

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 013

DATE: FEBRUARY 27, 2019

**SUBJECT: ONTARIO RISK SHARING POOL
– JANUARY 2019 OPERATIONAL REPORT**

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

Please be advised that the January 2019 Ontario Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$15.1 million and the incurred loss ratio to the end of 1 month is 136.9%, as summarized in the table below.

Amounts in \$000s	January 2019	January 2018	Year to date Jan 2019	Year to Date Jan 2018
Premium Written	22,666	21,028	22,666	21,028
Premium Earned	29,307	30,420	29,307	30,420
Incurred Losses	40,113	39,988	40,113	39,988
Underwriting & Admin Expense	4,271	3,185	4,271	3,185
Operating Result	(15,077)	(12,753)	(15,077)	(12,753)
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(2.3%)	(6.7%)	(2.3%)	(6.7%)
- Current Accident Year	139.2%	138.2%	139.2%	138.2%
<i>Total</i>	136.9%	131.5%	136.9%	131.5%
<i>Underwriting & Admin Expense</i>	14.6%	10.5%	14.6%	10.5%
<i>Combined Operating Ratio</i>	151.5%	142.0%	151.5%	142.0%

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 2019” attached to this bulletin.

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Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$282.4 million and the estimated combined operating ratio to December 2019 is 174.0%, as summarized in the table below. This updated projection to the end of the year has improved by \$6.0 million from the projection provided last month (-\$288.4 million and 175.2%). This improvement is driven by a \$2.3 million decrease in the projected written premium for the year and a correction to the calendar year 2019 RSP expense factors (see below).

The change in underwriting & admin expense in the table below is impacted by the correction to the calendar year 2019 RSP expense factors used in the projection model which resulted in an overall \$4.0 million favourable impact in projected year-end results. The updated calendar year 2019 RSP expense factors did not affect the current and prior month's (December 2018) actual results.

ON RSP 2019 Yr-end Projection Amounts in \$000s	Current (Jan 2019)	Prior Mth (Dec 2018)	Change	Final 2019 Outlook*
Premium Written	442,773	445,095	(2,322)	424,778
Premium Earned	381,417	383,765	(2,348)	392,210
Incurring Losses	502,447	506,041	(3,594)	514,677
Underwriting & Admin Expense	161,377	166,150	(4,773)	144,373
Net Result from Operations	(282,407)	(288,426)	6,019	(266,840)
Ratios:				
Loss ratio - Prior Accident Years	(4.6%)	(4.5%)	(0.1%)	(4.6%)
- Current Accident Year	136.3%	136.4%	(0.1%)	135.8%
<i>Total</i>	131.7%	131.9%	(0.2%)	131.2%
Underwriting & Admin Expense	42.3%	43.3%	(1.0%)	36.8%
Combined Operating Ratio	174.0%	175.2%	(1.2%)	168.0%

rounding differences may occur

*as posted to FA's website Oct. 18, 2018

Current Month Results

The Ontario Risk Sharing Pool produced a -\$15.1 million Operating Result in the month of January 2019, a \$2.3 million deterioration compared with the same month last year. This deterioration is composed of a \$2.8 million unfavourable impact stemming from the overall increase in the combined ratio (from 142.0% to 151.5% applied to \$29.3 million in earned premium), partially offset by a \$0.5 million favourable impact associated with the \$1.1 million decrease in earned premium (at a combined ratio of 142.0%).

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.

January 2019	Actual	Projection	Difference	Difference %
Written Premium	22,666	24,982	(2,316)	(9.3%)
Earned Premium	29,307	29,449	(142)	(0.5%)
Reported Losses				
Paid Losses	30,548	28,017	2,531	9.0%
Paid Expenses	1,698	3,448	(1,750)	(50.8%)
Change in Outstanding Losses	465	6,625	(6,160)	(93.0%)
Total Reported Losses	32,711	38,090	(5,379)	(14.1%)
Change in IBNR Provision*	7,402	2,637	4,765	
Change in Premium Deficiency (DPAC)*	(2,497)	(1,642)	(855)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP January 2019 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 January 2019, reported losses were \$5.4 million lower than projected. The Current Accident Year had a \$0.2 million unfavourable variance in reported losses, while the Prior Accident Years had a \$5.6 million favourable variance. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$3.3 million favourable, followed by Accident Year 2018 at \$2.0 million favourable. 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 some specific individual 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. IBNR is discussed in more detail in the [Ontario RSP January 2019 Operational Report – Actuarial Highlights](#).

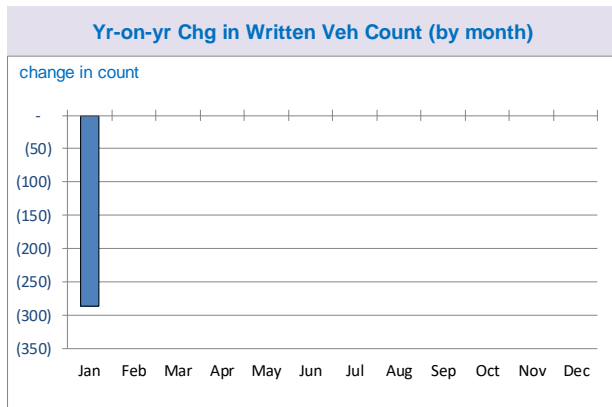
Effect of Quarterly Valuation

The January 2019 Ontario Risk Sharing Pool Operational Report does not reflect the results of an

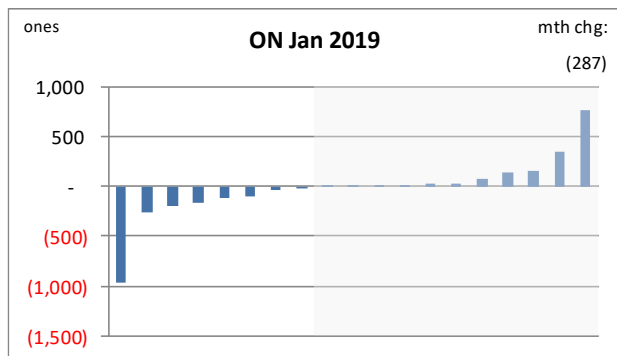
updated valuation (the most recent valuation is as at September 30, 2018). The actuarial valuation will be updated next as at December 31, 2018 and we anticipate that the results will be reflected in the March 2019 Operational Report.

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 2019 vehicle count up 38.9% from 2018, being 2.9% of the 2017 industry private passenger vehicle count (excluding farmers) and industry farmers private passenger vehicle count (as we don’t have an industry count yet for 2018, we continue to use the 2017 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.



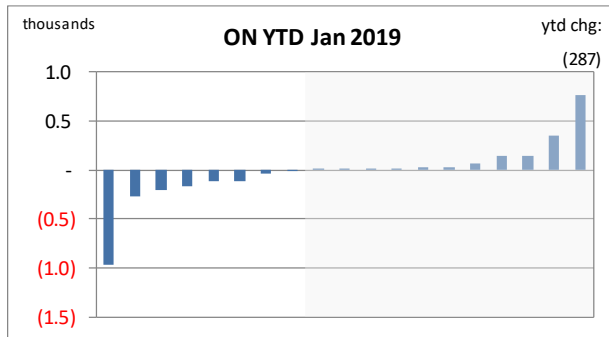
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with January reporting a decrease of 287 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 1,243 vehicles, indicating a variance of 1,530 from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the pool in January 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. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eleven transferred more¹. Of the 8 member company groups transferring fewer vehicles, 1 member company group accounted

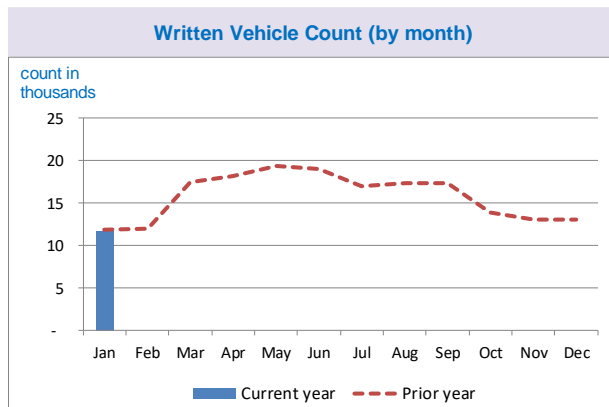
for 52% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 1 member company group accounted for 49% of the total transfer increases for the “grower” members.

¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2018 or 2019. Groups that have not transferred vehicles in these two periods are ignored.

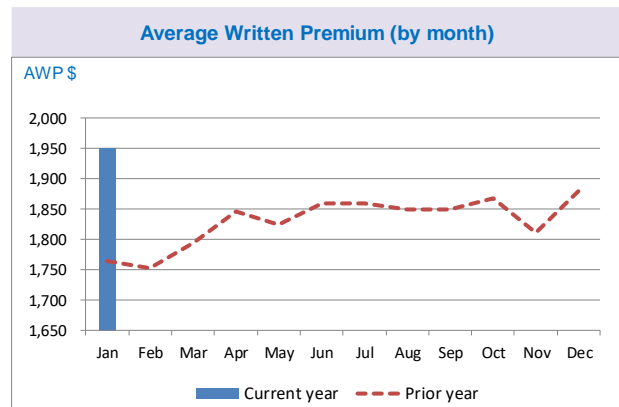


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

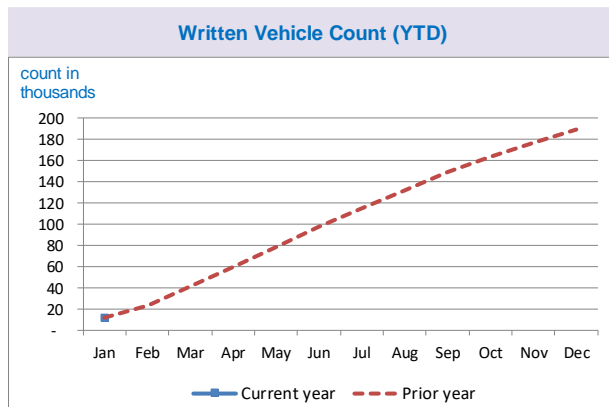
January’s year-on-year change in vehicle count transfers to the pool represents a 2.4% decrease from January 2018. Average written premium was up 10.5% in January 2019 compared with the same month in 2018 (see charts immediately below).



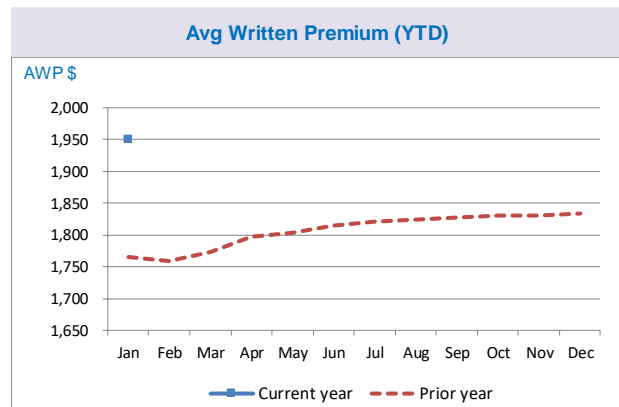
	Jan-19	Jan-18	Amt Chg	% Chg
W. Veh curr mth	11,626	11,913	(287)	-2.4%



	Jan-19	Jan-18	Amt Chg	% Chg
AWP curr mth	1,950	1,765	185	10.5%



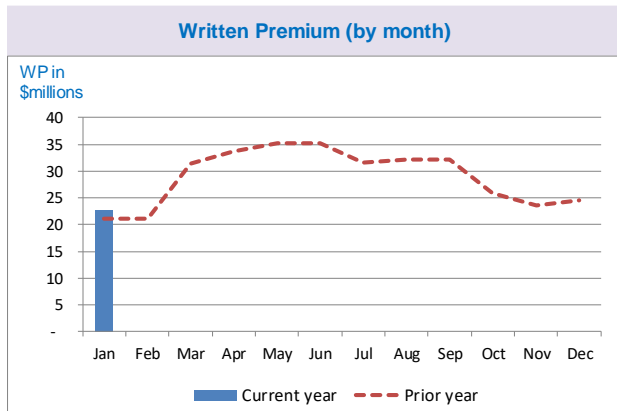
	Jan-19	Jan-18	Amt Chg	% Chg
W. Vehicles YTD	11,626	11,913	(287)	-2.4%



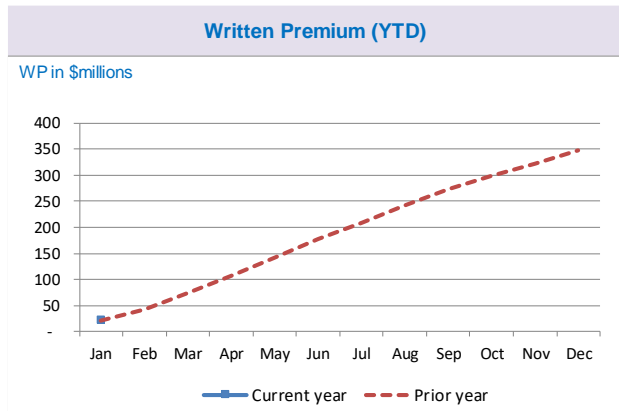
	Jan-19	Jan-18	Amt Chg	% Chg
Avg W. Prem YTD	1,950	1,765	185	10.5%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 7.8% for the month compared with the 18.8% increase we projected last month (see charts at the top of the next page).

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	Jan-19	Jan-18	Amt Chg	% Chg
WP (\$000s) curr mth	22,666	21,028	1,638	7.8%



	Jan-19	Jan-18	Amt Chg	% Chg
WP (\$000s) YTD	22,666	21,028	1,638	7.8%

Should you require any further information, please call Norm Seeny, Vice President, Finance and Member Services at (416) 644-4914.

Saskia Matheson
 President & CEO

Related links:

[Ontario RSP January 2019 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019
Risk Sharing Pool - Ontario
Operating Results for the 1 Month Ended January 31, 2019 (Discounted basis)
Source: Monthly Operational Report
(thousands of dollars)

EXHIBIT 1

	January	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Net Premiums Written	\$22,666	\$22,666	\$442,773	\$347,756
Decrease (Increase) in Unearned Premiums	6,641	6,641	(61,356)	4,866
Net Premiums Earned	\$29,307	\$29,307	\$381,417	\$352,622
Claims Incurred:				
Prior Accident Years:				
Undiscounted	\$346	\$346	\$346	(\$27,680)
Effect of Discounting	(1,015)	(1,015)	(17,828)	(44,774)
Discounted	(\$669)	(\$669)	(\$17,482)	(\$72,454)
Current Accident Year:				
Undiscounted	\$36,918	\$36,918	\$484,452	\$449,107
Effect of Discounting	3,864	3,864	35,477	32,229
Discounted	\$40,782	\$40,782	\$519,929	\$481,336
Claims Incurred	\$40,113	\$40,113	\$502,447	\$408,882
Underwriting Expenses:				
Expense Allowance	\$6,664	\$6,664	\$128,495	\$104,488
Change in UPDR/DPAC:				
Undiscounted	(1,786)	(1,786)	23,706	6,686
Effect of Discounting	(711)	(711)	7,189	(3,188)
Discounted	(2,497)	(2,497)	30,895	3,498
Underwriting Expenses	\$4,167	\$4,167	\$159,390	\$107,986
Net Underwriting Gain (Loss)	(\$14,973)	(\$14,973)	(\$280,420)	(\$164,246)
Administrative Expenses	\$104	\$104	\$1,987	\$1,354
Operating Result	(\$15,077)	(\$15,077)	(\$282,407)	(\$165,600)
Ratios:				
Claims & Expenses Incurred (Earned)				
Prior Accident Years	-2.3%	-2.3%	-4.6%	-20.5%
Current Accident Year	139.2%	139.2%	136.3%	136.5%
All Accident Years Combined	136.9%	136.9%	131.7%	116.0%
Underwriting & Administrative Expenses (Earned)	14.6%	14.6%	42.3%	31.0%
Combined Operating Ratio	151.5%	151.5%	174.0%	147.0%

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