$10,305	\$2,418	\$488	\$2,720	\$3,389	\$139	\$695	\$97	\$28,508	\$199,523	\$184,248
CHANGE IN UNEARNED PREMIUMS	522	(2,410)	560	232	619	1,256	140	15	74	1,008	(\$4,479)	(\$7,762)
NET PREMIUMS EARNED	\$8,779	\$7,895	\$2,978	\$720	\$3,339	\$4,645	\$279	\$710	\$171	\$29,516	\$195,044	\$176,486
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	26	57	26	13	(17)	(37)	(1)	8	(1)	74	\$75	(\$6,309)
EFFECT OF DISCOUNTING	(219)	(2)	(53)	15	(195)	(232)	(14)	(36)	1	(735)	(\$5,138)	(\$20,772)
DISCOUNTED	(193)	55	(27)	28	(212)	(269)	(15)	(28)	0	(661)	(5,063)	(27,081)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	5,676	5,336	2,246	423	2,314	4,024	181	386	82	20,668	\$136,243	\$123,688
EFFECT OF DISCOUNTING	274	408	122	22	108	202	10	19	4	1,169	\$6,604	\$5,657
DISCOUNTED	5,950	5,744	2,368	445	2,422	4,226	191	405	86	21,837	142,847	129,345
CLAIMS INCURRED	\$5,757	\$5,799	\$2,341	\$473	\$2,210	\$3,957	\$176	\$377	\$86	\$21,176	\$137,784	\$102,264
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	825	1,113	242	49	274	339	14	69	9	2,934	\$20,428	\$18,983
AGENTS COMMISSIONS	674	585	211	50	259	310	13	69	10	2,181	\$16,319	\$15,266
DRIVER RECORD ABSTRACTS	88	23	65	17	53	39	2	11	2	300	\$2,685	\$3,004
BAD DEBTS	(4)	5	0	0	0	(4)	0	0	0	(3)	(\$2)	(\$304)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	47	(153)	50	20	56	97	12	1	7	137	(\$19)	(\$684)
EFFECT OF DISCOUNTING	0	0	(4)	0	0	(56)	0	0	0	(60)	\$85	\$398
DISCOUNTED	47	(153)	46	20	56	41	12	1	7	77	66	(286)
UNDERWRITING EXPENSES	\$1,630	\$1,573	\$564	\$136	\$642	\$725	\$41	\$150	\$28	\$5,489	\$39,496	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$1,392	\$523	\$73	\$111	\$487	(\$37)	\$62	\$183	\$57	\$2,851	\$17,764	\$37,559
ADMINISTRATIVE EXPENSES	225	313	76	26	81	95	18	33	16	883	\$5,373	\$5,096
PREMIUM FINANCE FEE	(5)	(8)	(2)	0	(2)	(2)	0	0	0	(19)	(\$10)	(\$108)
INVESTMENT INCOME	13	20	4	1	5	10	0	2	0	55	\$373	\$251
OPERATING RESULTS	\$1,175	\$222	(\$1)	\$86	\$409	(\$124)	\$44	\$152	\$41	\$2,004	\$12,754	\$32,606
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Year	-2.2%	0.7%	-0.9%	3.9%	-6.3%	-5.8%	-5.4%	-3.9%	0.0%	-2.2%	-2.6%	-15.3%
Current Accident Years	67.8%	72.8%	79.5%	61.8%	72.5%	91.0%	68.5%	57.0%	50.3%	74.0%	73.2%	73.3%
All Accident Years Combined	65.6%	73.5%	78.6%	65.7%	66.2%	85.2%	63.1%	53.1%	50.3%	71.8%	70.6%	58.0%
Underwriting & Admin Exp.(Earned)	21.1%	23.9%	21.5%	22.5%	21.7%	17.7%	21.1%	25.8%	25.7%	21.6%	23.0%	23.7%
COMBINED OPERATING RATIO	86.7%	97.4%	100.1%	88.2%	87.9%	102.9%	84.2%	78.9%	76.0%	93.4%	93.6%	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