



TO: MEMBERS OF THE FACILITY ASSOCIATION
ATTENTION: CHIEF EXECUTIVE OFFICER
BULLETIN NO.: F19 – 004
DATE: JANUARY 30, 2019
SUBJECT: FARM – NOVEMBER 2018 PARTICIPATION REPORT

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

Please be advised that the November 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 November 2018 Participation Report reflects the effects of a transfer of \$40 million from Facility Association to members. Member Company's share of this transfer is shown on page 21 of the Participation Report: Members Combined Accident Year Share Results for all Jurisdictions. **Note: All balances due to/from Facility Association are to be settled on or before February 28, 2019.** Please see the "Members' Transfer of Funds" section on page 5 of this bulletin for more detail.

Summary of Financial Results

The calendar year-to-date Operating Result is \$33.3 million and the incurred loss ratio to the end of 11 months is 58.9%, as summarized in the table at the top of the next page.

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Amounts in \$000s	November 2018	November 2017	Year to date Nov 2018	Year to Date Nov 2017
Premium Written	21,625	12,338	238,392	174,939
Premium Earned	20,973	15,159	194,786	161,243
Incurred Losses	14,297	10,553	114,764	91,693
Underwriting & Admin Expense	4,325	3,155	46,719	38,677
Net Result from Operations	2,351	1,451	33,303	30,873
Ratios:				
Loss ratio - Prior Accident Years	(1.9%)	(3.5%)	(12.3%)	(16.5%)
- Current Accident Year	70.0%	73.1%	71.2%	73.4%
<i>Total</i>	68.2%	69.6%	58.9%	56.9%
Underwriting & Admin Expense	21.0%	21.0%	24.2%	24.1%
Combined Operating Ratio	89.2%	90.6%	83.1%	81.0%

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](#)”.

Updated Projection to Year-end 2018

The projected calendar year Net Result from Operations to December 2018 is \$35.0 million and the estimated combined operating ratio to December 2018 is 84.0% as indicated in the table at the top of the next page. This updated projection to the end of the year has deteriorated by \$1.6 million from the projection provided last month (\$36.6 million and 83.1%). This deterioration is driven by a \$19.1 million increase in the projected written premium for the year, generating an associated increase in underwriting expenses (as the Servicing Carrier expense allowance is not deferred).

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FARM 2018 Year-end Projection	Current	Prior Mth	Change	Final 2018
Amounts in \$000s	(Nov 2018)	(Oct 2018)		Outlook*
Premium Written	262,211	243,139	19,071	182,582
Premium Earned	216,168	213,909	2,259	181,347
Incurred Losses	129,316	127,933	1,383	129,462
Underwriting & Admin Expense	51,848	49,394	2,454	41,471
Net Result from Operations	35,003	36,582	(1,578)	10,414
Ratios:				
Loss ratio - Prior Accident Years	(11.3%)	(11.4%)	0.1%	(2.9%)
- Current Accident Year	71.1%	71.2%	(0.1%)	74.2%
<i>Total</i>	59.8%	59.8%	0.0%	71.4%
Underwriting & Admin Expense	24.2%	23.3%	0.9%	23.0%
Combined Operating Ratio	84.0%	83.1%	0.9%	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 November 2018 was \$2.4 million, up \$0.9 million from the same month last year. This improvement is composed of an approximately \$0.6 million favourable impact associated with the \$5.8 million increase in earned premium (at a combined ratio of 90.6%), with the remaining \$0.3 million favorable impact stemming from the overall decrease in the combined ratio (from 90.6% to 89.2% applied to \$21.0 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 82.4% at the end of 10 months to 83.1% at the end of 11 months. The 0.7 percentage point increase is composed of a 1.2 percentage point increase in the Prior Accident Years loss ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio, further offset by a 0.4 percentage point decrease 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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November 2018	Actual	Projection	Difference	Difference %
Premium Written	21,625	15,029	6,596	43.9%
Premium Earned	20,973	20,025	948	4.7%
Reported Losses				
Paid Losses	13,301	12,218	1,083	8.9%
Change in Outstanding Losses	4,963	1,973	2,990	151.5%
Total Reported Losses	18,264	14,191	4,073	28.7%
Change in IBNR*	(4,110)	(120)	(3,990)	
Change in Premium Deficiency (DPAC)*	(177)	256	(433)	
Change in Retro Claims Expense*	143	(307)	450	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM November 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 November 2018, reported indemnity amounts were \$4.4 million higher 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 \$4.1 million*). The Current Accident Year had an approximately \$2.4 million unfavourable variance in reported indemnity, and the Prior Accident Years had an unfavourable variance of \$2.0 million. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$2.7 million unfavourable. 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.

Effect of Quarterly Valuation

The November 2018 Participation Report does not reflect the results of an actuarial valuation update. The

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most recent valuation was as at September 30, 2018 for all jurisdictions and business segments. The actuarial valuation will be updated next as at December 31, 2018 for all jurisdictions and business segments, and the results of that valuation are anticipated to be reflected in the March 2019 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 November 2018 Participation Report reflects the effect of the transfer of \$40 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 \$40 million is shown on page 21 of the Participation Report: Members Combined Accident Year Share Results for all Jurisdictions. ***Note: All balances due to/from Facility Association are to be settled on or before February 28, 2019.***

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	7,952	13,418	21,371
Alberta	1,073	16,506	17,579
Newfoundland & Labrador	1,198	426	1,624
New Brunswick	(2,776)	455	(2,321)
Nova Scotia	1,771	343	2,114
Prince Edward Island	184	29	213
Yukon	266	(240)	26
Northwest Territories	731	(1,755)	(1,024)
Nunavut	33	384	416
TOTAL	10,434	29,566	40,000

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Management Comments

As shown in the table below, the private passenger annualized vehicle counts increased by 23.5% overall in November 2018 relative to November 2017. On a year-to-date basis, exposure counts are up by 2.3%, increasing in Ontario, Alberta and Nova Scotia, with both Ontario and Nova Scotia up more than 25%.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of November 2018				Calendar YTD as of November 2018			
	2018	2017	Chg	% Chg	2018	2017	Chg	% Chg
Ontario	247	171	76	44.5%	2,883	2,215	668	30.2%
Alberta	200	139	61	44.0%	1,625	1,460	165	11.3%
Newfoundland & Labrador	777	760	17	2.3%	9,640	10,053	(413)	(4.1%)
New Brunswick	546	484	62	12.8%	5,703	6,334	(631)	(10.0%)
Nova Scotia	535	296	239	80.8%	4,952	3,817	1,135	29.7%
Prince Edward Island	108	95	13	13.9%	1,155	1,249	(94)	(7.5%)
Yukon	11	2	9	486.9%	146	158	(12)	(7.6%)
Northwest Territories	131	126	6	4.4%	1,860	2,015	(156)	(7.7%)
Nunavut	15	10	5	48.8%	127	171	(43)	(25.4%)
All Jurisdictions	2,571	2,082	488	23.5%	28,092	27,472	619	2.3%

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 November 2018 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 11 months ended November 30, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 11/2018
(thousands of dollars)

	January	February	March	April	May	June	July	August	September	October	November	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	\$25,768	\$23,645	\$22,091	\$28,231	\$21,625	\$238,392	\$262,211	\$184,248
CHANGE IN UNEARNED PREMIUMS	1,131	(123)	675	(2,949)	(10,948)	(10,008)	(6,928)	(4,049)	(2,714)	(7,041)	(652)	(43,606)	(46,043)	(7,762)
NET PREMIUMS EARNED	\$15,419	\$14,097	\$15,771	\$15,341	\$16,805	\$17,377	\$18,840	\$19,596	\$19,377	\$21,190	\$20,973	\$194,786	\$216,168	\$176,486
CLAIMS INCURRED														
PRIOR ACCIDENT YEARS														
UNDISCOUNTED	21	53	(9,199)	18	(1,457)	4	13	(4,415)	(12)	271	7	(14,696)	(14,690)	(6,309)
EFFECT OF DISCOUNTING	27	(762)	(1,214)	(289)	(2,830)	(350)	(220)	(216)	(380)	(2,547)	(395)	(9,176)	(9,676)	(20,772)
DISCOUNTED	48	(709)	(10,413)	(271)	(4,287)	(346)	(207)	(4,631)	(392)	(2,276)	(388)	(23,872)	(24,366)	(27,081)
CURRENT ACCIDENT YEAR														
UNDISCOUNTED	10,750	9,918	10,451	10,539	11,827	11,924	12,871	13,491	13,255	14,162	14,196	133,384	147,871	123,688
EFFECT OF DISCOUNTING	659	510	515	536	353	500	604	758	636	(308)	489	5,252	5,812	5,657
DISCOUNTED	11,409	10,428	10,966	11,075	12,180	12,424	13,475	14,249	13,891	13,854	14,685	138,636	153,683	129,345
CLAIMS INCURRED	\$11,457	\$9,719	\$553	\$10,804	\$7,893	\$12,078	\$13,268	\$9,618	\$13,499	\$11,578	\$14,297	\$114,764	\$129,317	\$102,264
UNDERWRITING EXPENSES														
OPERATING & SERVICE FEES	1,470	1,464	1,544	1,875	2,861	2,807	2,651	2,518	2,261	2,941	2,206	24,598	27,015	18,983
AGENTS COMMISSIONS	1,081	1,100	1,222	1,466	2,132	2,067	2,011	1,841	1,767	2,109	1,726	18,522	20,595	15,266
DRIVER RECORD ABSTRACTS	172	128	159	297	510	303	205	285	132	373	118	2,682	3,147	3,004
BAD DEBTS	(1)	(2)	1	(31)	(3)	(2)	(5)	2	(1)	(232)	(3)	(277)	(277)	(304)
PREMIUM DEFICIENCY/(DPAC)														
UNDISCOUNTED	106	31	(237)	(226)	(603)	(797)	(565)	(190)	(266)	(494)	(134)	(3,375)	(3,633)	(684)
EFFECT OF DISCOUNTING	(44)	(16)	11	18	(120)	59	29	(27)	38	(99)	(43)	(194)	(234)	398
DISCOUNTED	62	15	(226)	(208)	(723)	(738)	(536)	(217)	(228)	(593)	(177)	(3,569)	(3,867)	(286)
UNDERWRITING EXPENSES	\$2,784	\$2,705	\$2,700	\$3,399	\$4,777	\$4,437	\$4,326	\$4,429	\$3,931	\$4,598	\$3,870	\$41,956	\$46,613	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$1,178	\$1,673	\$12,518	\$1,138	\$4,135	\$862	\$1,246	\$5,549	\$1,947	\$5,014	\$2,806	\$38,066	\$40,238	\$37,559
ADMINISTRATIVE EXPENSES	448	435	505	408	501	486	445	529	426	477	536	5,196	5,785	5,096
PREMIUM FINANCE FEE	(10)	(9)	(8)	(10)	(9)	(8)	(10)	(9)	(10)	(8)	(11)	(102)	(86)	(108)
INVESTMENT INCOME	29	26	29	32	35	38	48	73	69	64	92	535	640	251
OPERATING RESULTS	\$749	\$1,255	\$12,034	\$752	\$3,660	\$406	\$839	\$5,084	\$1,580	\$4,593	\$2,351	\$33,303	\$35,007	\$32,606
RATIOS:														
Claims & Adj Expenses Incurred (Earned)														
Prior Accident Years	0.3%	-5.0%	-66.0%	-1.8%	-25.5%	-2.0%	-1.1%	-23.6%	-2.0%	-10.7%	-1.8%	-12.3%	-11.3%	-15.3%
Current Accident Year	74.0%	74.0%	69.5%	72.2%	72.5%	71.5%	71.5%	72.7%	71.7%	65.4%	70.0%	71.2%	71.1%	73.3%
All Accident Years Combined	74.3%	69.0%	3.5%	70.4%	47.0%	69.5%	70.4%	49.1%	69.7%	54.7%	68.2%	58.9%	59.8%	58.0%
Underwriting & Admin Exp.(Earned)	21.0%	22.3%	20.3%	24.8%	31.4%	28.3%	25.3%	25.3%	22.5%	23.9%	21.0%	24.2%	24.2%	23.7%
COMBINED OPERATING RATIO	95.3%	91.3%	23.8%	95.2%	78.4%	97.8%	95.7%	74.4%	92.2%	78.6%	89.2%	83.1%	84.0%	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 11 months ended November 30, 2018 (Discounted Basis)

Source: Monthly (Accident Year) Member Participation Report as at 11/2018

(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	\$76,087	\$80,457	\$21,913	\$4,401	\$21,921	\$26,862	\$1,764	\$4,080	\$907	\$238,392	\$262,211	\$184,248
CHANGE IN UNEARNED PREMIUMS	(16,457)	(21,110)	(3,168)	(245)	(1,901)	(567)	(82)	(78)	2	(43,606)	(\$46,043)	(\$7,762)
NET PREMIUMS EARNED	\$59,630	\$59,347	\$18,745	\$4,156	\$20,020	\$26,295	\$1,682	\$4,002	\$909	\$194,786	\$216,168	\$176,486
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(3,139)	(11,428)	229	350	3,643	(3,466)	213	(685)	(413)	(14,696)	(\$14,690)	(\$6,309)
EFFECT OF DISCOUNTING	(1,918)	(3,755)	(573)	(222)	(725)	(1,563)	(132)	(244)	(44)	(9,176)	(\$9,676)	(\$20,772)
DISCOUNTED	(5,057)	(15,183)	(344)	128	2,918	(5,029)	81	(929)	(457)	(23,872)	(24,366)	(27,081)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	37,839	36,462	14,805	3,846	15,144	21,487	1,151	2,204	446	133,384	\$147,871	\$123,688
EFFECT OF DISCOUNTING	1,112	1,975	570	221	475	769	45	68	17	5,252	\$5,812	\$5,657
DISCOUNTED	38,951	38,437	15,375	4,067	15,619	22,256	1,196	2,272	463	138,636	153,683	129,345
CLAIMS INCURRED	\$33,894	\$23,254	\$15,031	\$4,195	\$18,537	\$17,227	\$1,277	\$1,343	\$6	\$114,764	\$129,317	\$102,264
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	7,609	8,691	2,190	442	2,218	2,774	176	409	89	24,598	\$27,015	\$18,983
AGENTS COMMISSIONS	6,108	4,791	1,982	412	2,043	2,544	157	404	81	18,522	\$20,595	\$15,266
DRIVER RECORD ABSTRACTS	614	211	701	168	476	425	14	65	8	2,682	\$3,147	\$3,004
BAD DEBTS	(40)	(122)	(29)	(7)	(20)	(26)	(2)	(10)	(21)	(277)	(\$277)	(\$304)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	(1,388)	(1,331)	(61)	(19)	(166)	(399)	(6)	(6)	1	(3,375)	(\$3,633)	(\$684)
EFFECT OF DISCOUNTING	0	0	144	19	0	(357)	0	0	0	(194)	(\$234)	\$398
DISCOUNTED	(1,388)	(1,331)	83	0	(166)	(756)	(6)	(6)	1	(3,569)	(3,867)	(286)
UNDERWRITING EXPENSES	\$12,903	\$12,240	\$4,927	\$1,015	\$4,551	\$4,961	\$339	\$862	\$158	\$41,956	\$46,613	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$12,833	\$23,853	(\$1,213)	(\$1,054)	(\$3,068)	\$4,107	\$66	\$1,797	\$745	\$38,066	\$40,238	\$37,559
ADMINISTRATIVE EXPENSES	1,520	1,688	492	151	484	594	81	123	63	5,196	\$5,785	\$5,096
PREMIUM FINANCE FEE	(30)	(42)	(9)	0	(10)	(11)	0	0	0	(102)	(\$86)	(\$108)
INVESTMENT INCOME	148	207	42	12	45	70	3	6	2	535	\$640	\$251
OPERATING RESULTS	\$11,431	\$22,330	(\$1,672)	(\$1,193)	(\$3,517)	\$3,572	(\$12)	\$1,680	\$684	\$33,303	\$35,007	\$32,606
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Years	-8.5%	-25.6%	-1.8%	3.1%	14.6%	-19.1%	4.8%	-23.2%	-50.3%	-12.3%	-11.3%	-15.3%
Current Accident Year	65.3%	64.8%	82.0%	97.9%	78.0%	84.6%	71.1%	56.8%	50.9%	71.2%	71.1%	73.3%
All Accident Years Combined	56.8%	39.2%	80.2%	101.0%	92.6%	65.5%	75.9%	33.6%	0.6%	58.9%	59.8%	58.0%
Underwriting & Admin Exp.(Earned)	24.2%	23.5%	28.9%	28.1%	25.1%	21.1%	25.0%	24.6%	24.3%	24.2%	24.2%	23.7%
COMBINED OPERATING RATIO	81.0%	62.7%	109.1%	129.1%	117.7%	86.6%	100.9%	58.2%	24.9%	83.1%	84.0%	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