



TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F18 – 059
DATE: AUGUST 30, 2018
SUBJECT: FARM – JUNE 2018 PARTICIPATION REPORT

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

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

New This Month

Members' Transfer of Funds

The June 2018 Participation Report reflects the effects of a transfer of \$20 million from Facility Association to members. Member Company's share of this transfer is shown on page 21: Members Combined Accident Year Share Results for all Jurisdictions. **Note: All balances due to/from Facility Association are to be settled on or before September 26, 2018.** Please see the "Members' Transfer of Funds" section on page 5 for more detail.

Summary of Financial Results

The calendar year-to-date Operating Result is \$18.9 million and the incurred loss ratio to the end of 6 months is 55.3%, as summarized in the table at the top of the next page.

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Amounts in \$000s	June 2018	June 2017	Year to date Jun 2018	Year to Date Jun 2017
Premium Written	27,385	20,989	117,032	93,409
Premium Earned	17,377	14,635	94,810	84,185
Incurred Losses	12,078	10,039	52,504	52,756
Underwriting & Admin Expense	4,893	4,189	23,450	21,031
Net Result from Operations	406	407	18,856	10,398
Ratios:				
Loss ratio - Prior Accident Years	(2.0%)	(4.8%)	(16.9%)	(10.8%)
- Current Accident Year	71.5%	73.4%	72.2%	73.4%
<i>Total</i>	69.5%	68.6%	55.3%	62.6%
Underwriting & Admin Expense	28.3%	28.7%	24.9%	25.0%
Combined Operating Ratio	97.8%	97.3%	80.2%	87.6%

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 \$29.8 million and the estimated combined operating ratio to December 2018 is 85.7% as indicated in the table at the top of the next page. This updated projection to the end of the year has improved by \$0.4 million from the projection provided last month (\$29.4 million and 85.7%).

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FARM 2018 Year-end Projection	Current	Prior Mth		Final 2018
Amounts in \$000s	(Jun 2018)	(May 2018)	Change	Outlook*
Premium Written	219,483	215,870	3,614	182,582
Premium Earned	205,228	203,152	2,077	181,347
Incurred Losses	128,835	127,553	1,281	129,462
Underwriting & Admin Expense	46,550	46,179	371	41,471
Net Result from Operations	29,844	29,419	424	10,414
Ratios:				
Loss ratio - Prior Accident Years	(8.9%)	(9.0%)	0.1%	(2.9%)
- Current Accident Year	71.7%	71.8%	(0.1%)	74.2%
<i>Total</i>	62.8%	62.8%	0.0%	71.4%
Underwriting & Admin Expense	22.9%	22.9%	0.0%	23.0%
Combined Operating Ratio	85.7%	85.7%	0.0%	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 June 2018 was \$0.4 million, no significant change from the same month last year.

This month's results moved the year-to-date combined operating ratio from 76.3% at the end of 5 months to 80.2% at the end of 6 months. The 3.9 percentage point increase is composed of a 3.3 percentage point increase in the Prior Accident Years loss ratio and a 0.8 percentage point increase in the expense ratio, offset by a 0.2 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.

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June 2018	Actual	Projection	Difference	Difference %
Premium Written	27,385	23,755	3,630	15.3%
Premium Earned	17,377	16,920	457	2.7%
Reported Losses				
Paid Losses	13,765	12,990	775	6.0%
Change in Outstanding Losses	(3,035)	(1,384)	(1,651)	119.3%
Total Reported Losses	10,730	11,606	(876)	(7.5%)
Change in IBNR*	2,486	508	1,978	
Change in Premium Deficiency (DPAC)*	(738)	(530)	(208)	
Change in Retro Claims Expense*	(1,138)	(485)	(653)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM June 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 June 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 -\$0.9 million*). The Current Accident Year had approximately \$0.5 million favourable variance in reported indemnity, and the Prior Accident Years had a favourable variance of \$1.2 million. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$1.7 million favourable, followed by Accident Year 2015 at \$1.5 million unfavourable and Accident Year 2016 at \$1.3 million favourable. No other 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 June 2018 Participation Report does not reflect the results of an actuarial valuation update. The most recent valuation was as at March 31, 2018 for all jurisdictions and business segments. The actuarial valuation will be updated next as at June 30, 2018 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the August 2018 Participation Report.

Members' Transfer of Funds

As indicated in our Bulletin [F05-049](#) dated October 4, 2005, the Facility Association Board of Directors authorized the transfer to members of Facility Association (FARM) reserve-related funds that are not required to meet Facility Association's short-term cash flow needs. Transferring these funds to Members allows them to invest the funds based upon Members' own investment plans and policies. **Please note that any investment losses on funds held by Members will be borne solely by them.**

As 100% of all FARM policyholder payments are made directly through Facility Association, Members will be required to return the FARM policyholder funds they hold when such payments are made, or projected to be made, by Facility Association. Facility Association's short-term cash flow needs are monitored on a monthly basis, and net transfers of funds to or from Members are made periodically as needed.

The June 2018 Participation Report reflects the effect of the transfer of \$20 million from Facility Association to Members. The amount due to or from Facility Association for your company as a result of the transfer will depend on your company's share of the Residual Market in each jurisdiction, as well as differences in share ratios by business segment and accident year.

Member company share of the transfer of \$20 million is shown on page 21: Members Combined Accident Year Share Results for all Jurisdictions. ***Note: All balances due to/from Facility Association are to be settled on or before September 26, 2018.***

The amounts to be settled with Facility Association at this time are the net amounts of the adjustment referred to above, an aggregate summary of which is shown immediately below.

Amounts (\$000s) to be Transferred to / (from) Members

Summary by Jurisdiction	Private Passenger	Non Private Passenger	Total
Ontario	(339)	5,642	5,303
Alberta	820	5,600	6,420
Newfoundland & Labrador	349	19	368
New Brunswick	2,105	679	2,783
Nova Scotia	862	1,978	2,841
Prince Edward Island	386	1,400	1,786
Yukon	135	188	324
Northwest Territories	127	(16)	111
Nunavut	18	45	64
TOTAL	4,464	15,536	20,000

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Management Comments

As shown in the table below, the private passenger annualized vehicle counts decreased by 3.7% overall in June 2018 relative to June 2017. On a year-to-date basis, exposure counts are down by 3.8%, decreasing in all jurisdictions except Ontario, Nova Scotia and Yukon.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of June 2018				Calendar YTD as of June 2018			
	2018	2017	Chg	% Chg	2018	2017	Chg	% Chg
Ontario	359	286	73	25.6%	1,466	1,125	341	30.3%
Alberta	152	141	10	7.4%	752	758	(6)	(0.8%)
Newfoundland & Labrador	1,131	1,324	(194)	(14.6%)	5,024	5,484	(460)	(8.4%)
New Brunswick	576	658	(82)	(12.4%)	2,995	3,473	(478)	(13.8%)
Nova Scotia	528	410	117	28.6%	2,252	1,982	270	13.6%
Prince Edward Island	119	146	(27)	(18.6%)	557	645	(88)	(13.6%)
Yukon	18	18	(0)	(2.3%)	87	82	5	5.6%
Northwest Territories	167	165	2	1.0%	993	1,104	(111)	(10.1%)
Nunavut	11	28	(17)	(59.7%)	60	87	(28)	(31.6%)
All Jurisdictions	3,060	3,177	(117)	(3.7%)	14,186	14,741	(555)	(3.8%)

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 June 2018 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 6 months ended June 30, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 06/2018
(thousands of dollars)

	January	February	March	April	May	June	CY2018 YTD	CY2018 12 Months Updated Projections	CY2017 12 Months Actual
UNDERWRITING REVENUE:									
PREMIUMS WRITTEN	\$14,288	\$14,220	\$15,096	\$18,290	\$27,753	\$27,385	\$117,032	\$219,484	\$184,248
CHANGE IN UNEARNED PREMIUMS	1,131	(123)	675	(2,949)	(10,948)	(10,008)	(22,222)	(14,254)	(7,762)
NET PREMIUMS EARNED	\$15,419	\$14,097	\$15,771	\$15,341	\$16,805	\$17,377	\$94,810	\$205,230	\$176,486
CLAIMS INCURRED									
PRIOR ACCIDENT YEARS									
UNDISCOUNTED	21	53	(9,199)	18	(1,457)	4	(10,560)	(10,556)	(6,309)
EFFECT OF DISCOUNTING	27	(762)	(1,214)	(289)	(2,830)	(350)	(5,418)	(7,760)	(20,772)
DISCOUNTED	48	(709)	(10,413)	(271)	(4,287)	(346)	(15,978)	(18,316)	(27,081)
CURRENT ACCIDENT YEAR									
UNDISCOUNTED	10,750	9,918	10,451	10,539	11,827	11,924	65,409	140,902	123,688
EFFECT OF DISCOUNTING	659	510	515	536	353	500	3,073	6,249	5,657
DISCOUNTED	11,409	10,428	10,966	11,075	12,180	12,424	68,482	147,151	129,345
CLAIMS INCURRED	\$11,457	\$9,719	\$553	\$10,804	\$7,893	\$12,078	\$52,504	\$128,835	\$102,264
UNDERWRITING EXPENSES									
OPERATING & SERVICE FEES	1,470	1,464	1,544	1,875	2,861	2,807	12,021	22,538	18,983
AGENTS COMMISSIONS	1,081	1,100	1,222	1,466	2,132	2,067	9,068	17,540	15,266
DRIVER RECORD ABSTRACTS	172	128	159	297	510	303	1,569	2,963	3,004
BAD DEBTS	(1)	(2)	1	(31)	(3)	(2)	(38)	(38)	(304)
PREMIUM DEFICIENCY/(DPAC)									
UNDISCOUNTED	106	31	(237)	(226)	(603)	(797)	(1,726)	(1,231)	(684)
EFFECT OF DISCOUNTING	(44)	(16)	11	18	(120)	59	(92)	(137)	398
DISCOUNTED	62	15	(226)	(208)	(723)	(738)	(1,818)	(1,368)	(286)
UNDERWRITING EXPENSES	\$2,784	\$2,705	\$2,700	\$3,399	\$4,777	\$4,437	\$20,802	\$41,635	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$1,178	\$1,673	\$12,518	\$1,138	\$4,135	\$862	\$21,504	\$34,760	\$37,559
ADMINISTRATIVE EXPENSES	448	435	505	408	501	486	2,783	5,440	5,096
PREMIUM FINANCE FEE	(10)	(9)	(8)	(10)	(9)	(8)	(54)	(44)	(108)
INVESTMENT INCOME	29	26	29	32	35	38	189	566	251
OPERATING RESULTS	\$749	\$1,255	\$12,034	\$752	\$3,660	\$406	\$18,856	\$29,842	\$32,606
RATIOS:									
Claims & Adj Expenses Incurred (Earned)									
Prior Accident Years	0.3%	-5.0%	-66.0%	-1.8%	-25.5%	-2.0%	-16.9%	-8.9%	-15.3%
Current Accident Year	74.0%	74.0%	69.5%	72.2%	72.5%	71.5%	72.2%	71.7%	73.3%
All Accident Years Combined	74.3%	69.0%	3.5%	70.4%	47.0%	69.5%	55.3%	62.8%	58.0%
Underwriting & Admin Exp.(Earned)	21.0%	22.3%	20.3%	24.8%	31.4%	28.3%	24.9%	22.9%	23.7%
COMBINED OPERATING RATIO	95.3%	91.3%	23.8%	95.2%	78.4%	97.8%	80.2%	85.7%	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 6 months ended June 30, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 06/2018
(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	\$34,645	\$39,663	\$11,100	\$2,204	\$11,516	\$14,265	\$1,127	\$2,209	\$303	\$117,032	\$219,484	\$184,248
CHANGE IN UNEARNED PREMIUMS	(6,424)	(12,788)	(1,672)	(33)	(1,140)	(84)	(249)	(32)	200	(22,222)	(\$14,254)	(\$7,762)
NET PREMIUMS EARNED	\$28,221	\$26,875	\$9,428	\$2,171	\$10,376	\$14,181	\$878	\$2,177	\$503	\$94,810	\$205,230	\$176,486
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(2,724)	(7,562)	(5)	672	2,549	(3,174)	(157)	37	(196)	(10,560)	(\$10,556)	(\$6,309)
EFFECT OF DISCOUNTING	(1,170)	(2,536)	(293)	24	(125)	(1,195)	(17)	(87)	(19)	(5,418)	(\$7,760)	(\$20,772)
DISCOUNTED	(3,894)	(10,098)	(298)	696	2,424	(4,369)	(174)	(50)	(215)	(15,978)	(18,316)	(27,081)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	17,978	17,229	7,167	1,835	7,396	11,743	559	1,266	236	65,409	\$140,902	\$123,688
EFFECT OF DISCOUNTING	653	1,102	325	118	280	511	26	47	11	3,073	\$6,249	\$5,657
DISCOUNTED	18,631	18,331	7,492	1,953	7,676	12,254	585	1,313	247	68,482	147,151	129,345
CLAIMS INCURRED	\$14,737	\$8,233	\$7,194	\$2,649	\$10,100	\$7,885	\$411	\$1,263	\$32	\$52,504	\$128,835	\$102,264
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	3,464	4,284	1,109	221	1,153	1,428	112	221	29	12,021	\$22,538	\$18,983
AGENTS COMMISSIONS	2,839	2,320	977	206	1,059	1,326	96	216	29	9,068	\$17,540	\$15,266
DRIVER RECORD ABSTRACTS	352	118	414	113	271	252	9	35	5	1,569	\$2,963	\$3,004
BAD DEBTS	(6)	11	(18)	(7)	0	(18)	0	0	0	(38)	(\$38)	(\$304)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	(536)	(795)	(143)	186	(90)	(343)	(21)	(2)	18	(1,726)	(\$1,231)	(\$684)
EFFECT OF DISCOUNTING	0	0	108	73	0	(273)	0	0	0	(92)	(\$137)	\$398
DISCOUNTED	(536)	(795)	(35)	259	(90)	(616)	(21)	(2)	18	(1,818)	(1,368)	(286)
UNDERWRITING EXPENSES	\$6,113	\$5,938	\$2,447	\$792	\$2,393	\$2,372	\$196	\$470	\$81	\$20,802	\$41,635	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$7,371	\$12,704	(\$213)	(\$1,270)	(\$2,117)	\$3,924	\$271	\$444	\$390	\$21,504	\$34,760	\$37,559
ADMINISTRATIVE EXPENSES	746	909	271	85	273	341	53	72	33	2,783	\$5,440	\$5,096
PREMIUM FINANCE FEE	(15)	(21)	(6)	0	(6)	(6)	0	0	0	(54)	(\$44)	(\$108)
INVESTMENT INCOME	47	63	16	6	24	29	0	4	0	189	\$566	\$251
OPERATING RESULTS	\$6,657	\$11,837	(\$474)	(\$1,349)	(\$2,372)	\$3,606	\$218	\$376	\$357	\$18,856	\$29,842	\$32,606
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Years	-13.8%	-37.6%	-3.2%	32.1%	23.4%	-30.8%	-19.8%	-2.3%	-42.7%	-16.9%	-8.9%	-15.3%
Current Accident Year	66.0%	68.2%	79.5%	90.0%	74.0%	86.4%	66.6%	60.3%	49.1%	72.2%	71.7%	73.3%
All Accident Years Combined	52.2%	30.6%	76.3%	122.1%	97.4%	55.6%	46.8%	58.0%	6.4%	55.3%	62.8%	58.0%
Underwriting & Admin Exp.(Earned)	24.3%	25.5%	28.8%	40.4%	25.7%	19.1%	28.4%	24.9%	22.7%	24.9%	22.9%	23.7%
COMBINED OPERATING RATIO	76.5%	56.1%	105.1%	162.5%	123.1%	74.7%	75.2%	82.9%	29.1%	80.2%	85.7%	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