



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 078

DATE: OCTOBER 30, 2019

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

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

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

Key Points

- (a) Member share ratios have been updated as per the usual quarterly process – share ratios are available on the FA Portal as shown in the link above;
- (b) Liam McFarlane has resigned as the Facility Association’s Appointed Actuary; Mr. Cosimo Pantaleo of Ernst & Young LLP has assumed the Appointed Actuary’s role (effective as of October 24, 2019), pending formal appointment by the Facility Association Board (expected at its December 12, 2019 meeting); and
- (c) With premium for the month \$10.0 million (28%) higher than expected, the operating deficit for the month was \$7.1 million (33%) worse than expected, moving the year-end projected net operating deficit to \$159.8 million with an associated COR of 145.0%.

New This Month

Quarterly Sharing Update

An update of the "Member's Usage" of the Ontario Risk Sharing Pool (“RSP”) was performed since the release of the August 2019 Operational Report, bringing members’ sharing current to the third quarter 2019. The usage update is reflected in the September 2019 Operational Report.

Appointed Actuary

Liam McFarlane of Ernst & Young LLP was Facility Association’s Appointed Actuary (effective as of June 1, 2013). Mr. McFarlane has resigned his Appointment to take on a role at a different organization. Mr. Cosimo Pantaleo of Ernst & Young LLP has assumed the Appointed Actuary’s role (effective as of October 24, 2019), pending formal appointment by the Facility Association

Board (expected at its December 12, 2019 meeting).

Summary of Financial Results

The calendar year-to-date Operating Result is -\$106.9 million and the incurred loss ratio to the end of 9 months is 103.6%, as summarized in the table below.

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

Amounts in \$000s	September 2019	September 2018	Year to date Sep 2019	Year to Date Sep 2018
Premium Written	45,425	32,142	289,884	273,598
Premium Earned	30,391	29,052	258,056	264,722
Incurred Losses	39,517	38,246	267,580	297,007
Underwriting & Admin Expense	19,594	11,003	97,413	90,663
Operating Result	(28,720)	(20,197)	(106,937)	(122,948)
<i>Ratios:</i>				
Loss ratio - <i>Prior Accident Years</i>	(3.9%)	(3.0%)	(32.6%)	(23.8%)
- <i>Current Accident Year</i>	133.9%	134.7%	136.2%	136.0%
<i>Total</i>	130.0%	131.7%	103.6%	112.2%
<i>Underwriting & Admin Expense</i>	64.5%	37.9%	37.7%	34.2%
<i>Combined Operating Ratio</i>	194.5%	169.6%	141.3%	146.4%

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.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$159.8 million and the estimated combined operating ratio to December 2019 is 145.0%, as summarized in the table at the top of the next page. This updated projection to the end of the year has deteriorated by \$7.4 million from the projection provided last month (see the second and third columns in the table). This deterioration is driven by the \$10.0 million increase 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)

ON RSP 2019 Yr-end Projection Amounts in \$000s	Current (Sep 2019)	Prior Mth (Aug 2019)	Change	Final 2019 Outlook*
Premium Written	380,269	370,298	9,971	424,778
Premium Earned	354,803	351,213	3,590	392,210
Incurred Losses	390,979	385,401	5,578	514,677
Underwriting & Admin Expense	123,633	118,211	5,422	144,373
Net Result from Operations	(159,809)	(152,399)	(7,410)	(266,840)
Ratios:				
Loss ratio - Prior Accident Years	(25.1%)	(25.4%)	0.3%	(4.6%)
- Current Accident Year	135.3%	135.1%	0.2%	135.8%
<i>Total</i>	110.2%	109.7%	0.5%	131.2%
Underwriting & Admin Expense	34.8%	33.7%	1.1%	36.8%
Combined Operating Ratio	145.0%	143.4%	1.6%	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 -\$28.7 million Operating Result in the month of September 2019, a \$8.5 million deterioration compared with the same month last year. This deterioration is composed of a \$0.9 million unfavourable impact associated with the \$1.3 million increase in earned premium (at a combined ratio of 169.6%), with the remaining \$7.6 million unfavourable impact stemming from the overall increase in the combined ratio (from 169.6% to 194.5% applied to \$30.4 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 134.3% at the end of 8 months to 141.3% at the end of 9 months. The 7.0 percentage point increase is composed of a 3.8 percentage point increase in the Prior Accident Years loss ratio, and a 3.5 percentage point increase in the expense ratio, offset by a 0.3 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.

Bulletin F19-078
Ontario Risk Sharing Pool – September 2019 Operational Report

ON RSP Summary of Actual vs Projected variances

September 2019	Actual	Projection	Difference	Difference %
Written Premium	45,425	35,464	9,961	28.1%
Earned Premium	30,391	29,718	673	2.3%
Reported Losses				
Paid Losses	25,357	28,081	(2,724)	(9.7%)
Paid Expenses	1,317	2,479	(1,162)	(46.9%)
Change in Outstanding Losses	4,733	(164)	4,897	<-999.9%
Total Reported Losses	31,407	30,396	1,011	3.3%
Change in IBNR Provision*	8,110	7,850	260	
Change in Premium Deficiency (DPAC)*	6,211	2,689	3,522	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Ontario RSP September 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 September 2019, reported losses were \$1.0 million higher than projected. The Current Accident Year had a \$1.4 million favourable variance in reported losses, while the Prior Accident Years had a \$2.4 million unfavourable variance. Of the Prior Accident Years, 2015 had the largest variance in reported losses at \$2.2 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 September 2019 Operational Report – Actuarial Highlights](#).

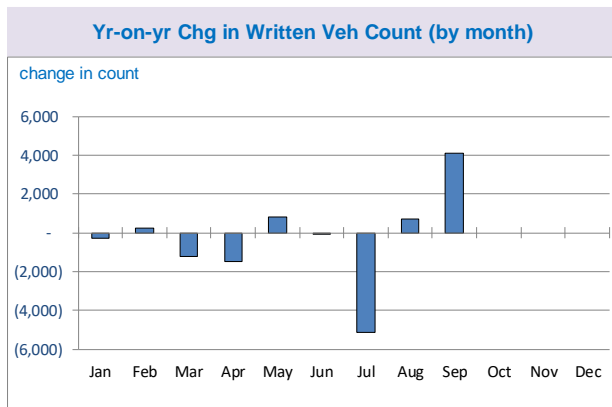
Effect of Quarterly Valuation

The September 2019 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at June 30, 2019). The actuarial valuation

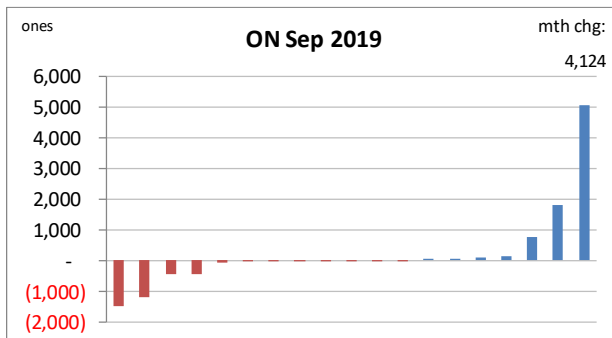
will be updated next as at September 30, 2019 and we anticipate that the results will be reflected in the October 2019 Operational Report.

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 2.7% from 2018, being 2.5% of the 2018 industry private passenger vehicle count (excluding farmers) and industry farmers private passenger vehicle count. 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.



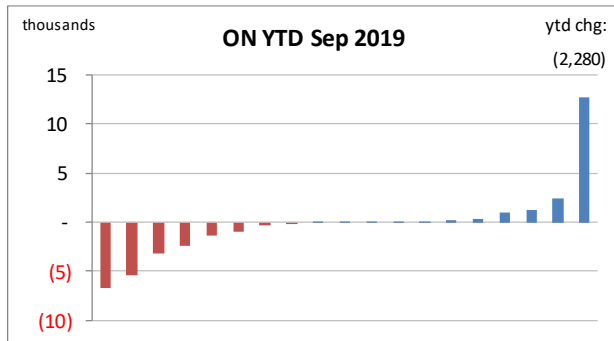
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with September reporting an increase of 4,124 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 2,079 vehicles, indicating a variance of 2,045 vehicles from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the RSP in September 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. Twelve member company groups transferred fewer vehicles to the pool this month compared to a year ago, while seven transferred more¹. Of the 12 member company groups transferring fewer vehicles, 2 member company

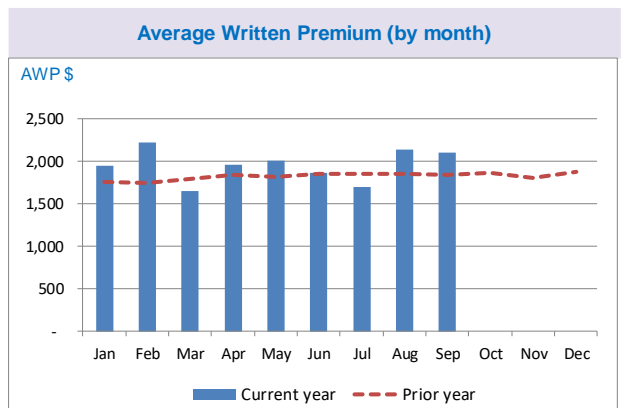
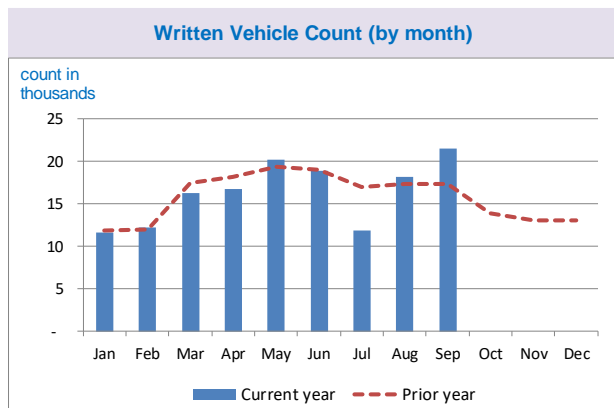
groups accounted for 71% of the total transfer decrease for the “decliner” members. Of the 7 member company groups transferring more vehicles, 1 member company group accounted for 64% of the total transfer increases for the “grower” members.

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.



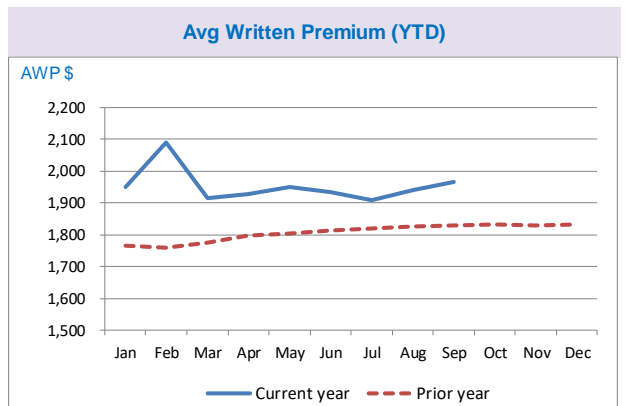
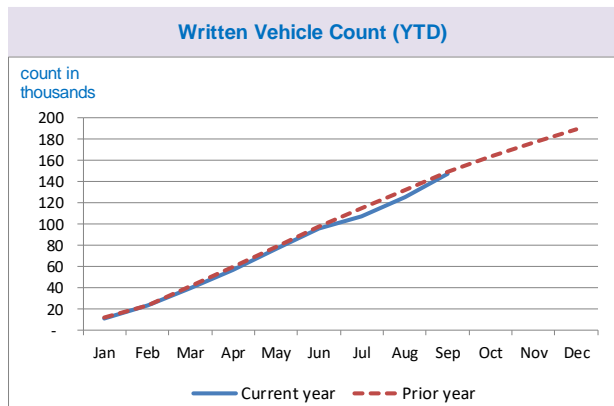
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

September's year-on-year change in vehicle count transfers to the pool represents a 23.7% increase from September 2018, but counts were down 1.5% year-to-date. Average written premium was up 14.2% in September 2019 compared with the same month in 2018, and was up 7.5% year-to-date (see charts immediately below).



	Sep-19	Sep-18	Amt Chg	% Chg
W. Veh curr mth	21,506	17,382	4,124	23.7%

	Sep-19	Sep-18	Amt Chg	% Chg
AWP curr mth	2,112	1,849	263	14.2%

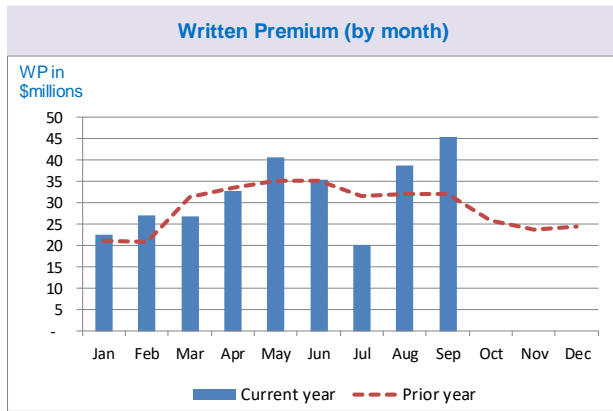


	Sep-19	Sep-18	Amt Chg	% Chg
W. Vehicles YTD	147,426	149,706	(2,280)	-1.5%

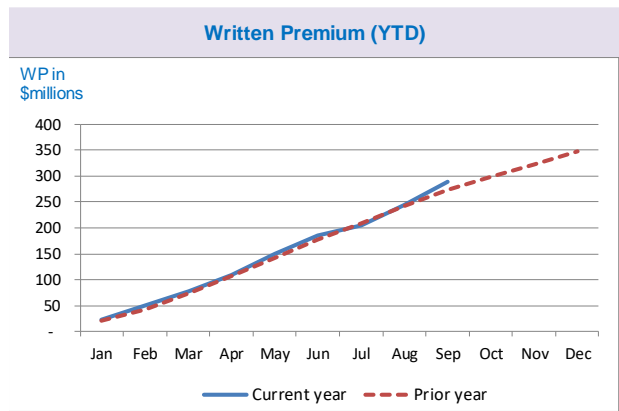
	Sep-19	Sep-18	Amt Chg	% Chg
Avg W. Prem YTD	1,966	1,828	138	7.5%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 41.3% for the month compared with the 10.3% increase we projected last month, and was up 6.0% year-to-date (see charts at the top of the next page).

Bulletin F19-078
Ontario Risk Sharing Pool – September 2019 Operational Report



	Sep-19	Sep-18	Amt Chg	% Chg
WP (\$000s) curr mth	45,425	32,142	13,283	41.3%



	Sep-19	Sep-18	Amt Chg	% Chg
WP (\$000s) YTD	289,883	273,597	16,286	6.0%

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 September 2019 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019
Risk Sharing Pool - Ontario
Operating Results for the 9 Months Ended September 30, 2019 (Discounted basis)
Source: Monthly Operational Report
(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Net Premiums Written	\$22,666	\$27,186	\$26,913	\$32,790	\$40,607	\$35,385	\$20,133	\$38,779	\$45,425	\$289,884	\$380,269	\$347,756
Decrease (Increase) in Unearned Premiums	6,641	2,079	(2,630)	(\$4,851)	(\$10,947)	(\$8,186)	\$9,860	(\$8,760)	(\$15,034)	(31,828)	(25,466)	4,866
Net Premiums Earned	\$29,307	\$29,265	\$24,283	\$27,939	\$29,660	\$27,199	\$29,993	\$30,019	\$30,391	\$258,056	\$354,803	\$352,622
Claims Incurred:												
Prior Accident Years:												
Undiscounted	\$346	\$3,446	(\$23,095)	(\$441)	\$4,769	(\$1,648)	(\$189)	(\$56,479)	(\$33)	(\$73,324)	(\$73,324)	(\$27,680)
Effect of Discounting	(1,015)	(1,367)	9,238	(1,477)	10,662	(1,883)	(1,882)	(21,796)	(1,158)	(10,678)	(15,800)	(44,774)
Discounted	(\$669)	\$2,079	(\$13,857)	(\$1,918)	\$15,431	(\$3,531)	(\$2,071)	(\$78,275)	(\$1,191)	(\$84,002)	(\$89,124)	(\$72,454)
Current Accident Year:												
Undiscounted	\$36,918	\$33,768	\$36,284	\$35,970	\$38,699	\$36,401	\$38,463	\$27,765	\$37,414	\$321,682	\$440,679	\$449,107
Effect of Discounting	3,864	2,750	3,491	2,878	5,120	3,264	3,473	1,766	3,294	29,900	39,424	32,229
Discounted	\$40,782	\$36,518	\$39,775	\$38,848	\$43,819	\$39,665	\$41,936	\$29,531	\$40,708	\$351,582	\$480,103	\$481,336
Claims Incurred	\$40,113	\$38,597	\$25,918	\$36,930	\$59,250	\$36,134	\$39,865	(\$48,744)	\$39,517	\$267,580	\$390,979	\$408,882
Underwriting Expenses:												
Expense Allowance	\$6,664	\$7,928	\$8,089	\$9,715	\$12,040	\$10,408	\$5,564	\$11,335	\$13,276	\$85,019	\$111,231	\$104,488
Change in UPDR/DPAC:												
Undiscounted	(1,786)	(485)	896	1,598	4,151	2,678	(2,428)	(5,782)	4,172	3,014	3,241	6,686
Effect of Discounting	(711)	(215)	1,989	598	4,474	1,149	(1,300)	355	2,039	8,378	7,725	(3,188)
Discounted	(2,497)	(700)	2,885	2,196	8,625	3,827	(3,728)	(5,427)	6,211	11,392	10,966	3,498
Underwriting Expenses	\$4,167	\$7,228	\$10,974	\$11,911	\$20,665	\$14,235	\$1,836	\$5,908	\$19,487	\$96,411	\$122,197	\$107,986
Net Underwriting Gain (Loss)	(\$14,973)	(\$16,560)	(\$12,609)	(\$20,902)	(\$50,255)	(\$23,170)	(\$11,708)	\$72,855	(\$28,613)	(\$105,935)	(\$158,373)	(\$164,246)
Administrative Expenses	\$104	\$131	\$90	\$109	\$112	\$100	\$139	\$110	\$107	\$1,002	\$1,436	\$1,354
Operating Result	(\$15,077)	(\$16,691)	(\$12,699)	(\$21,011)	(\$50,367)	(\$23,270)	(\$11,847)	\$72,745	(\$28,720)	(\$106,937)	(\$159,809)	(\$165,600)
Ratios:												
Claims & Expenses Incurred (Earned)												
Prior Accident Years	-2.3%	7.1%	-57.1%	-6.9%	52.0%	-13.0%	-6.9%	-260.8%	-3.9%	-32.6%	-25.1%	-20.5%
Current Accident Year	139.2%	124.8%	163.8%	139.0%	147.7%	145.8%	139.8%	98.4%	133.9%	136.2%	135.3%	136.5%
All Accident Years Combined	136.9%	131.9%	106.7%	132.1%	199.7%	132.8%	132.9%	-162.4%	130.0%	103.6%	110.2%	116.0%
Underwriting & Administrative Expenses (Earned)	14.6%	25.1%	45.6%	43.0%	70.1%	52.7%	6.6%	20.0%	64.5%	37.7%	34.8%	31.0%
Combined Operating Ratio	151.5%	157.0%	152.3%	175.1%	269.8%	185.5%	139.5%	-142.4%	194.5%	141.3%	145.0%	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