



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F18 – 079**

**DATE: OCTOBER 30, 2018**

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

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

Please be advised that the September 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 August 2018 Operational Report, bringing members' sharing current to the third quarter 2018. The usage update is reflected in the September 2018 Operational Report.

#### **Summary of Financial Results**

The calendar year-to-date Operating Result is -\$122.9 million and the incurred loss ratio to the end of 9 months is 112.2%, as summarized in the table at the top of the next page.

Amounts in \$000s	September 2018	September 2017	Year to date Sep 2018	Year to Date Sep 2017
Premium Written	32,142	27,093	273,598	291,778
Premium Earned	29,052	32,037	264,722	280,499
Incurred Losses	38,246	40,214	297,007	271,060
Underwriting & Admin Expense	11,003	7,295	90,663	97,351
<b>Operating Result</b>	<b>(20,197)</b>	<b>(15,472)</b>	<b>(122,948)</b>	<b>(87,912)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(3.0%)	(5.1%)	(23.8%)	(36.5%)
- Current Accident Year	134.7%	130.6%	136.0%	133.2%
<i>Total</i>	<b>131.7%</b>	<b>125.5%</b>	<b>112.2%</b>	<b>96.7%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>37.9%</b>	<b>22.8%</b>	<b>34.2%</b>	<b>34.7%</b>
<b>Combined Operating Ratio</b>	<b>169.6%</b>	<b>148.3%</b>	<b>146.4%</b>	<b>131.4%</b>

*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 -\$179.0 million and the estimated combined operating ratio to December 2018 is 150.4%, as summarized in the table at the top of the next page. This updated projection to the end of the year has improved by \$0.9 million from the projection provided last month (-\$179.9 million and 150.6%). This improvement is driven by a \$1.4 million decrease in the projected written premium for the year.

<b>ON RSP 2018 Yr-end Projection</b> Amounts in \$000s	<b>Current</b> (Sep 2018)	Prior Mth (Aug 2018)	<b>Change</b>	Final 2018 Outlook*
Premium Written	364,393	365,795	(1,402)	413,190
Premium Earned	355,313	355,415	(102)	382,147
Incurred Losses	415,434	415,464	(30)	487,967
Underwriting & Admin Expense	118,891	119,831	(940)	147,584
<b>Net Result from Operations</b>	<b>(179,012)</b>	<b>(179,880)</b>	<b>868</b>	<b>(253,404)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(18.7%)	(18.9%)	0.2%	(7.5%)
- Current Accident Year	135.6%	135.8%	(0.2%)	135.2%
<i>Total</i>	<b>116.9%</b>	<b>116.9%</b>	<b>0.0%</b>	<b>127.7%</b>
<i>Underwriting &amp; Admin Expense</i>	<b>33.5%</b>	<b>33.7%</b>	<b>(0.2%)</b>	<b>38.6%</b>
<i>Combined Operating Ratio</i>	<b>150.4%</b>	<b>150.6%</b>	<b>(0.2%)</b>	<b>166.3%</b>

*rounding differences may occur*

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

### Current Month Results

The Ontario Risk Sharing Pool produced a -\$20.2 million Operating Result in the month of September 2018, a \$4.7 million deterioration compared with the same month last year. This deterioration is composed of a \$6.2 million unfavourable impact stemming from the overall increase in the combined ratio (from 148.3% to 169.6% applied to \$29.1 million in earned premium), offset by an approximately \$1.5 million favourable impact associated with the \$3.0 million decrease in earned premium (at a combined ratio of 148.3%).

This month's results moved the year-to-date combined operating ratio from 143.6% at the end of 8 months to 146.4% at the end of 9 months. The 2.8 percentage point increase is composed of a 2.6 percentage point increase in the Prior Accident Year loss ratio, and a 0.4 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.

September 2018	Actual	Projection	Difference	Difference %
Written Premium	32,142	33,574	(1,432)	(4.3%)
Earned Premium	29,052	29,467	(415)	(1.4%)
Reported Losses				
Paid Losses	24,969	25,660	(691)	(2.7%)
Paid Expenses	1,143	2,370	(1,227)	(51.8%)
Change in Outstanding Losses	2,521	8,408	(5,887)	(70.0%)
<b>Total Reported Losses</b>	<b>28,633</b>	<b>36,438</b>	<b>(7,805)</b>	<b>(21.4%)</b>
Change in IBNR Provision*	9,613	2,390	7,223	
Change in Premium Deficiency (DPAC)*	1,287	1,693	(406)	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP September 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 September 2018, reported losses were \$7.8 million lower than projected. The Current Accident Year had a \$1.3 million unfavourable variance in reported losses, while the Prior Accident Years had a \$9.1 million favourable variance. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$5.4 million favourable, followed by Accident Year 2016 at \$3.9 million favourable, Accident Year 2015 at \$2.1 million favourable and Accident Year 2011 at \$1.4 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million. A portion of the Prior Accident Years' variances were the result of a member company group providing correcting case reserve transactions during the month, related to accident years 2010-2017 inclusive. FA management reviewed the results of the transactions have determined that they were appropriate based on available information.

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 September 2018](#)

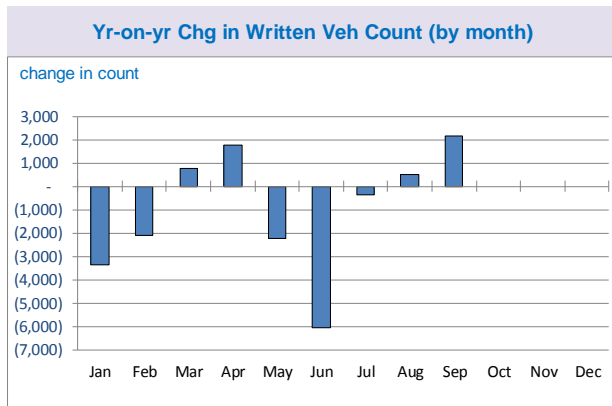
[Operational Report – Actuarial Highlights.](#)

**Effect of Quarterly Valuation**

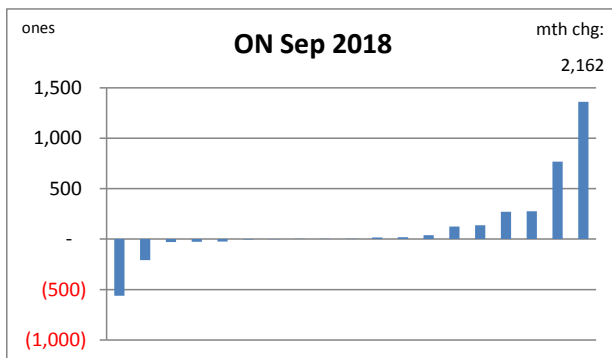
The September 2018 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at June 30, 2018). The actuarial valuation will be updated next as at September 30, 2018 and we anticipate that the results will be reflected in the October 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 down 0.8% from 2017, being 2.6% of the 2017 industry private passenger vehicle count (excluding farmers) and industry farmers private passenger vehicle count. 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.



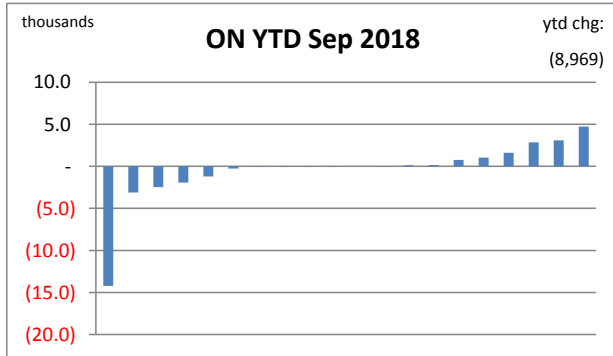
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with September reporting an increase of 2,162 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 2,198 vehicles, indicating a variance of 36 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in September 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. Seven member company groups transferred fewer vehicles to the pool this month compared to a year ago, while twelve transferred more<sup>1</sup>, and one remained the same. Of the 7 member company groups transferring

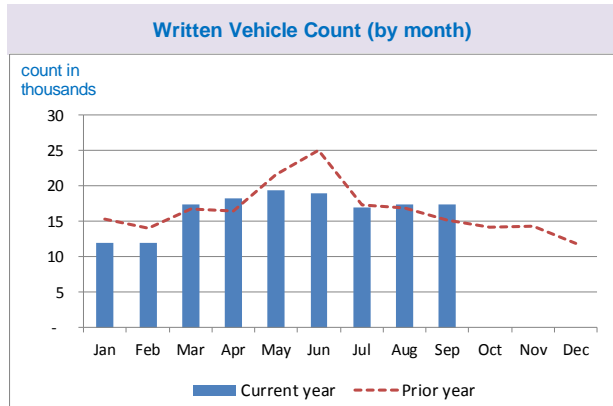
<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2016 or 2017. Groups that have not transferred vehicles in these two periods are ignored.

fewer vehicles, 3 member company groups accounted for 93% of the total transfer decrease for the “decliner” members. Of the 12 member company groups transferring more vehicles, 2 member company groups accounted for 71% of the total transfer increases for the “grower” members.

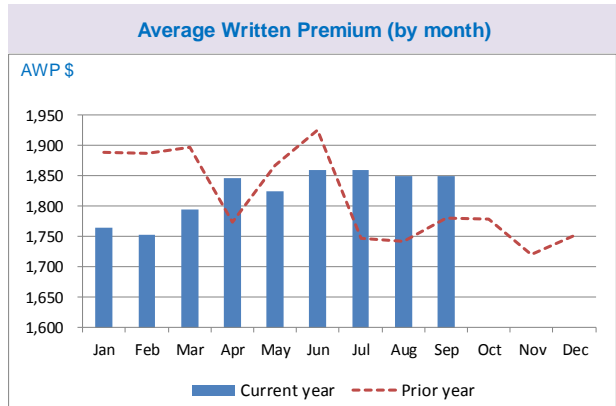


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

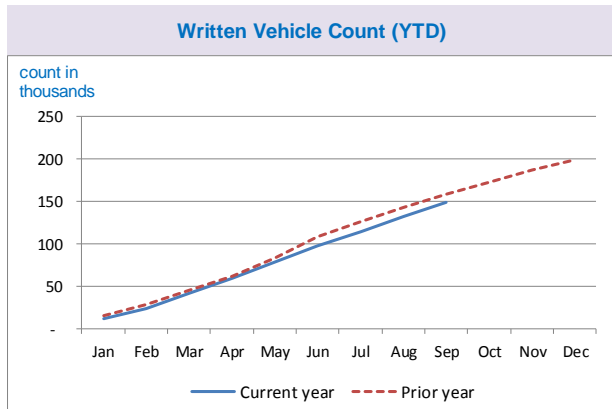
September’s year-on-year change in vehicle count transfers to the pool represents a 14.2% increase from September 2017, but counts were down 5.7% year-to-date. Average written premium was up 3.9% in September 2018 compared with the same month in 2017, but was down 0.6% year-to-date (see charts immediately below and at the top of the next page).



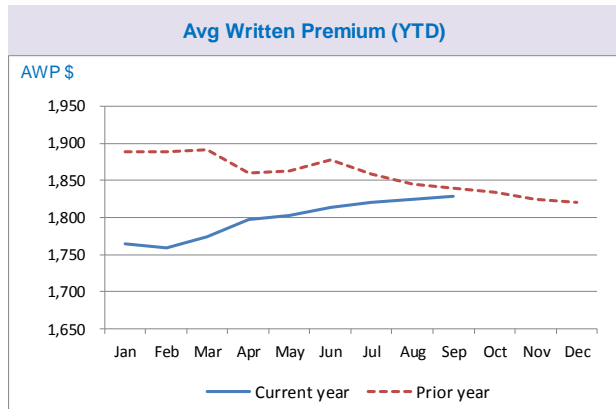
	Sep-18	Sep-17	Amt Chg	% Chg
W. Veh curr mth	17,382	15,220	2,162	14.2%



	Sep-18	Sep-17	Amt Chg	% Chg
AWP curr mth	1,849	1,780	69	3.9%

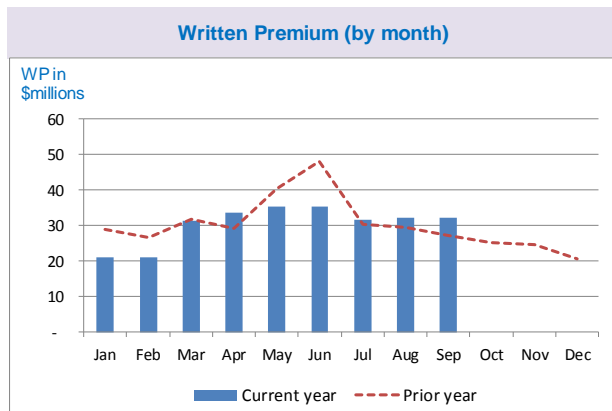


	Sep-18	Sep-17	Amt Chg	% Chg
W. Vehicles YTD	149,706	158,676	(8,969)	-5.7%

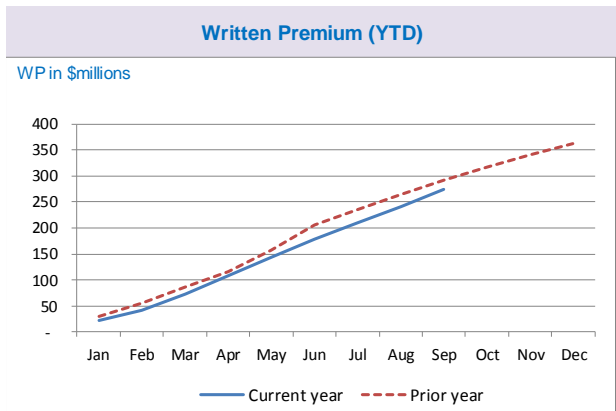


	Sep-18	Sep-17	Amt Chg	% Chg
Avg W. Prem YTD	1,828	1,839	(11)	-0.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 18.6% for the month compared with the 23.9% increase we projected last month, but was down 6.2% year-to-date (see charts immediately below).



	Sep-18	Sep-17	Amt Chg	% Chg
WP (\$000s) curr mth	32,142	27,093	5,049	18.6%



	Sep-18	Sep-17	Amt Chg	% Chg
WP (\$000s) YTD	273,597	291,778	(18,181)	-6.2%

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 September 2018 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2018**

Risk Sharing Pool - Ontario

Operating Results for the 9 Months Ended September 30, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	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	\$31,602	\$32,224	\$32,142	\$273,598	\$364,393	\$362,505
Decrease (Increase) in Unearned Premiums	9,392	6,076	(1,234)	(\$4,240)	(\$4,919)	(\$6,145)	(\$1,979)	(\$2,737)	(\$3,090)	(8,876)	(9,080)	11,153
<b>Net Premiums Earned</b>	<b>\$30,420</b>	<b>\$27,100</b>	<b>\$30,135</b>	<b>\$29,381</b>	<b>\$30,389</b>	<b>\$29,135</b>	<b>\$29,623</b>	<b>\$29,487</b>	<b>\$29,052</b>	<b>\$264,722</b>	<b>\$355,313</b>	<b>\$373,658</b>
<b>Claims Incurred:</b>												
Prior Accident Years:												
Undiscounted	(\$355)	(\$265)	(\$18,967)	(\$100)	\$5,608	(\$41)	(\$47)	(\$10,627)	(\$17)	(\$24,811)	(\$24,811)	(\$47,673)
Effect of Discounting	(1,690)	(2,018)	1,563	(1,955)	(7,643)	(1,616)	(1,170)	(22,806)	(861)	(38,196)	(41,693)	(66,431)
Discounted	(\$2,045)	(\$2,283)	(\$17,404)	(\$2,055)	(\$2,035)	(\$1,657)	(\$1,217)	(\$33,433)	(\$878)	(\$63,007)	(\$66,504)	(\$114,104)
Current Accident Year:												
Undiscounted	\$37,624	\$33,465	\$40,131	\$37,097	\$38,045	\$36,669	\$37,282	\$38,985	\$36,768	\$336,066	\$450,664	\$455,722
Effect of Discounting	4,409	3,028	3,679	3,403	2,260	2,837	2,910	(934)	2,356	23,948	31,274	39,948
Discounted	\$42,033	\$36,493	\$43,810	\$40,500	\$40,305	\$39,506	\$40,192	\$38,051	\$39,124	\$360,014	\$481,938	\$495,670
<b>Claims Incurred</b>	<b>\$39,988</b>	<b>\$34,210</b>	<b>\$26,406</b>	<b>\$38,445</b>	<b>\$38,270</b>	<b>\$37,849</b>	<b>\$38,975</b>	<b>\$4,618</b>	<b>\$38,246</b>	<b>\$297,007</b>	<b>\$415,434</b>	<b>\$381,566</b>
<b>Underwriting Expenses:</b>												
Expense Allowance	\$6,354	\$6,376	\$9,366	\$9,971	\$10,685	\$10,562	\$9,453	\$9,678	\$9,613	\$82,058	\$109,207	\$110,765
Change in UPDR/DPAC:												
Undiscounted	(2,100)	(1,273)	6,072	1,589	525	1,876	826	1,513	956	9,984	10,534	6,769
Effect of Discounting	(1,151)	(734)	974	589	(816)	759	268	(2,599)	331	(2,379)	(2,317)	(8,538)
Discounted	(3,251)	(2,007)	7,046	2,178	(291)	2,635	1,094	(1,086)	1,287	7,605	8,217	(\$1,769)
<b>Underwriting Expenses</b>	<b>\$3,103</b>	<b>\$4,369</b>	<b>\$16,412</b>	<b>\$12,149</b>	<b>\$10,394</b>	<b>\$13,197</b>	<b>\$10,547</b>	<b>\$8,592</b>	<b>\$10,900</b>	<b>\$89,663</b>	<b>\$117,424</b>	<b>\$108,996</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$12,671)</b>	<b>(\$11,479)</b>	<b>(\$12,683)</b>	<b>(\$21,213)</b>	<b>(\$18,275)</b>	<b>(\$21,911)</b>	<b>(\$19,899)</b>	<b>\$16,277</b>	<b>(\$20,094)</b>	<b>(\$121,948)</b>	<b>(\$177,545)</b>	<b>(\$116,904)</b>
<b>Administrative Expenses</b>	<b>\$82</b>	<b>\$124</b>	<b>\$128</b>	<b>\$102</b>	<b>\$127</b>	<b>\$95</b>	<b>\$109</b>	<b>\$130</b>	<b>\$103</b>	<b>\$1,000</b>	<b>\$1,467</b>	<b>\$1,430</b>
<b>Operating Result</b>	<b>(\$12,753)</b>	<b>(\$11,603)</b>	<b>(\$12,811)</b>	<b>(\$21,315)</b>	<b>(\$18,402)</b>	<b>(\$22,006)</b>	<b>(\$20,008)</b>	<b>\$16,147</b>	<b>(\$20,197)</b>	<b>(\$122,948)</b>	<b>(\$179,012)</b>	<b>(\$118,334)</b>
<b>Ratios:</b>												
<b>Claims &amp; Expenses Incurred (Earned)</b>												
Prior Accident Years	-6.7%	-8.4%	-57.8%	-7.0%	-6.7%	-5.7%	-4.1%	-113.4%	-3.0%	-23.8%	-18.7%	-30.5%
Current Accident Year	138.2%	134.7%	145.4%	137.8%	132.6%	135.6%	135.7%	129.0%	134.7%	136.0%	135.6%	132.7%
All Accident Years Combined	131.5%	126.3%	87.6%	130.8%	125.9%	129.9%	131.6%	15.6%	131.7%	112.2%	116.9%	102.2%
Underwriting & Administrative Expenses (Earned)	10.5%	16.6%	54.9%	41.7%	34.6%	45.6%	36.0%	29.6%	37.9%	34.2%	33.5%	29.6%
<b>Combined Operating Ratio</b>	<b>142.0%</b>	<b>142.9%</b>	<b>142.5%</b>	<b>172.5%</b>	<b>160.5%</b>	<b>175.5%</b>	<b>167.6%</b>	<b>45.2%</b>	<b>169.6%</b>	<b>146.4%</b>	<b>150.4%</b>	<b>131.8%</b>

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