

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 035

DATE: MAY 30, 2019

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

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

Please be advised that the April 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 -\$65.5 million and the incurred loss ratio to the end of 4 months is 127.7%, as summarized in the table below.

ON RSP Summary of Financial Results (for month and year-to-date)

Amounts in \$000s	April 2019	April 2018	Year to date Apr 2019	Year to Date Apr 2018
Premium Written	32,790	33,621	109,555	107,042
Premium Earned	27,939	29,381	110,794	117,036
Incurring Losses	36,930	38,445	141,558	139,049
Underwriting & Admin Expense	12,020	12,251	34,714	36,469
Operating Result	(21,011)	(21,315)	(65,478)	(58,482)
Ratios:				
Loss ratio - Prior Accident Years	(6.9%)	(7.0%)	(13.0%)	(20.3%)
- Current Accident Year	139.0%	137.8%	140.7%	139.1%
<i>Total</i>	132.1%	130.8%	127.7%	118.8%
Underwriting & Admin Expense	43.0%	41.7%	31.3%	31.2%
Combined Operating Ratio	175.1%	172.5%	159.0%	150.0%

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”

Bulletin F19-035
Ontario Risk Sharing Pool – April 2019 Operational Report

attached to this bulletin.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$250.1 million and the estimated combined operating ratio to December 2019 is 170.0%, as summarized in the table below. This updated projection to the end of the year has not changed significantly from the projection provided last month (see the second and third columns in the table).

ON RSP Summary of Projected Year-end Financial Results (current month's projection, prior month's projection, and Outlook posted last fall)

ON RSP 2019 Yr-end Projection Amounts in \$000s	Current (Apr 2019)	Prior Mth (Mar 2019)	Change	Final 2019 Outlook*
Premium Written	396,931	398,163	(1,232)	424,778
Premium Earned	357,700	358,573	(873)	392,210
Incurred Losses	466,631	467,053	(422)	514,677
Underwriting & Admin Expense	141,187	141,534	(346)	144,373
Net Result from Operations	(250,118)	(250,014)	(105)	(266,840)
Ratios:				
Loss ratio - Prior Accident Years	(7.7%)	(7.8%)	0.1%	(4.6%)
- Current Accident Year	138.2%	138.0%	0.2%	135.8%
<i>Total</i>	130.5%	130.2%	0.3%	131.2%
Underwriting & Admin Expense	39.5%	39.5%	0.0%	36.8%
Combined Operating Ratio	170.0%	169.7%	0.3%	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 -\$21.0 million Operating Result in the month of April 2019, a \$0.3 million improvement compared with the same month last year. This improvement is composed of a \$1.0 million favourable impact associated with the \$1.4 million decrease in earned premium (at a combined ratio of 172.5%), partially offset by a \$0.7 million deterioration stemming from the overall increase in the combined ratio (from 172.5% to 175.1% applied to \$27.9 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 153.7% at the end of 3 months to 159.0% at the end of 4 months. The 5.3 percentage point increase is composed of a 2.0 percentage point increase in the Prior Accident Year loss ratio, and a 3.9 percentage point increase in the expense ratio, offset by a 0.6 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.

ON RSP Summary of Actual vs Projected variances

April 2019	Actual	Projection	Difference	Difference %
Written Premium	32,790	33,981	(1,191)	(3.5%)
Earned Premium	27,939	28,539	(600)	(2.1%)
Reported Losses				
Paid Losses	25,975	27,742	(1,767)	(6.4%)
Paid Expenses	1,398	2,898	(1,500)	(51.8%)
Change in Outstanding Losses	2,282	3,818	(1,536)	(40.2%)
Total Reported Losses	29,655	34,458	(4,803)	(13.9%)
Change in IBNR Provision*	7,275	3,168	4,107	
Change in Premium Deficiency (DPAC)*	2,196	2,428	(232)	

*(Amounts in \$000's)**rounding differences may occur*

*Detailed information is included in [Ontario RSP April 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 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 April 2019, reported losses were \$4.8 million lower than projected. The Current Accident Year had a \$1.0 million favourable variance in reported losses, and the Prior Accident Years had a \$3.8 million favourable variance. Of the Prior Accident Years, 2017 had the largest variance in reported losses at \$4.1 million favourable, followed by Accident Year 2018 at \$2.5 million favourable, Accident Year 2016 at \$2.1 million unfavourable and Accident Year 2014 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

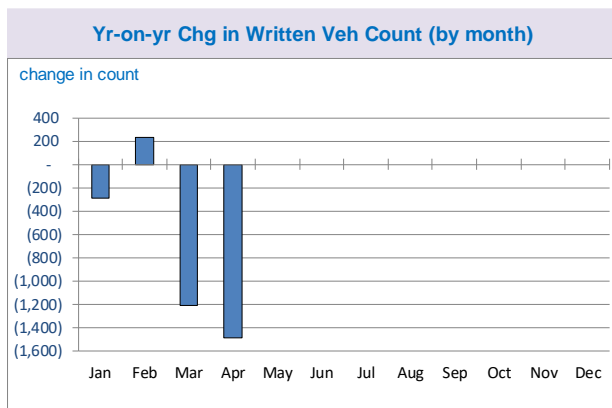
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 April 2019 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

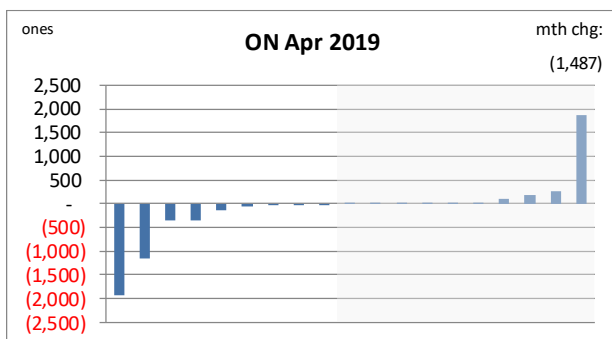
The April 2019 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at December 31, 2018). The actuarial valuation will be updated next as at March 31, 2019 and we anticipate that the results will be reflected in the May 2019 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 5.1% from 2018, being 2.6% 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 RSP by month, with April reporting a decrease of 1,487 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 1,231 vehicles, indicating a variance of 256 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the RSP in April than projected.

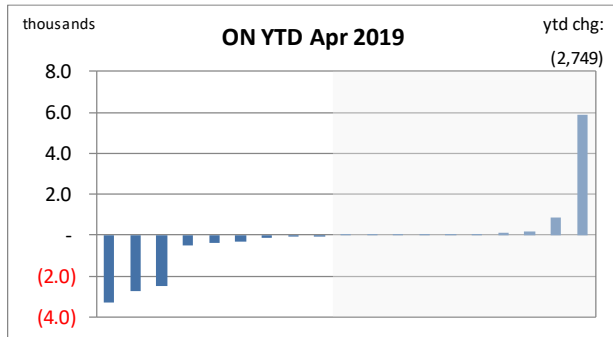


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Nine member company groups transferred fewer vehicles to the RSP this month compared to a year ago, while ten transferred more¹. Of the 9 member company groups transferring fewer vehicles, 2 member company groups accounted for 77% of

the total transfer decrease for the “decliner” members. Of the 10 member company groups transferring more vehicles, 1 member company group accounted for 75% of the total transfer

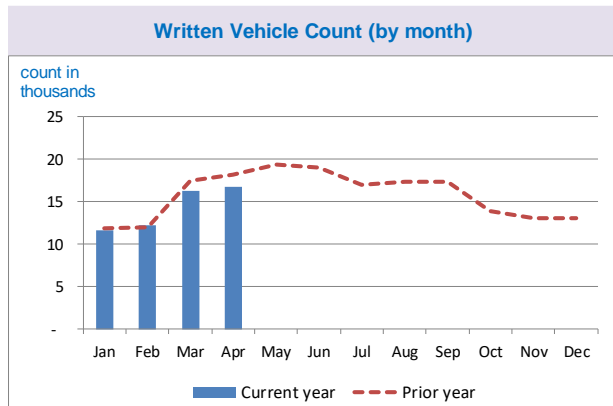
¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2018 or 2019. Groups that have not transferred vehicles in these two periods are ignored.

increases for the “grower” members.

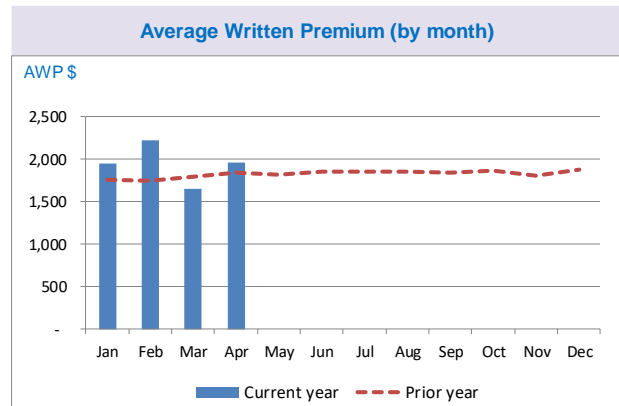


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

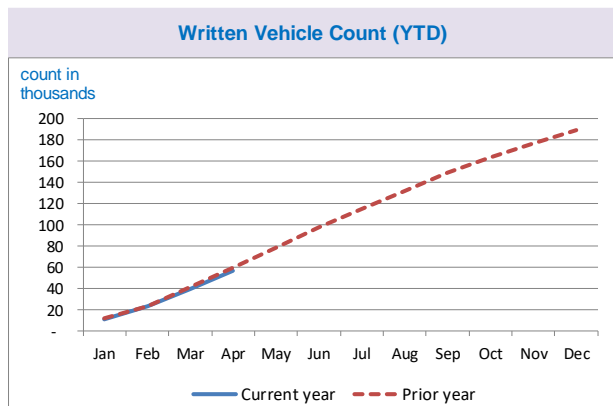
April’s year-on-year change in vehicle count transfers to the RSP represents an 8.2% decrease from April 2018, and counts were down 4.6% year-to-date. Average written premium was up 6.2% in April 2019 compared with the same month in 2018, and up 7.3% year-to-date (see charts immediately below).



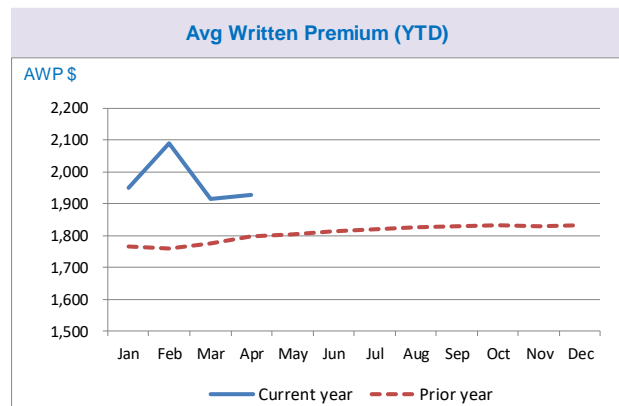
	Apr-19	Apr-18	Amt Chg	% Chg
W. Veh curr mth	16,717	18,204	(1,487)	-8.2%



	Apr-19	Apr-18	Amt Chg	% Chg
AWP curr mth	1,961	1,847	114	6.2%

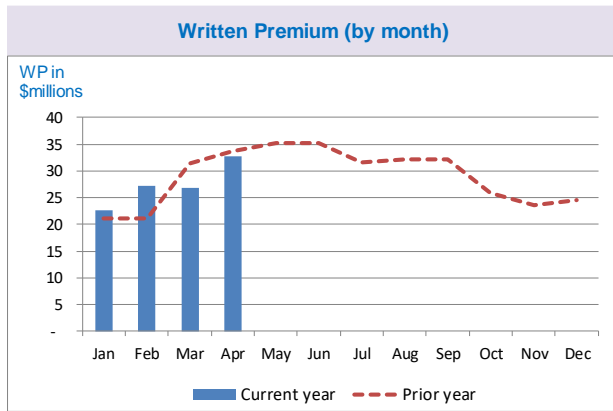


	Apr-19	Apr-18	Amt Chg	% Chg
W. Vehicles YTD	56,833	59,581	(2,749)	-4.6%

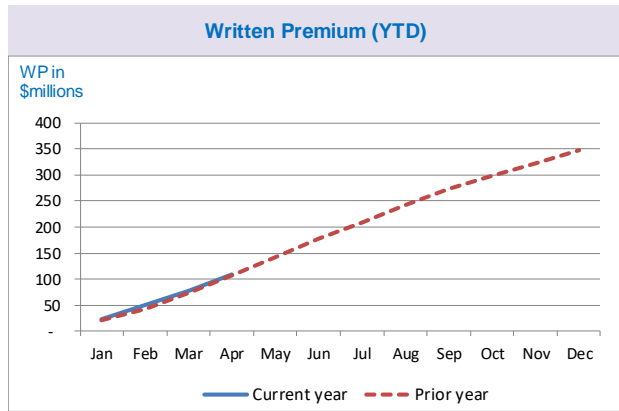


	Apr-19	Apr-18	Amt Chg	% Chg
Avg W. Prem YTD	1,928	1,797	131	7.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 2.5% for the month compared with the 1.1% increase we projected last month, but was up 2.3% year-to-date (see charts at the top of the next page).



	Apr-19	Apr-18	Amt Chg	% Chg
WP (\$000s) curr mth	32,790	33,621	(831)	-2.5%



	Apr-19	Apr-18	Amt Chg	% Chg
WP (\$000s) YTD	109,554	107,043	2,511	2.3%

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 April 2019 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - Ontario

Operating Results for the 4 Months Ended April 30, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Net Premiums Written	\$22,666	\$27,186	\$26,913	\$32,790	\$109,555	\$396,931	\$347,756
Decrease (Increase) in Unearned Premiums	6,641	2,079	(2,630)	(\$4,851)	1,239	(39,231)	4,866
Net Premiums Earned	\$29,307	\$29,265	\$24,283	\$27,939	\$110,794	\$357,700	\$352,622
Claims Incurred:							
Prior Accident Years:							
Undiscounted	\$346	\$3,446	(\$23,095)	(\$441)	(\$19,744)	(\$19,744)	(\$27,680)
Effect of Discounting	(1,015)	(1,367)	9,238	(1,477)	5,379	(7,890)	(44,774)
Discounted	(\$669)	\$2,079	(\$13,857)	(\$1,918)	(\$14,365)	(\$27,634)	(\$72,454)
Current Accident Year:							
Undiscounted	\$36,918	\$33,768	\$36,284	\$35,970	\$142,940	\$456,756	\$449,107
Effect of Discounting	3,864	2,750	3,491	2,878	12,983	37,509	32,229
Discounted	\$40,782	\$36,518	\$39,775	\$38,848	\$155,923	\$494,265	\$481,336
Claims Incurred	\$40,113	\$38,597	\$25,918	\$36,930	\$141,558	\$466,631	\$408,882
Underwriting Expenses:							
Expense Allowance	\$6,664	\$7,928	\$8,089	\$9,715	\$32,396	\$115,736	\$104,488
Change in UPDR/DPAC:							
Undiscounted	(1,786)	(485)	896	1,598	223	16,790	6,686
Effect of Discounting	(711)	(215)	1,989	598	1,661	6,942	(3,188)
Discounted	(2,497)	(700)	2,885	2,196	1,884	23,732	3,498
Underwriting Expenses	\$4,167	\$7,228	\$10,974	\$11,911	\$34,280	\$139,468	\$107,986
Net Underwriting Gain (Loss)	(\$14,973)	(\$16,560)	(\$12,609)	(\$20,902)	(\$65,044)	(\$248,399)	(\$164,246)
Administrative Expenses	\$104	\$131	\$90	\$109	\$434	\$1,719	\$1,354
Operating Result	(\$15,077)	(\$16,691)	(\$12,699)	(\$21,011)	(\$65,478)	(\$250,118)	(\$165,600)
Ratios:							
Claims & Expenses Incurred (Earned)							
Prior Accident Years	-2.3%	7.1%	-57.1%	-6.9%	-13.0%	-7.7%	-20.5%
Current Accident Year	139.2%	124.8%	163.8%	139.0%	140.7%	138.2%	136.5%
All Accident Years Combined	136.9%	131.9%	106.7%	132.1%	127.7%	130.5%	116.0%
Underwriting & Administrative Expenses (Earned)	14.6%	25.1%	45.6%	43.0%	31.3%	39.5%	31.0%
Combined Operating Ratio	151.5%	157.0%	152.3%	175.1%	159.0%	170.0%	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