



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 055

DATE: JULY 30, 2018

**SUBJECT: ONTARIO RISK SHARING POOL
– JUNE 2018 OPERATIONAL REPORT**

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

Please be advised that the June 2018 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 May 2018 Operational Report, bringing members' sharing current to the second quarter 2018. The usage update is reflected in the June 2018 Operational Report.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$98.9 million and the incurred loss ratio to the end of 6 months is 121.8%, as summarized in the table at the top of the next page.

Bulletin F18-055
Ontario Risk Sharing Pool – June 2018 Operational Report

Amounts in \$000s	June 2018	June 2017	Year to date Jun 2018	Year to Date Jun 2017
Premium Written	35,280	48,227	177,630	204,894
Premium Earned	29,135	33,011	176,560	182,265
Incurred Losses	37,849	41,261	215,168	182,324
Underwriting & Admin Expense	13,292	20,894	60,282	72,174
Operating Result	(22,006)	(29,144)	(98,890)	(72,233)
Ratios:				
Loss ratio - Prior Accident Years	(5.7%)	(6.9%)	(15.6%)	(33.0%)
- Current Accident Year	135.6%	131.9%	137.4%	133.0%
<i>Total</i>	129.9%	125.0%	121.8%	100.0%
Underwriting & Admin Expense	45.6%	63.3%	34.1%	39.6%
Combined Operating Ratio	175.5%	188.3%	155.9%	139.6%

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 2018” attached to this bulletin.

Updated Projection to Year-end 2018

The projected calendar year Operating Result to December 2018 is -\$239.2 million and the estimated combined operating ratio to December 2018 is 165.7%, as summarized in the table at the top of the next page. This updated projection to the end of the year has improved by \$6.8 million from the projection provided last month (-\$246.0 million and 166.8%). This improvement is driven by a \$7.2 million decrease in the projected written premium for the year.

Bulletin F18-055
Ontario Risk Sharing Pool – June 2018 Operational Report

ON RSP 2018 Yr-end Projection	Current	Prior Mth	Change	Final 2018
Amounts in \$000s	(Jun 2018)	(May 2018)		Outlook*
Premium Written	400,993	408,191	(7,198)	413,190
Premium Earned	364,416	367,999	(3,583)	382,147
Incurred Losses	458,690	465,392	(6,702)	487,967
Underwriting & Admin Expense	144,920	148,581	(3,661)	147,584
Net Result from Operations	(239,194)	(245,974)	6,780	(253,404)
Ratios:				
Loss ratio - Prior Accident Years	(10.1%)	(10.0%)	(0.1%)	(7.5%)
- Current Accident Year	136.0%	136.4%	(0.4%)	135.2%
<i>Total</i>	125.9%	126.4%	(0.5%)	127.7%
<i>Underwriting & Admin Expense</i>	39.8%	40.4%	(0.6%)	38.6%
<i>Combined Operating Ratio</i>	165.7%	166.8%	(1.1%)	166.3%

rounding differences may occur

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

Current Month Results

The Ontario Risk Sharing Pool produced an -\$22.0 million Operating Result in the month of June 2018, a \$7.1 million improvement compared with the same month last year. This improvement is composed of a \$3.4 million favourable impact associated with the \$3.9 million decrease in earned premium (at a combined ratio of 188.3%), with the remaining \$3.7 million improvement stemming from the overall decrease in the combined ratio (from 188.3% to 175.5% applied to \$29.1 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 152.2% at the end of 5 months to 155.9% at the end of 6 months. The 3.7 percentage point increase is composed of a 1.9 percentage point increase in the Prior Accident Year loss ratio and a 2.2 percentage point increase in the expense ratio, offset by a 0.4 percentage point decrease in the Current Accident Year loss 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 F18-055
Ontario Risk Sharing Pool – June 2018 Operational Report

June 2018	Actual	Projection	Difference	Difference %
Written Premium	35,280	42,411	(7,131)	(16.8%)
Earned Premium	29,135	29,854	(719)	(2.4%)
Reported Losses				
Paid Losses	28,221	28,984	(763)	(2.6%)
Paid Expenses	1,398	2,394	(996)	(41.6%)
Change in Outstanding Losses	6,136	(2,802)	8,938	(319.0%)
Total Reported Losses	35,755	28,576	7,179	25.1%
Change in IBNR Provision*	2,094	10,088	(7,994)	
Change in Premium Deficiency (DPAC)*	2,635	5,136	(2,501)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP June 2018 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 June 2018, reported losses were \$7.2 million higher than projected. The Current Accident Year had a \$0.4 million favourable variance in reported losses, while the Prior Accident Years had a \$7.6 million unfavourable variance. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$3.2 million unfavourable, followed by Accident Year 1996 at a \$2.0 million favourable, Accident Year 2012 at a \$1.9 million unfavourable, Accident Year 2016 at a \$1.6 million unfavourable and Accident Year 2015 at a \$1.1 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

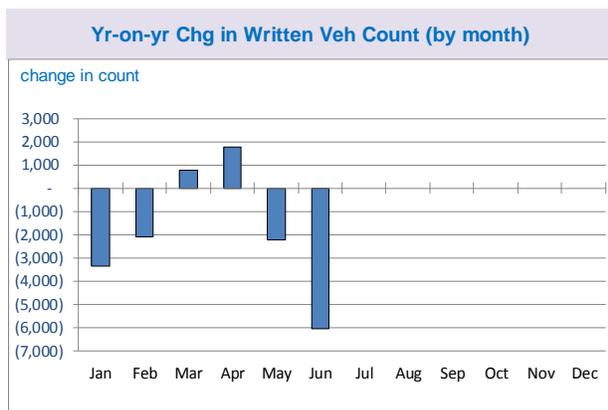
previous section). IBNR is discussed in more detail in the [Ontario RSP June 2018 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

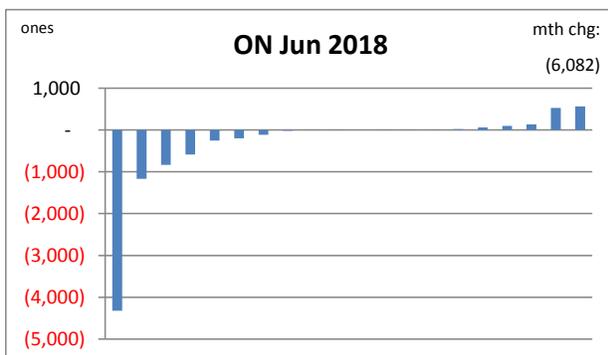
The June 2018 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2018). The actuarial valuation will be updated next as at June 30, 2018 and we anticipate that the results will be reflected in the August 2018 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 5.9% from 2017, being 2.8% of the 2017 industry private passenger vehicle count (excluding farmers) and the 2016 industry private passenger vehicle farmers count (as we don't have an industry count for farmers 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.



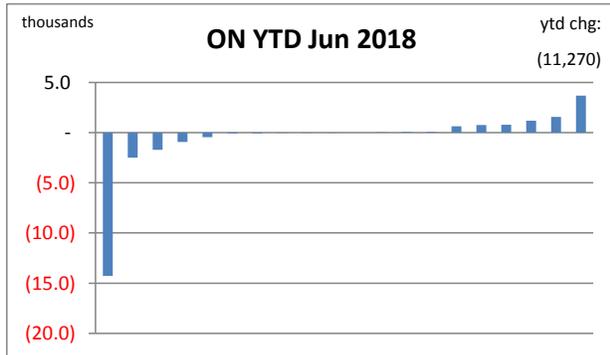
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with June reporting a decrease of 6,082 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for a decrease of 3,275 vehicles, indicating a variance of 2,807 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in June 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 nine

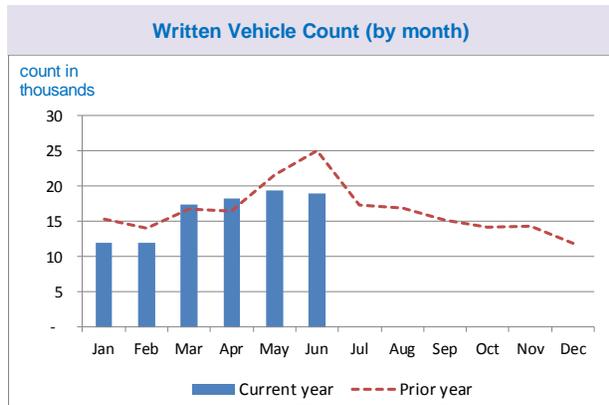
Bulletin F18-055
Ontario Risk Sharing Pool – June 2018 Operational Report

transferred more¹, and one remained the same. Of the 10 member company groups transferring fewer vehicles, 1 member company group accounted for 58% of the total transfer decrease for the “decliner” members. Of the 9 member company groups transferring more vehicles, 2 member company groups accounted for 77% of the total transfer increases for the “grower” members.

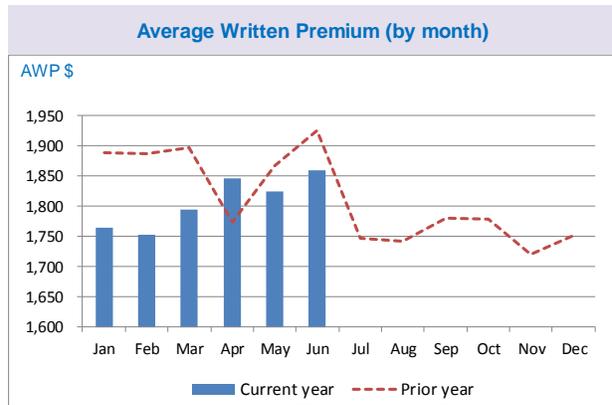


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

June’s year-on-year change in vehicle count transfers to the pool represents a 24.3% decrease from June 2017, and counts were down 10.3% year-to-date. Average written premium was down 3.4% in June 2018 compared with the same month in 2017, and was down 3.4% year-to-date (see charts immediately below and at the top of the next page).



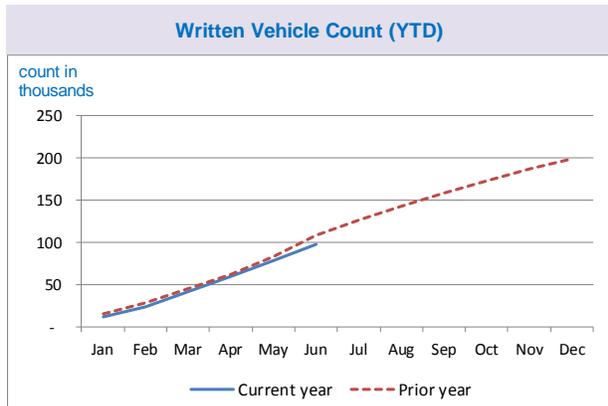
	Jun-18	Jun-17	Amt Chg	% Chg
W. Veh curr mth	18,977	25,059	(6,082)	-24.3%



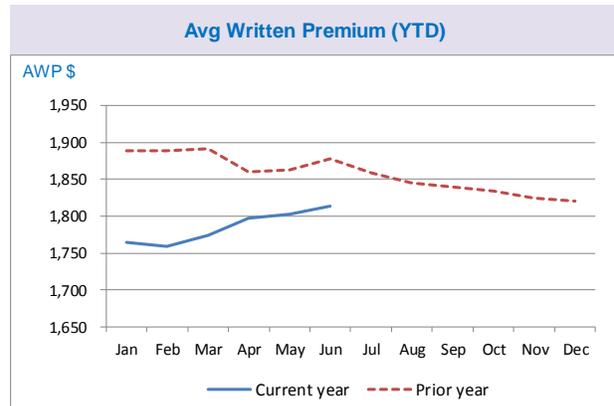
	Jun-18	Jun-17	Amt Chg	% Chg
AWP curr mth	1,859	1,925	(66)	-3.4%

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.

Bulletin F18-055
Ontario Risk Sharing Pool – June 2018 Operational Report



	Jun-18	Jun-17	Amt Chg	% Chg
W. Vehicles YTD	97,918	109,188	(11,270)	-10.3%



	Jun-18	Jun-17	Amt Chg	% Chg
Avg W. Prem YTD	1,814	1,877	(63)	-3.4%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 26.8% for the month compared with the 12.1% decrease we projected last month, and was down 13.3% year-to-date (see charts immediately below).



	Jun-18	Jun-17	Amt Chg	% Chg
WP (\$000s) curr mth	35,280	48,227	(12,948)	-26.8%



	Jun-18	Jun-17	Amt Chg	% Chg
WP (\$000s) YTD	177,630	204,894	(27,264)	-13.3%

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 June 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Ontario

Operating Results for the 6 Months Ended June 30, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Net Premiums Written	\$21,028	\$21,024	\$31,369	\$33,621	\$35,308	\$35,280	\$177,630	\$400,993	\$362,505
Decrease (Increase) in Unearned Premiums	9,392	6,076	(1,234)	(\$4,240)	(\$4,919)	(\$6,145)	(1,070)	(36,577)	11,153
Net Premiums Earned	\$30,420	\$27,100	\$30,135	\$29,381	\$30,389	\$29,135	\$176,560	\$364,416	\$373,658
Claims Incurred:									
Prior Accident Years:									
Undiscounted	(\$355)	(\$265)	(\$18,967)	(\$100)	\$5,608	(\$41)	(\$14,120)	(\$14,120)	(\$47,673)
Effect of Discounting	(1,690)	(2,018)	1,563	(1,955)	(7,643)	(1,616)	(13,359)	(22,761)	(66,431)
Discounted	(\$2,045)	(\$2,283)	(\$17,404)	(\$2,055)	(\$2,035)	(\$1,657)	(\$27,479)	(\$36,881)	(\$114,104)
Current Accident Year:									
Undiscounted	\$37,624	\$33,465	\$40,131	\$37,097	\$38,045	\$36,669	\$223,031	\$459,166	\$455,722
Effect of Discounting	4,409	3,028	3,679	3,403	2,260	2,837	19,616	36,405	39,948
Discounted	\$42,033	\$36,493	\$43,810	\$40,500	\$40,305	\$39,506	\$242,647	\$495,571	\$495,670
Claims Incurred	\$39,988	\$34,210	\$26,406	\$38,445	\$38,270	\$37,849	\$215,168	\$458,690	\$381,566
Underwriting Expenses:									
Expense Allowance	\$6,354	\$6,376	\$9,366	\$9,971	\$10,685	\$10,562	\$53,314	\$120,100	\$110,765
Change in UPDR/DPAC:									
Undiscounted	(2,100)	(1,273)	6,072	1,589	525	1,876	6,689	18,898	6,769
Effect of Discounting	(1,151)	(734)	974	589	(816)	759	(379)	4,150	(8,538)
Discounted	(3,251)	(2,007)	7,046	2,178	(291)	2,635	6,310	23,048	(\$1,769)
Underwriting Expenses	\$3,103	\$4,369	\$16,412	\$12,149	\$10,394	\$13,197	\$59,624	\$143,148	\$108,996
Net Underwriting Gain (Loss)	(\$12,671)	(\$11,479)	(\$12,683)	(\$21,213)	(\$18,275)	(\$21,911)	(\$98,232)	(\$237,422)	(\$116,904)
Administrative Expenses	\$82	\$124	\$128	\$102	\$127	\$95	\$658	\$1,772	\$1,430
Operating Result	(\$12,753)	(\$11,603)	(\$12,811)	(\$21,315)	(\$18,402)	(\$22,006)	(\$98,890)	(\$239,194)	(\$118,334)
Ratios:									
Claims & Expenses Incurred (Earned)									
Prior Accident Years	-6.7%	-8.4%	-57.8%	-7.0%	-6.7%	-5.7%	-15.6%	-10.1%	-30.5%
Current Accident Year	138.2%	134.7%	145.4%	137.8%	132.6%	135.6%	137.4%	136.0%	132.7%
All Accident Years Combined	131.5%	126.3%	87.6%	130.8%	125.9%	129.9%	121.8%	125.9%	102.2%
Underwriting & Administrative Expenses (Earned)	10.5%	16.6%	54.9%	41.7%	34.6%	45.6%	34.1%	39.8%	29.6%
Combined Operating Ratio	142.0%	142.9%	142.5%	172.5%	160.5%	175.5%	155.9%	165.7%	131.8%

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