

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F19 – 021**

**DATE: MARCH 28, 2019**

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

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

Please be advised that the February 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 -\$31.8 million and the incurred loss ratio to the end of 2 months is 134.4%, as summarized in the table below.

Amounts in \$000s	February 2019	February 2018	Year to date Feb 2019	Year to Date Feb 2018
Premium Written	27,186	21,024	49,852	42,052
Premium Earned	29,265	27,100	58,572	57,520
Incurring Losses	38,597	34,210	78,710	74,198
Underwriting & Admin Expense	7,359	4,493	11,630	7,678
<b>Operating Result</b>	<b>(16,691)</b>	<b>(11,603)</b>	<b>(31,768)</b>	<b>(24,356)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	7.1%	(8.4%)	2.4%	(7.5%)
- Current Accident Year	124.8%	134.7%	132.0%	136.5%
<i>Total</i>	<b>131.9%</b>	<b>126.3%</b>	<b>134.4%</b>	<b>129.0%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>25.1%</b>	<b>16.6%</b>	<b>19.9%</b>	<b>13.3%</b>
<b>Combined Operating Ratio</b>	<b>157.0%</b>	<b>142.9%</b>	<b>154.3%</b>	<b>142.3%</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 2019” attached to this bulletin.

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It is unusual for the Prior Accident Years' loss ratio to be a positive value in months where there have been no valuation implementations, as the expectation is that this loss ratio would be negative as actuarial present value releases occur (release of provisions for adverse deviations with claims payments exceeding the impact of the discount unwind). This was not the case this month, as a result of a member company's significant premium transactions during the month that were effective prior to 2019 (i.e. relate to Prior Accident Years). As Prior Accident Years' nominal ultimate amounts are derived by applying the Appointed Actuary's selected loss ratio by Accident Year to that year's earned premium, the Ontario RSP had an increase in Prior Accident Year nominal ultimates directly related to the member company's premium transactions. FA management is in discussions with the member to understand the transactions.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$260.1 million and the estimated combined operating ratio to December 2019 is 170.5%, as summarized in the table below. This updated projection to the end of the year has improved by \$22.2 million from the projection provided last month (-\$282.4 million and 174.0%). This improvement is driven by a \$32.3 million decrease in the projected written premium for the year, based on updated projections provided by members.

<b>ON RSP 2019 Yr-end Projection</b>	<b>Current</b>	<b>Prior Mth</b>	<b>Change</b>	<b>Final 2019</b>
<b>Amounts in \$000s</b>	<b>(Feb 2019)</b>	<b>(Jan 2019)</b>		<b>Outlook*</b>
Premium Written	410,425	442,773	(32,348)	424,778
Premium Earned	368,976	381,417	(12,441)	392,210
Incurred Losses	485,491	502,447	(16,956)	514,677
Underwriting & Admin Expense	143,655	161,377	(17,721)	144,373
<b>Net Result from Operations</b>	<b>(260,170)</b>	<b>(282,407)</b>	<b>22,236</b>	<b>(266,840)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(3.7%)	(4.6%)	0.9%	(4.6%)
- Current Accident Year	135.3%	136.3%	(1.0%)	135.8%
<i>Total</i>	<b>131.6%</b>	<b>131.7%</b>	<b>(0.1%)</b>	<b>131.2%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>38.9%</b>	<b>42.3%</b>	<b>(3.4%)</b>	<b>36.8%</b>
<b>Combined Operating Ratio</b>	<b>170.5%</b>	<b>174.0%</b>	<b>(3.5%)</b>	<b>168.0%</b>

*rounding differences may occur*

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

Current Month Results

The Ontario Risk Sharing Pool produced a -\$16.7 million Operating Result in the month of February 2019, a \$5.1 million deterioration compared with the same month last year. This deterioration is composed of an approximately \$1.0 million unfavourable impact associated with the \$2.2 million increase in earned premium (at a combined ratio of 142.9%), with the remaining \$4.1 million deterioration stemming from the overall increase in the combined ratio (from 142.9% to 157.0% applied to \$29.3 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 151.5% at the end of

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1 month to 154.3% at the end of 2 months. The 2.8 percentage point increase is composed of a 4.7 percentage point increase in the Prior Accident Year loss ratio, and a 5.3 percentage point increase in the expense ratio, offset by a 7.2 percentage point decrease in the Current Accident Year loss ratio.

*Variances from Projections*

The table immediately below provides a summary of key components of the operating results as compared to the estimates projected last month.

<b>February 2019</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premium	27,186	23,832	3,354	14.1%
Earned Premium	29,265	27,563	1,702	6.2%
Reported Losses				
Paid Losses	28,042	27,919	123	0.4%
Paid Expenses	1,204	2,839	(1,635)	(57.6%)
Change in Outstanding Losses	4,612	5,079	(467)	(9.2%)
<b>Total Reported Losses</b>	<b>33,858</b>	<b>35,837</b>	<b>(1,979)</b>	<b>(5.5%)</b>
Change in IBNR Provision*	4,739	366	4,373	
Change in Premium Deficiency (DPAC)*	(700)	(1,343)	643	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP February 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 February 2019, reported losses were \$2.0 million lower than projected. The Current Accident Year had an approximately \$1.2 million unfavourable variance in reported losses, while the Prior Accident Years had a \$3.2 million favourable variance. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$4.7 million favourable, followed by Accident Year 2018 at \$3.2 million favourable, Accident Year 2013 at \$3.1 million unfavourable and Accident Year 2015 at \$1.6 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 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

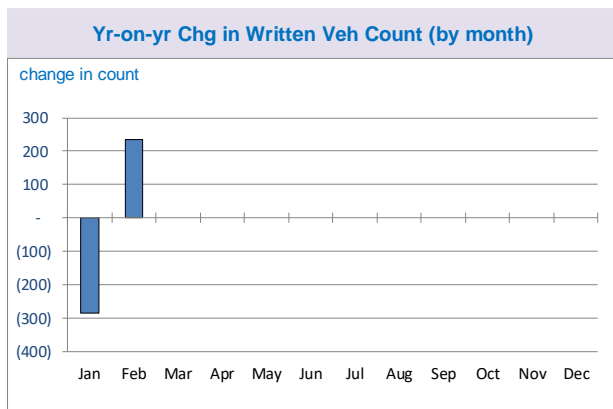
discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium variances (as IBNR is based on loss ratios). This is consistent with management’s 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 February 2019 Operational Report – Actuarial Highlights](#).

**Effect of Quarterly Valuation**

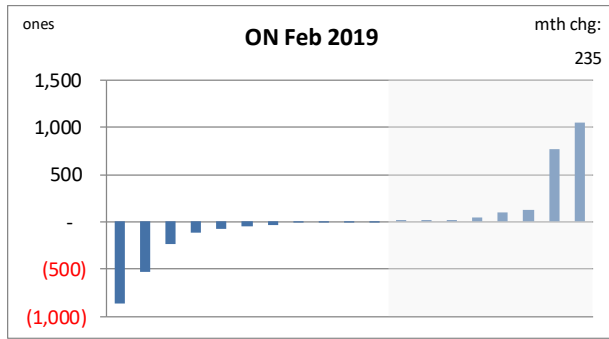
The February 2019 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2018). The actuarial valuation will be updated next as at December 31, 2018 and we anticipate that the results will be reflected in the 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 7.0% from 2018, being 2.7% 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.

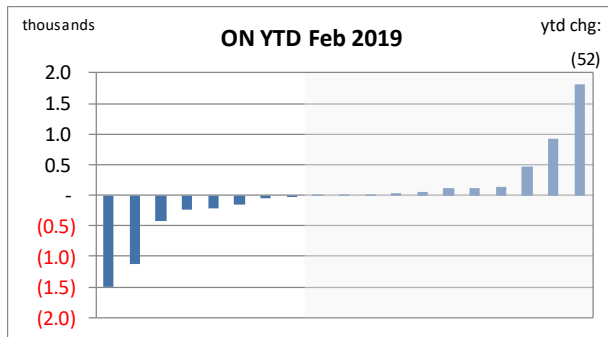


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with February reporting an increase of 235 vehicles. Our projection last month (in part based on previous projections provided by select large pool participants) was for an increase of 705 vehicles, indicating a variance of 470 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in February than projected.



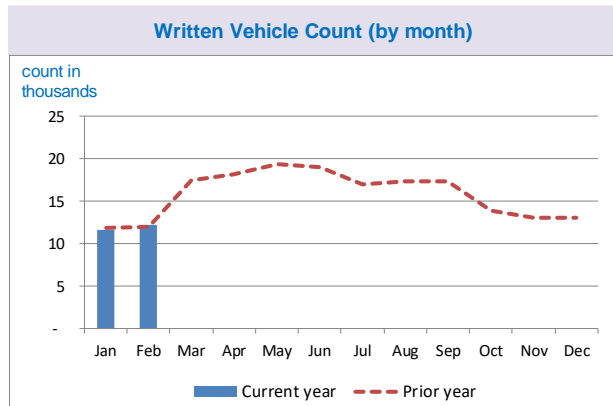
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Eleven member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eight transferred more<sup>1</sup>. Of the 11 member company groups transferring fewer vehicles, 2 member company groups accounted

for 73% of the total transfer decrease for the “decliner” members. Of the 8 member company groups transferring more vehicles, 2 member company group accounted for 85% of the total transfer increases for the “grower” members.

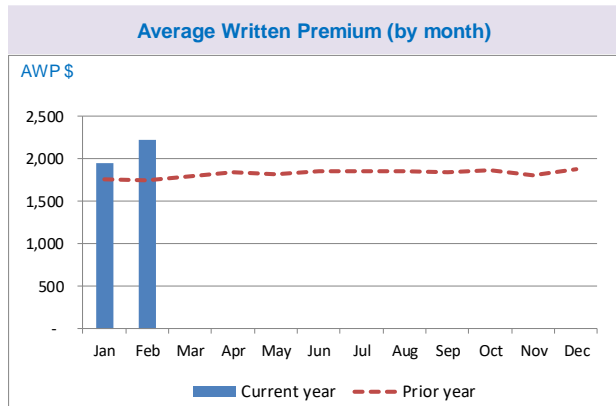


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

February’s year-on-year change in vehicle count transfers to the pool represents a 2.0% increase from February 2018, but counts were down 0.2% year-to-date. Average written premium was up 26.9% in February 2019 compared with the same month in 2018, and up 18.8% year-to-date (see charts immediately below and at the top of the next page).



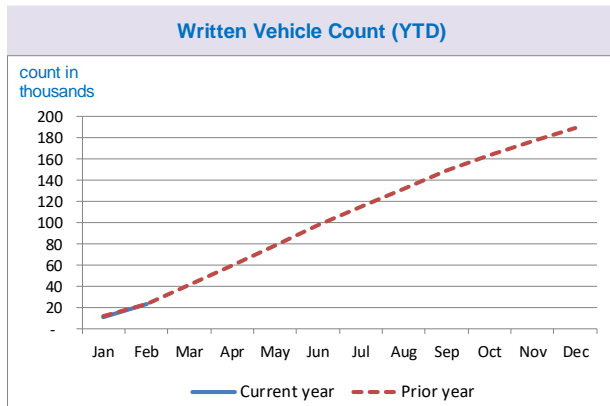
	Feb-19	Feb-18	Amt Chg	% Chg
W. Veh curr mth	12,226	11,990	235	2.0%



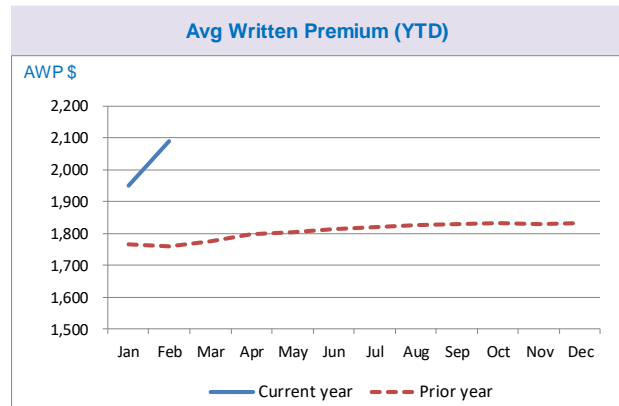
	Feb-19	Feb-18	Amt Chg	% Chg
AWP curr mth	2,224	1,753	471	26.9%

<sup>1</sup>For 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.

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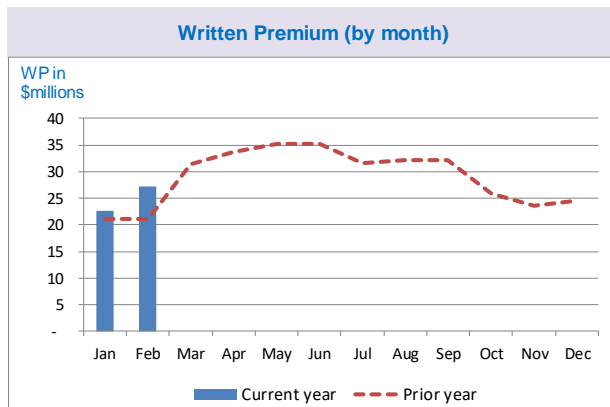


	Feb-19	Feb-18	Amt Chg	% Chg
W. Vehicles YTD	23,852	23,903	(52)	-0.2%

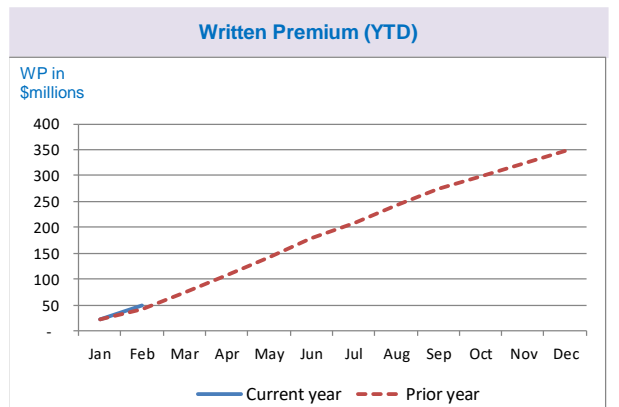


	Feb-19	Feb-18	Amt Chg	% Chg
Avg W. Prem YTD	2,090	1,759	331	18.8%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 29.3% for the month compared with the 13.4% increase we projected last month, and was up 18.5% year-to-date (see charts immediately below).



	Feb-19	Feb-18	Amt Chg	% Chg
WP (\$000s) curr mth	27,186	21,024	6,161	29.3%



	Feb-19	Feb-18	Amt Chg	% Chg
WP (\$000s) YTD	49,851	42,052	7,799	18.5%

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

Saskia Matheson  
 President & CEO

**Related links:**

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

## SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

### Risk Sharing Pool - Ontario

Operating Results for the 2 Months Ended February 28, 2019 (Discounted basis)

EXHIBIT 1

Source: Monthly Operational Report

(thousands of dollars)

	January	February	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Net Premiums Written	\$22,666	\$27,186	\$49,852	\$410,425	\$347,756
Decrease (Increase) in Unearned Premiums	6,641	2,079	8,720	(41,449)	4,866
<b>Net Premiums Earned</b>	<b>\$29,307</b>	<b>\$29,265</b>	<b>\$58,572</b>	<b>\$368,976</b>	<b>\$352,622</b>
<b>Claims Incurred:</b>					
Prior Accident Years:					
Undiscounted	\$346	\$3,446	\$3,792	\$3,792	(\$27,680)
Effect of Discounting	(1,015)	(1,367)	(2,382)	(17,577)	(44,774)
Discounted	(\$669)	\$2,079	\$1,410	(\$13,785)	(\$72,454)
Current Accident Year:					
Undiscounted	\$36,918	\$33,768	\$70,686	\$465,208	\$449,107
Effect of Discounting	3,864	2,750	6,614	34,068	32,229
Discounted	\$40,782	\$36,518	\$77,300	\$499,276	\$481,336
<b>Claims Incurred</b>	<b>\$40,113</b>	<b>\$38,597</b>	<b>\$78,710</b>	<b>\$485,491</b>	<b>\$408,882</b>
<b>Underwriting Expenses:</b>					
Expense Allowance	\$6,664	\$7,928	\$14,592	\$119,160	\$104,488
Change in UPDR/DPAC:					
Undiscounted	(1,786)	(485)	(2,271)	17,672	6,686
Effect of Discounting	(711)	(215)	(926)	4,996	(3,188)
Discounted	(2,497)	(700)	(3,197)	22,668	3,498
<b>Underwriting Expenses</b>	<b>\$4,167</b>	<b>\$7,228</b>	<b>\$11,395</b>	<b>\$141,828</b>	<b>\$107,986</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$14,973)</b>	<b>(\$16,560)</b>	<b>(\$31,533)</b>	<b>(\$258,343)</b>	<b>(\$164,246)</b>
<b>Administrative Expenses</b>	<b>\$104</b>	<b>\$131</b>	<b>\$235</b>	<b>\$1,827</b>	<b>\$1,354</b>
<b>Operating Result</b>	<b>(\$15,077)</b>	<b>(\$16,691)</b>	<b>(\$31,768)</b>	<b>(\$260,170)</b>	<b>(\$165,600)</b>
<b>Ratios:</b>					
<b>Claims &amp; Expenses Incurred (Earned)</b>					
Prior Accident Years	-2.3%	7.1%	2.4%	-3.7%	-20.5%
Current Accident Year	139.2%	124.8%	132.0%	135.3%	136.5%
All Accident Years Combined	136.9%	131.9%	134.4%	131.6%	116.0%
Underwriting & Administrative Expenses (Earned)	14.6%	25.1%	19.9%	38.9%	31.0%
<b>Combined Operating Ratio</b>	<b>151.5%</b>	<b>157.0%</b>	<b>154.3%</b>	<b>170.5%</b>	<b>147.0%</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