

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F19 – 062**

**DATE: AUGUST 29, 2019**

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

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

Please be advised that the July 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 -\$151.0 million and the incurred loss ratio to the end of 7 months is 140.0%, as summarized in the table below.

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

| Amounts in \$000s                        | July 2019       | July 2018       | Year to date Jul 2019 | Year to Date Jul 2018 |
|--|-----------------|-----------------|-----------------------|-----------------------|
| Premium Written                          | 20,133          | 31,602          | 205,680               | 209,232               |
| Premium Earned                           | 29,993          | 29,623          | 197,646               | 206,183               |
| Incurring Losses                         | 39,865          | 38,975          | 276,807               | 254,143               |
| Underwriting & Admin Expense             | 1,975           | 10,656          | 71,801                | 70,938                |
| <b>Operating Result</b>                  | <b>(11,847)</b> | <b>(20,008)</b> | <b>(150,962)</b>      | <b>(118,898)</b>      |
| <b>Ratios:</b>                           |                 |                 |                       |                       |
| <b>Loss ratio</b> - Prior Accident Years | <b>(6.9%)</b>   | <b>(4.1%)</b>   | <b>(2.3%)</b>         | <b>(13.9%)</b>        |
| - Current Accident Year                  | 139.8%          | 135.7%          | 142.3%                | 137.2%                |
| <i>Total</i>                             | <b>132.9%</b>   | <b>131.6%</b>   | <b>140.0%</b>         | <b>123.3%</b>         |
| <b>Underwriting &amp; Admin Expense</b>  | <b>6.6%</b>     | <b>36.0%</b>    | <b>36.3%</b>          | <b>34.4%</b>          |
| <b>Combined Operating Ratio</b>          | <b>139.5%</b>   | <b>167.6%</b>   | <b>176.3%</b>         | <b>157.7%</b>         |

*rounding differences may occur*

These results are discussed in some detail in the “Current Month Results” section. For additional

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numeric detail, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2019” attached to this bulletin.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$262.2 million and the estimated combined operating ratio to December 2019 is 174.5%, as summarized in the table below. This updated projection to the end of the year has improved by \$10.2 million from the projection provided last month (see the second and third columns in the table). This improvement is driven by the \$13.8 million decrease in the projected written premium for the year and the associated impacts on claims and expense estimates.

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

| <b>ON RSP 2019 Yr-end Projection</b><br>Amounts in \$000s | <b>Current</b><br><b>(Jul 2019)</b> | Prior Mth<br>(Jun 2019) | <b>Change</b> | Final 2019<br>Outlook* |
|---|-------------------------------------|-------------------------|---------------|------------------------|
| Premium Written   | 376,784                             | 390,559                 | (13,775)      | 424,778                |
| Premium Earned  | 351,856                             | 360,256                 | (8,400)       | 392,210                |
| Incurred Losses   | 481,373                             | 493,294                 | (11,921)      | 514,677                |
| Underwriting & Admin Expense                              | 132,640                             | 139,310                 | (6,670)       | 144,373                |
| <b>Net Result from Operations</b>                         | <b>(262,157)</b>                    | <b>(272,348)</b>        | <b>10,191</b> | <b>(266,840)</b>       |
| <b>Ratios:</b>  |                                     |                         |               |                        |
| <b>Loss ratio</b> - Prior Accident Years                  | (4.1%)                              | (3.9%)                  | (0.2%)        | (4.6%)                 |
| - Current Accident Year                                   | 140.9%                              | 140.8%                  | 0.1%          | 135.8%                 |
| <i>Total</i>  | <b>136.8%</b>                       | <b>136.9%</b>           | <b>(0.1%)</b> | <b>131.2%</b>          |
| <b>Underwriting &amp; Admin Expense</b>                   | <b>37.7%</b>                        | <b>38.7%</b>            | <b>(1.0%)</b> | <b>36.8%</b>           |
| <b>Combined Operating Ratio</b>                           | <b>174.5%</b>                       | <b>175.6%</b>           | <b>(1.1%)</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 -\$11.8 million Operating Result in the month of July 2019, an \$8.2 million improvement compared with the same month last year. This improvement is composed of an \$8.4 million favourable impact associated with the overall decrease in the combined ratio (from 167.6% to 139.5% applied to \$30.0 million in earned premium), offset by an approximately \$0.2 million unfavourable impact associated with the \$0.4 million increase in earned premium (at a combined ratio of 167.6%).

This month’s results moved the year-to-date combined operating ratio from 182.9% at the end of 6 months to 176.3% at the end of 7 months. The 6.6 percentage point decrease is composed of a 0.8 percentage point decrease in the Prior Accident Year loss ratio, coupled with a 0.5 percentage point decrease in the Current Accident Year loss ratio, and a 5.3 percentage point decrease in the expense ratio.

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*Variances from Projections*

The table below 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*

| <b>July 2019</b>                     | <b>Actual</b> | <b>Projection</b> | <b>Difference</b> | <b>Difference %</b> |
|--------------------------------------|---------------|-------------------|-------------------|---------------------|
| Written Premium                      | 20,133        | 33,908            | (13,775)          | (40.6%)             |
| Earned Premium                       | 29,993        | 31,060            | (1,067)           | (3.4%)              |
| Reported Losses                      |               |                   |                   |                     |
| Paid Losses                          | 30,120        | 28,320            | 1,800             | 6.4%                |
| Paid Expenses                        | 911           | 2,541             | (1,630)           | (64.1%)             |
| Change in Outstanding Losses         | 118           | (907)             | 1,025             | (113.0%)            |
| <b>Total Reported Losses</b>         | <b>31,149</b> | <b>29,954</b>     | <b>1,195</b>      | <b>4.0%</b>         |
| Change in IBNR Provision*            | 8,716         | 11,539            | (2,823)           |                     |
| Change in Premium Deficiency (DPAC)* | (3,728)       | 1,643             | (5,371)           |                     |

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [Ontario RSP July 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 July 2019, reported losses were \$1.2 million higher than projected. The Current Accident Year had a \$1.8 million unfavourable variance in reported losses, while the Prior Accident Years had a \$0.6 million favourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$1.6 million unfavourable, followed by Accident Year 2017 at a \$1.1 million unfavourable and Accident Year 2012 at a \$1.0 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 July 2019](#)

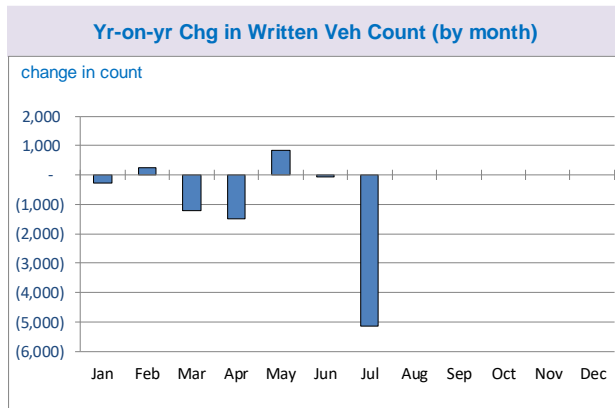
[Operational Report – Actuarial Highlights.](#)

**Effect of Quarterly Valuation**

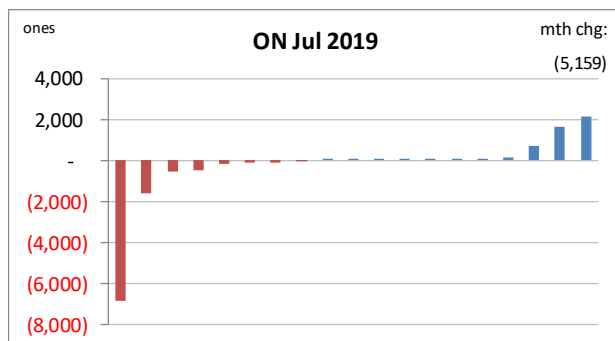
The July 2019 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2019). The actuarial valuation will be updated next as at June 30, 2019 and we anticipate that the results will be reflected in the August 2019 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 1.8% from 2018, being 2.5% of the 2018 industry private passenger vehicle count (excluding farmers) and the 2017 industry farmers private passenger vehicle count (as we don't have an industry count for farmers 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 July reporting a decrease of 5,159 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 830 vehicles, indicating a variance of 5,989 vehicles from the actual transfers. This variance was mainly due to activity undertaken by one member company group to remove risks from the RSP in July, reflecting recent audit findings.

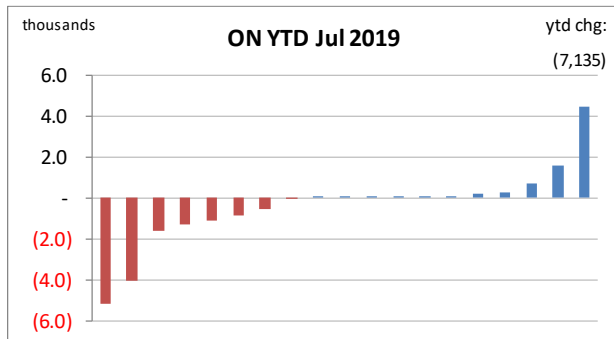


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while eleven transferred more<sup>1</sup>. Of the 8 member company

<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.

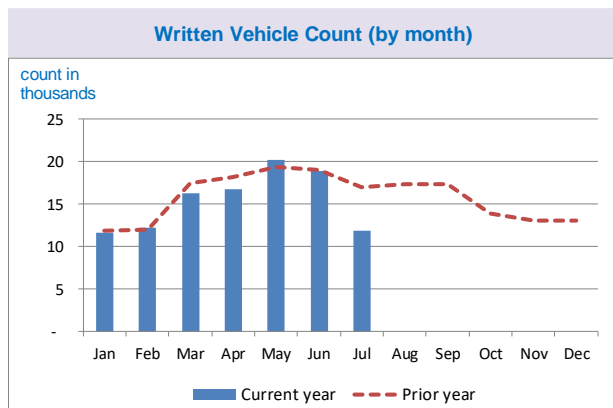
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groups transferring fewer vehicles, 1 member company group accounted for 69% of the total transfer decrease for the “decliner” members. Of the 11 member company groups transferring more vehicles, 2 member company groups accounted for 80% of the total transfer increases for the “grower” members.

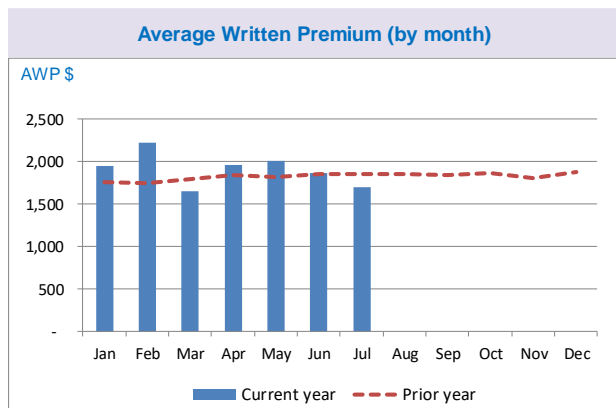


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

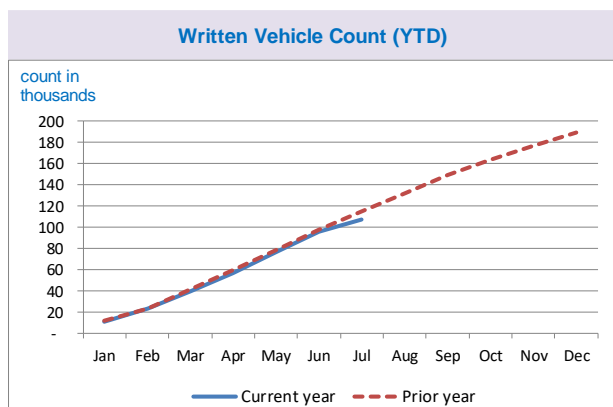
July’s year-on-year change in vehicle count transfers to the pool represents a 30.4% decrease from July 2018, and counts were down 6.2% year-to-date. Average written premium was down 8.5% in July 2019 compared with the same month in 2018, but was up 4.8% year-to-date (see charts immediately below).



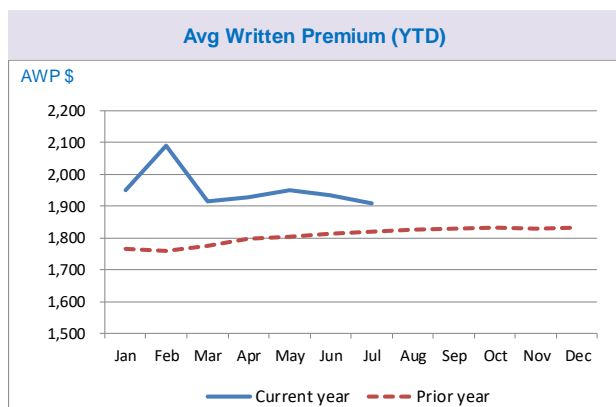
|                 | Jul-19 | Jul-18 | Amt Chg | % Chg  |
|-----------------|--------|--------|---------|--------|
| W. Veh curr mth | 11,830 | 16,989 | (5,159) | -30.4% |



|              | Jul-19 | Jul-18 | Amt Chg | % Chg |
|--------------|--------|--------|---------|-------|
| AWP curr mth | 1,702  | 1,860  | (158)   | -8.5% |



|                 | Jul-19  | Jul-18  | Amt Chg | % Chg |
|-----------------|---------|---------|---------|-------|
| W. Vehicles YTD | 107,772 | 114,907 | (7,135) | -6.2% |

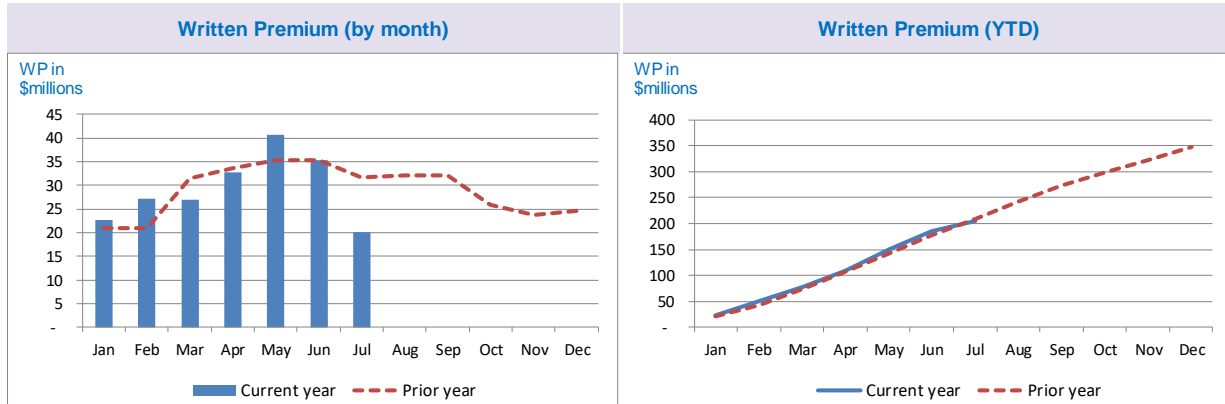


|                 | Jul-19 | Jul-18 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| Avg W. Prem YTD | 1,908  | 1,821  | 87      | 4.8%  |

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As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 36.3% for the month compared with the 7.3% increase we projected last month, and was down 1.7% year-to-date (see charts below).



|                      | Jul-19 | Jul-18 | Amt Chg  | % Chg  |
|----------------------|--------|--------|----------|--------|
| WP (\$000s) curr mth | 20,133 | 31,602 | (11,469) | -36.3% |

|                 | Jul-19  | Jul-18  | Amt Chg | % Chg |
|-----------------|---------|---------|---------|-------|
| WP (\$000s) YTD | 205,679 | 209,231 | (3,552) | -1.7% |

Should you require any further information, please call Shawn Doherty, Senior Vice President Actuarial & CFO at (416) 644-4968.

Saskia Matheson  
 President & CEO

**Related links:**

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

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2019**

Risk Sharing Pool - Ontario

Operating Results for the 7 Months Ended July 31, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

|   | January           | February          | March             | April             | May               | June              | July              | CY2019<br>YTD      | CY2019<br>12 MONTHS<br>Updated<br>Projection | CY2018<br>12 MONTHS<br>Actual |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|--|-------------------------------|
| Net Premiums Written                            | \$22,666          | \$27,186          | \$26,913          | \$32,790          | \$40,607          | \$35,385          | \$20,133          | \$205,680          | \$376,784                                    | \$347,756                     |
| Decrease (Increase) in Unearned Premiums        | 6,641             | 2,079             | (2,630)           | (\$4,851)         | (\$10,947)        | (\$8,186)         | \$9,860           | (8,034)            | (24,928)                                     | 4,866                         |
| <b>Net Premiums Earned</b>                      | <b>\$29,307</b>   | <b>\$29,265</b>   | <b>\$24,283</b>   | <b>\$27,939</b>   | <b>\$29,660</b>   | <b>\$27,199</b>   | <b>\$29,993</b>   | <b>\$197,646</b>   | <b>\$351,856</b>                             | <b>\$352,622</b>              |
| <b>Claims Incurred:</b>                         |                   |                   |                   |                   |                   |                   |                   |                    |  |                               |
| Prior Accident Years:                           |                   |                   |                   |                   |                   |                   |                   |                    |  |                               |
| Undiscounted                                    | \$346             | \$3,446           | (\$23,095)        | (\$441)           | \$4,769           | (\$1,648)         | (\$189)           | (\$16,812)         | (\$16,812)                                   | (\$27,680)                    |
| Effect of Discounting                           | (1,015)           | (1,367)           | 9,238             | (1,477)           | 10,662            | (1,883)           | (1,882)           | 12,276             | 2,499  | (44,774)                      |
| Discounted                                      | (\$669)           | \$2,079           | (\$13,857)        | (\$1,918)         | \$15,431          | (\$3,531)         | (\$2,071)         | (\$4,536)          | (\$14,313)                                   | (\$72,454)                    |
| Current Accident Year:                          |                   |                   |                   |                   |                   |                   |                   |                    |  |                               |
| Undiscounted                                    | \$36,918          | \$33,768          | \$36,284          | \$35,970          | \$38,699          | \$36,401          | \$38,463          | \$256,503          | \$453,273                                    | \$449,107                     |
| Effect of Discounting                           | 3,864             | 2,750             | 3,491             | 2,878             | 5,120             | 3,264             | 3,473             | 24,840             | 42,413                                       | 32,229                        |
| Discounted                                      | \$40,782          | \$36,518          | \$39,775          | \$38,848          | \$43,819          | \$39,665          | \$41,936          | \$281,343          | \$495,686                                    | \$481,336                     |
| <b>Claims Incurred</b>                          | <b>\$40,113</b>   | <b>\$38,597</b>   | <b>\$25,918</b>   | <b>\$36,930</b>   | <b>\$59,250</b>   | <b>\$36,134</b>   | <b>\$39,865</b>   | <b>\$276,807</b>   | <b>\$481,373</b>                             | <b>\$408,882</b>              |
| <b>Underwriting Expenses:</b>                   |                   |                   |                   |                   |                   |                   |                   |                    |  |                               |
| Expense Allowance                               | \$6,664           | \$7,928           | \$8,089           | \$9,715           | \$12,040          | \$10,408          | \$5,564           | \$60,408           | \$110,029                                    | \$104,488                     |
| Change in UPDR/DPAC:                            |                   |                   |                   |                   |                   |                   |                   |                    |  |                               |
| Undiscounted                                    | (1,786)           | (485)             | 896               | 1,598             | 4,151             | 2,678             | (2,428)           | 4,624              | 12,467                                       | 6,686                         |
| Effect of Discounting                           | (711)             | (215)             | 1,989             | 598               | 4,474             | 1,149             | (1,300)           | 5,984              | 8,604  | (3,188)                       |
| Discounted                                      | (2,497)           | (700)             | 2,885             | 2,196             | 8,625             | 3,827             | (3,728)           | 10,608             | 21,071                                       | 3,498                         |
| <b>Underwriting Expenses</b>                    | <b>\$4,167</b>    | <b>\$7,228</b>    | <b>\$10,974</b>   | <b>\$11,911</b>   | <b>\$20,665</b>   | <b>\$14,235</b>   | <b>\$1,836</b>    | <b>\$71,016</b>    | <b>\$131,100</b>                             | <b>\$107,986</b>              |
| <b>Net Underwriting Gain (Loss)</b>             | <b>(\$14,973)</b> | <b>(\$16,560)</b> | <b>(\$12,609)</b> | <b>(\$20,902)</b> | <b>(\$50,255)</b> | <b>(\$23,170)</b> | <b>(\$11,708)</b> | <b>(\$150,177)</b> | <b>(\$260,617)</b>                           | <b>(\$164,246)</b>            |
| <b>Administrative Expenses</b>                  | <b>\$104</b>      | <b>\$131</b>      | <b>\$90</b>       | <b>\$109</b>      | <b>\$112</b>      | <b>\$100</b>      | <b>\$139</b>      | <b>\$785</b>       | <b>\$1,540</b>                               | <b>\$1,354</b>                |
| <b>Operating Result</b>                         | <b>(\$15,077)</b> | <b>(\$16,691)</b> | <b>(\$12,699)</b> | <b>(\$21,011)</b> | <b>(\$50,367)</b> | <b>(\$23,270)</b> | <b>(\$11,847)</b> | <b>(\$150,962)</b> | <b>(\$262,157)</b>                           | <b>(\$165,600)</b>            |
| <b>Ratios:</b>                                  |                   |                   |                   |                   |                   |                   |                   |                    |  |                               |
| <b>Claims &amp; Expenses Incurred (Earned)</b>  |                   |                   |                   |                   |                   |                   |                   |                    |  |                               |
| Prior Accident Years                            | -2.3%             | 7.1%              | -57.1%            | -6.9%             | 52.0%             | -13.0%            | -6.9%             | -2.3%              | -4.1%  | -20.5%                        |
| Current Accident Year                           | 139.2%            | 124.8%            | 163.8%            | 139.0%            | 147.7%            | 145.8%            | 139.8%            | 142.3%             | 140.9%                                       | 136.5%                        |
| All Accident Years Combined                     | 136.9%            | 131.9%            | 106.7%            | 132.1%            | 199.7%            | 132.8%            | 132.9%            | 140.0%             | 136.8%                                       | 116.0%                        |
| Underwriting & Administrative Expenses (Earned) | 14.6%             | 25.1%             | 45.6%             | 43.0%             | 70.1%             | 52.7%             | 6.6%              | 36.3%              | 37.7%  | 31.0%                         |
| <b>Combined Operating Ratio</b>                 | <b>151.5%</b>     | <b>157.0%</b>     | <b>152.3%</b>     | <b>175.1%</b>     | <b>269.8%</b>     | <b>185.5%</b>     | <b>139.5%</b>     | <b>176.3%</b>      | <b>174.5%</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