



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F19 – 028

DATE: APRIL 29, 2019

SUBJECT: FARM – FEBRUARY 2019 PARTICIPATION REPORT

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

Please be advised that the February 2019 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

Summary of Financial Results

The calendar year-to-date Operating Result is \$6.0 million and the incurred loss ratio to the end of 2 months is 65.8%, 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	16,886	14,220	41,642	28,508
Premium Earned	20,088	14,097	42,557	29,516
Incurred Losses	12,331	9,719	28,004	21,176
Underwriting & Admin Expense	3,876	3,123	8,561	6,336
Net Result from Operations	3,881	1,255	5,992	2,004
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(8.9%)	(5.0%)	(3.5%)	(2.2%)
- Current Accident Year	70.2%	74.0%	69.3%	74.0%
<i>Total</i>	61.3%	69.0%	65.8%	71.8%
<i>Underwriting & Admin Expense</i>	19.6%	22.3%	20.5%	21.6%
<i>Combined Operating Ratio</i>	80.9%	91.3%	86.3%	93.4%

rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2019 - 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](#)”.

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Updated Projection to Year-end 2019

The projected calendar year Net Result from Operations to December 2019 is \$24.8 million and the estimated combined operating ratio to December 2019 is 91.3% as indicated in the table below. This updated projection to the end of the year has improved by \$0.3 million from the projection provided last month (\$24.6 million and 91.4%). This improvement is largely driven by mix of business changes.

FARM 2019 Year-end Projection	Current	Prior Mth		Final 2019
Amounts in \$000s	(Feb 2019)	(Jan 2019)	Change	Outlook*
Premium Written	293,333	292,868	464	245,869
Premium Earned	276,455	276,184	270	239,409
Incurred Losses	188,092	187,695	398	164,659
Underwriting & Admin Expense	63,522	63,937	(416)	54,223
Net Result from Operations	24,841	24,552	288	20,528
Ratios:				
Loss ratio - Prior Accident Years	(1.3%)	(1.3%)	0.0%	(1.5%)
- Current Accident Year	69.4%	69.3%	0.1%	70.2%
<i>Total</i>	68.1%	68.0%	0.0%	68.8%
Underwriting & Admin Expense	23.2%	23.4%	(0.2%)	22.9%
Combined Operating Ratio	91.3%	91.4%	(0.2%)	91.7%

rounding differences may occur

*as posted to FA's website Nov. 30, 2018

Current Month Results

The Net Results from Operations in the month of February 2019 was \$3.9 million, up \$2.6 million from the same month last year. This improvement is composed of a \$0.5 million favourable impact associated with the \$6.0 million increase in earned premium (at a combined ratio of 91.3%), with the remaining \$2.1 million favorable impact stemming from the overall decrease in the combined ratio (from 91.3% to 80.9% applied to \$20.1 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 91.1% at the end of 1 month to 86.3% at the end of 2 months. The 4.8 percentage point decrease is composed of a 4.9 percentage point decrease in the Prior Accident Years loss ratio, and a 0.8 percentage point decrease in the expense ratio, offset by a 0.9 percentage point increase 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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February 2019	Actual	Projection	Difference	Difference %
Premium Written	16,886	17,340	(454)	(2.6%)
Premium Earned	20,088	22,208	(2,120)	(9.5%)
Reported Losses				
Paid Losses	9,138	9,449	(311)	(3.3%)
Change in Outstanding Losses	3,925	1,802	2,123	117.8%
Total Reported Losses	13,063	11,251	1,812	16.1%
Change in IBNR*	(830)	2,573	(3,403)	
Change in Premium Deficiency (DPAC)*	278	361	(83)	
Change in Retro Claims Expense*	98	1,263	(1,165)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM February 2019 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 February 2019, reported indemnity amounts were \$2.2 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 \$1.8 million*). The Current Accident Year had a \$0.2 million favourable variance in reported indemnity, while the Prior Accident Years had an unfavourable variance of \$2.4 million. Of the Prior Accident Years, 2018 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 (variances were spread across jurisdictions and business segments).

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 February 2019 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.

Management Comments

As shown in the table below, the private passenger annualized vehicle counts increased by 16.3% overall in February 2019 relative to February 2018. On a year-to-date basis, exposure counts are up by 28.8%, increasing in all jurisdictions except Yukon, Northwest Territories and Nunavut.

This is a continuation of FARM private passenger changes in counts that gained traction in the latter half of 2018, where overall FARM private passenger vehicle counts started generally increasing, with 4 of the last 6 months of 2018 showing overall count growth (there were no months with overall count grow in the first half of 2018, two months with count growth in all of 2017, and none in either of 2016 or 2015). While the overall count growth was lower than January 2019, the overall 16% growth rate is relatively high.

That said, to provide some overall perspective, the industry writes approximately 1 million private passenger vehicles per month across the jurisdictions the FARM operates in, so while we are seeing significant growth relative to FARM volumes in 2018, market shares remain at relatively low levels (we are projecting the overall FARM market share of private passenger vehicles across all jurisdictions to increase from 0.2% to 0.3% in 2019).

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of February 2019				Calendar YTD as of February 2019			
	2019	2018	Chg	% Chg	2019	2018	Chg	% Chg
Ontario	337	176	161	91.6%	654	329	324	98.5%
Alberta	102	88	15	16.6%	275	192	83	43.1%
Newfoundland & Labrador	639	638	0	0.0%	1,329	1,219	110	9.1%
New Brunswick	429	426	2	0.5%	917	847	69	8.2%
Nova Scotia	398	219	178	81.4%	1,002	501	501	100.0%
Prince Edward Island	81	84	(3)	(3.0%)	172	164	9	5.3%
Yukon	7	11	(4)	(35.9%)	16	20	(4)	(17.6%)
Northwest Territories	112	163	(52)	(31.7%)	255	314	(59)	(18.7%)
Nunavut	1	4	(3)	(67.3%)	6	6	(0)	(4.3%)
All Jurisdictions	2,104	1,809	295	16.3%	4,627	3,592	1,034	28.8%

Rounding differences may occur

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

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Saskia Matheson
President & CEO

Related link:

[FARM February 2019 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 2 months ended February 28, 2019 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2019
(thousands of dollars)

	January	February	CY2019 YTD	CY2019 12 Months Updated Projections	CY2018 12 Months Actual
UNDERWRITING REVENUE:					
PREMIUMS WRITTEN	\$24,756	\$16,886	\$41,642	\$293,332	\$254,047
CHANGE IN UNEARNED PREMIUMS	(2,287)	3,202	915	(16,878)	(37,666)
NET PREMIUMS EARNED	\$22,469	\$20,088	\$42,557	\$276,454	\$216,381
CLAIMS INCURRED					
PRIOR ACCIDENT YEARS					
UNDISCOUNTED	458	(1,493)	(1,035)	433	(14,683)
EFFECT OF DISCOUNTING	(150)	(286)	(436)	(4,130)	(9,883)
DISCOUNTED	308	(1,779)	(1,471)	(3,697)	(24,566)
CURRENT ACCIDENT YEAR					
UNDISCOUNTED	14,604	13,486	28,090	184,433	147,959
EFFECT OF DISCOUNTING	761	624	1,385	7,356	5,799
DISCOUNTED	15,365	14,110	29,475	191,789	153,758
CLAIMS INCURRED	\$15,673	\$12,331	\$28,004	\$188,092	\$129,192
UNDERWRITING EXPENSES					
OPERATING & SERVICE FEES	2,547	1,746	4,293	30,167	26,218
AGENTS COMMISSIONS	1,875	1,261	3,136	23,410	19,686
DRIVER RECORD ABSTRACTS	102	246	348	3,574	3,093
BAD DEBTS	(2)	(4)	(6)	(2)	(279)
PREMIUM DEFICIENCY/(DPAC)					
UNDISCOUNTED	(143)	283	140	(981)	(2,888)
EFFECT OF DISCOUNTING	3	(5)	(2)	192	(249)
DISCOUNTED	(140)	278	138	(789)	(3,137)
UNDERWRITING EXPENSES	\$4,382	\$3,527	\$7,909	\$56,360	\$45,581
NET UNDERWRITING GAIN (LOSS)	\$2,414	\$4,230	\$6,644	\$32,002	\$41,608
ADMINISTRATIVE EXPENSES	400	419	819	7,894	5,656
PREMIUM FINANCE FEE	(9)	(8)	(17)	(10)	(110)
INVESTMENT INCOME	106	78	184	743	636
OPERATING RESULTS	\$2,111	\$3,881	\$5,992	\$24,841	\$36,478
RATIOS:					
Claims & Adj Expenses Incurred (Earned)					
Prior Accident Years	1.4%	-8.9%	-3.5%	-1.3%	-11.4%
Current Accident Year	68.4%	70.2%	69.3%	69.4%	71.1%
All Accident Years Combined	69.8%	61.3%	65.8%	68.1%	59.7%
Underwriting & Admin Exp.(Earned)	21.3%	19.6%	20.5%	23.2%	23.7%
COMBINED OPERATING RATIO	91.1%	80.9%	86.3%	91.3%	83.4%

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 2019
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 2 months ended February 28, 2019 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 02/2019
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2019 12 Months Updated Projections	CY2018 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$12,622	\$16,102	\$3,901	\$559	\$3,275	\$4,311	\$162	\$588	\$122	\$41,642	\$293,332	\$254,047
CHANGE IN UNEARNED PREMIUMS	1,492	(1,755)	(59)	172	518	274	135	98	40	915	(\$16,878)	(\$37,666)
NET PREMIUMS EARNED	\$14,114	\$14,347	\$3,842	\$731	\$3,793	\$4,585	\$297	\$686	\$162	\$42,557	\$276,454	\$216,381
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(340)	(1,133)	26	86	395	76	(12)	(96)	(37)	(1,035)	\$433	(\$14,683)
EFFECT OF DISCOUNTING	(91)	(32)	(142)	(39)	26	(188)	16	12	2	(436)	(\$4,130)	(\$9,883)
DISCOUNTED	(431)	(1,165)	(116)	47	421	(112)	4	(84)	(35)	(1,471)	(3,697)	(24,566)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	8,411	9,178	3,099	475	2,612	3,689	183	370	73	28,090	\$184,433	\$147,959
EFFECT OF DISCOUNTING	335	608	141	30	88	160	10	10	3	1,385	\$7,356	\$5,799
DISCOUNTED	8,746	9,786	3,240	505	2,700	3,849	193	380	76	29,475	191,789	153,758
CLAIMS INCURRED	\$8,315	\$8,621	\$3,124	\$552	\$3,121	\$3,737	\$197	\$296	\$41	\$28,004	\$188,092	\$129,192
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	1,262	1,739	390	55	328	431	16	59	13	4,293	\$30,167	\$26,218
AGENTS COMMISSIONS	983	948	362	54	321	385	15	58	10	3,136	\$23,410	\$19,686
DRIVER RECORD ABSTRACTS	86	31	89	17	62	47	3	13	0	348	\$3,574	\$3,093
BAD DEBTS	(3)	0	1	0	0	(3)	0	(1)	0	(6)	(\$2)	(\$279)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	125	(105)	5	15	39	37	11	9	4	140	(\$981)	(\$2,888)
EFFECT OF DISCOUNTING	0	0	13	0	0	(15)	0	0	0	(2)	\$192	(\$249)
DISCOUNTED	125	(105)	18	15	39	22	11	9	4	138	(789)	(3,137)
UNDERWRITING EXPENSES	\$2,453	\$2,613	\$860	\$141	\$750	\$882	\$45	\$138	\$27	\$7,909	\$56,360	\$45,581
NET UNDERWRITING GAIN (LOSS)	\$3,346	\$3,113	(\$142)	\$38	(\$78)	(\$34)	\$55	\$252	\$94	\$6,644	\$32,002	\$41,608
ADMINISTRATIVE EXPENSES	213	309	84	23	69	90	8	15	8	819	\$7,894	\$5,656
PREMIUM FINANCE FEE	(5)	(8)	(2)	0	0	(2)	0	0	0	(17)	(\$10)	(\$110)
INVESTMENT INCOME	57	58	16	5	19	25	1	2	1	184	\$743	\$636
OPERATING RESULTS	\$3,185	\$2,854	(\$212)	\$20	(\$128)	(\$101)	\$48	\$239	\$87	\$5,992	\$24,841	\$36,478
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Years	-3.1%	-8.1%	-3.0%	6.4%	11.1%	-2.4%	1.3%	-12.2%	-21.6%	-3.5%	-1.3%	-11.4%
Current Accident Year	62.0%	68.2%	84.3%	69.1%	71.2%	83.9%	65.0%	55.4%	46.9%	69.3%	69.4%	71.1%
All Accident Years Combined	58.9%	60.1%	81.3%	75.5%	82.3%	81.5%	66.3%	43.2%	25.3%	65.8%	68.1%	59.7%
Underwriting & Admin Exp.(Earned)	18.9%	20.4%	24.6%	22.4%	21.6%	21.2%	17.8%	22.3%	21.6%	20.5%	23.2%	23.7%
COMBINED OPERATING RATIO	77.8%	80.5%	105.9%	97.9%	103.9%	102.7%	84.1%	65.5%	46.9%	86.3%	91.3%	83.4%

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