



**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F2020 – 032**

**DATE: MAY 28, 2020**

**SUBJECT: ONTARIO RISK SHARING POOL  
– APRIL 2020 OPERATIONAL REPORT**

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

Please be advised that the April 2020 Ontario Risk Sharing Pool Operational Report is available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

### **Key Points**

- (a) The loss ratios being used under our current assumptions do NOT include any incurred impacts or adjustments related to COVID-19; any associated impacts and changes will be initially reflected in our March 31, 2020 valuation which we anticipate will be implemented in the May 2020 Operational Reports;
- (b) The **2020 year-to-date net operating deficit was \$12 million**, with a COR of 108.3% on earned premium of \$147 million;
- (c) The **projected 2020 year-end net operating deficit is now \$169 million**, with a COR of 138.1% on earned premium of \$443 million (our Outlook for 2020 was \$261 million of net operating deficit with a COR of 165.2% on earned premium of \$401 million). **April's reported claims projections for the next two months (May 2020 and June 2020) have been adjusted to reflect COVID-19 pandemic impacts: a 30% decrease in Current Accident Year physical damage claim activity**, as per discussion with FA's Appointed Actuary. No adjustment has been made to this month's premium projections.

### **Summary of Financial Results**

The calendar year-to-date Operating Result is -\$12.2 million and the incurred loss ratio to the end of 4 months is 91.6% as summarized in the following table.

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

Amounts in \$000s	April 2020	April 2019	Year to date Apr 2020	Year to Date Apr 2019
Premium Written	29,308	32,790	139,819	109,555
Premium Earned	37,422	27,939	147,139	110,794
Incurred Losses	47,661	36,930	134,826	141,558
Underwriting & Admin Expense	6,706	12,020	24,549	34,714
<b>Operating Result</b>	<b>(16,945)</b>	<b>(21,011)</b>	<b>(12,236)</b>	<b>(65,478)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(4.5%)	(6.9%)	(40.5%)	(13.0%)
- Current Accident Year	131.9%	139.0%	132.1%	140.7%
<i>Total</i>	<b>127.4%</b>	<b>132.1%</b>	<b>91.6%</b>	<b>127.7%</b>
<i>Underwriting &amp; Admin Expense</i>	<b>17.9%</b>	<b>43.0%</b>	<b>16.7%</b>	<b>31.3%</b>
<i>Combined Operating Ratio</i>	<b>145.3%</b>	<b>175.1%</b>	<b>108.3%</b>	<b>159.0%</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 2020” attached to this bulletin.

Updated Projection to Year-end 2020

PLEASE NOTE: April’s reported claims projections for the next two months (May 2020 and June 2020) have been adjusted to reflect COVID-19 pandemic impacts; this includes a 30% decrease in Current Accident Year physical damage claim activity, as per discussion with FA’s Appointed Actuary. No adjustment has been made to this month’s premium projections.

The projected calendar year Operating Result to December 2020 is -\$168.9 million and the estimated combined operating ratio to December 2020 is 138.1%, as summarized in the following table. This updated projection to the end of the year has deteriorated by \$6.1 million from the projection provided last month (see the second and third columns in the table). The deterioration is driven by the \$8.9 million increase in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections, as well as the adjustments made on the claims projections due to COVID-19 pandemic (as indicated at the beginning of this section).

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 2020 Yr-end Projection</b> Amounts in \$000s	<b>Current</b> (Apr 2020)	Prior Mth (Mar 2020)	<b>Change</b>	Final 2020 Outlook*
Premium Written	424,774	415,843	8,931	416,066
Premium Earned	442,649	441,252	1,397	400,999
Incurred Losses	499,549	497,519	2,030	523,840
Underwriting & Admin Expense	111,978	106,552	5,426	138,522
<b>Net Result from Operations</b>	<b>(168,878)</b>	<b>(162,819)</b>	<b>(6,059)</b>	<b>(261,363)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	<b>(16.8%)</b>	<b>(16.8%)</b>	-	<b>(5.9%)</b>
- Current Accident Year	129.6%	129.6%	-	136.6%
<i>Total</i>	<b>112.8%</b>	<b>112.8%</b>	-	<b>130.7%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>25.3%</b>	<b>24.1%</b>	<b>1.2%</b>	<b>34.5%</b>
<b>Combined Operating Ratio</b>	<b>138.1%</b>	<b>136.9%</b>	<b>1.2%</b>	<b>165.2%</b>

*rounding differences may occur*

\*as posted to FA's website Nov. 5, 2019

### Current Month Results

The Ontario Risk Sharing Pool produced a -\$16.9 million Operating Result in the month of April 2020, a \$4.1 million improvement compared with the same month last year. This improvement is composed of an \$11.2 million favourable impact stemming from the overall decrease in the combined ratio (from 175.1% to 145.3% applied to \$37.4 million in earned premium), offset by an approximately \$7.1 million unfavourable impact associated with the \$9.5 million increase in earned premium (at a combined ratio of 175.1%).

This month's results moved the year-to-date combined operating ratio from 95.7% at the end of 3 months to 108.3% at the end of 4 months. The 12.6 percentage point increase is composed of a 12.3 percentage point increase in the Prior Accident Years loss ratio, a 0.4 percentage point increase in the expense ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio.

### Variances from Projections

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

**Bulletin F2020–032**  
**Ontario Risk Sharing Pool – April 2020 Operational Report**

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*ON RSP Summary of Actual vs Projected variances*

<b>April 2020</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premium	29,308	32,861	(3,553)	(10.8%)
Earned Premium	37,422	37,395	27	0.1%
Reported Losses				
Paid Losses	22,514	26,381	(3,867)	(14.7%)
Paid Expenses	2,180	2,849	(669)	(23.5%)
Change in Outstanding Losses	(2,266)	1,791	(4,057)	(226.5%)
<b>Total Reported Losses</b>	<b>22,428</b>	<b>31,021</b>	<b>(8,593)</b>	<b>(27.7%)</b>
Change in IBNR Provision*	25,233	16,294	8,939	
Change in Premium Deficiency (DPAC)*	(2,276)	(1,165)	(1,111)	

(Amounts in \$000's)

rounding differences may occur

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 April 2020, reported losses were \$8.6 million lower than projected. The Current Accident Year had a \$7.1 million favourable variance in reported losses, and the Prior Accident Years had a \$1.5 million favourable variance. Of all the Prior Accident Years, 2017 had the largest variance in reported losses at \$2.3 million unfavourable, followed by 2019 at \$2.0 million favourable, 2012 at \$1.3 million favourable, and 2018 at \$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 Accident Years for the month. Management investigated the 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.

With respect to the Current Accident Year, we attribute the lower than projected reported losses to a reduction in written premium and physical damage claims experience in relation to the COVID-19 pandemic impact, consistent with discussion with FA's Appointed Actuary and leading to the adjustment made on projected physical damage claims activity over the next two projection months.

*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

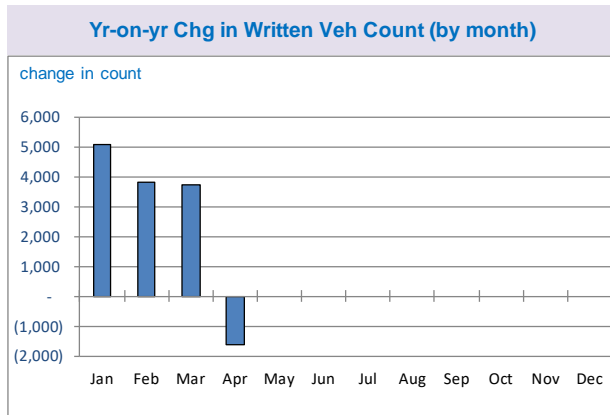
management’s investigation into reported claims variances concluding they were random and not necessarily indicative of a trend.

**Effect of Quarterly Valuation**

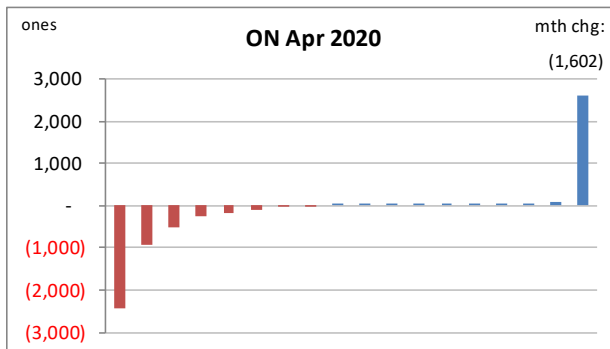
The April 2020 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at December 31, 2019). The actuarial valuation will be updated next as at March 31, 2020 and we anticipate that the results will be reflected in the May 2020 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 2020 vehicle count down 5.6% from 2019, being 2.5% of the 2018 industry private passenger vehicle count (excluding farmers) and industry farmers private passenger vehicle count (as we don’t have an industry count yet for 2019, we continue to use the 2018 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.

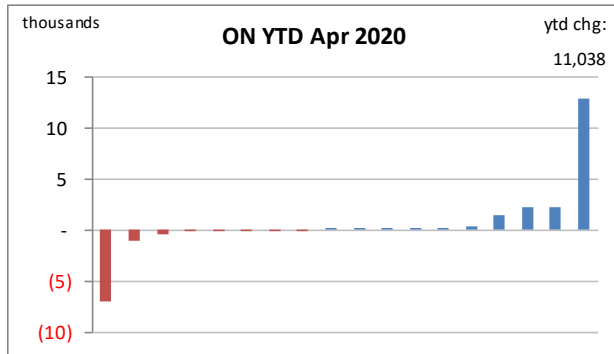


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with April reporting a decrease of 1,602 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 248 vehicles, indicating a variance of 1,354 vehicles from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the RSP in April than projected.



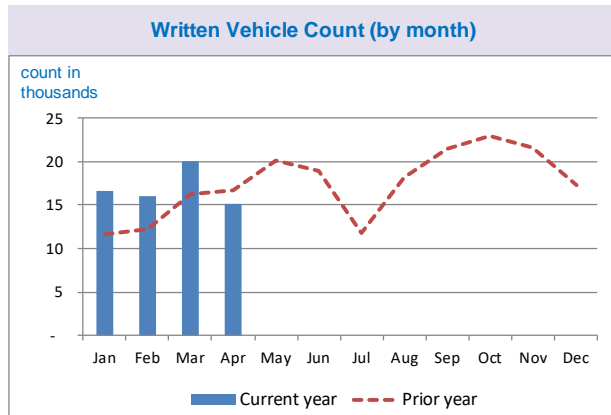
The chart on the left shows the overall change in the month, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the pool this month compared to a year ago, while ten transferred

more<sup>1</sup>. Of the 8 member company groups transferring fewer vehicles, 1 member company group accounted for 55% of the total transfer decrease for the “decliner” members. Of the 10 member company groups transferring more vehicles, 1 member company group accounted for 93% of the total transfer increases for the “grower” members.

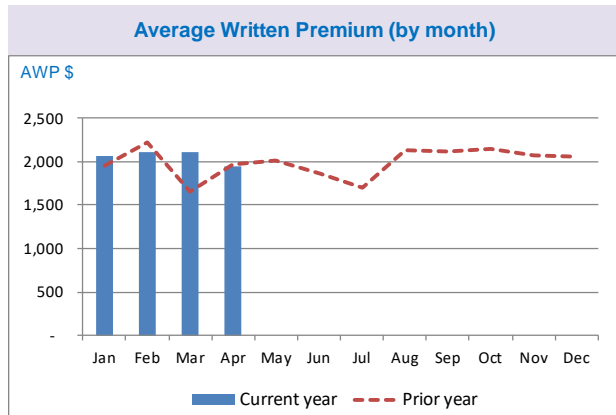


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

April’s vehicle count transfers to the pool represents a 9.6% decrease from April 2019, however, counts were still up 19.4% year-to-date. Average written premium was down 1.1% in April 2020 compared with the same month in 2019, while still up 6.8% year-to-date (see the following charts).

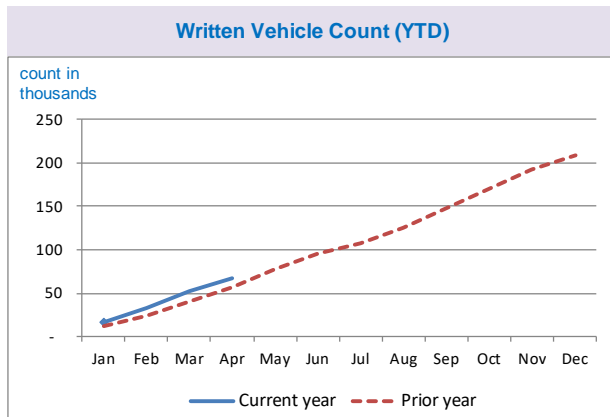


	Apr-20	Apr-19	Amt Chg	% Chg
W. Veh curr mth	15,115	16,717	(1,602)	-9.6%

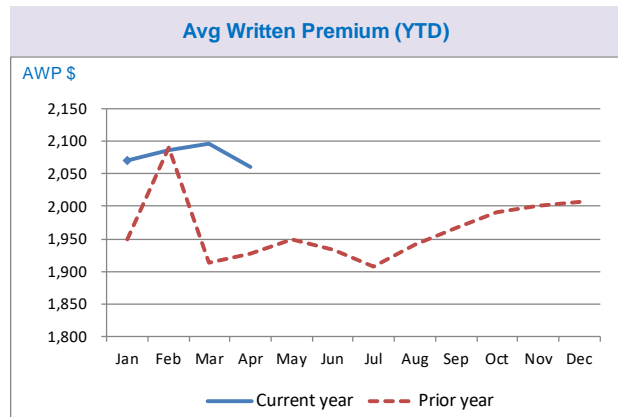


	Apr-20	Apr-19	Amt Chg	% Chg
AWP curr mth	1,939	1,961	(22)	-1.1%

<sup>1</sup>For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2019 or 2020. Groups that have not transferred vehicles in these two periods are ignored.

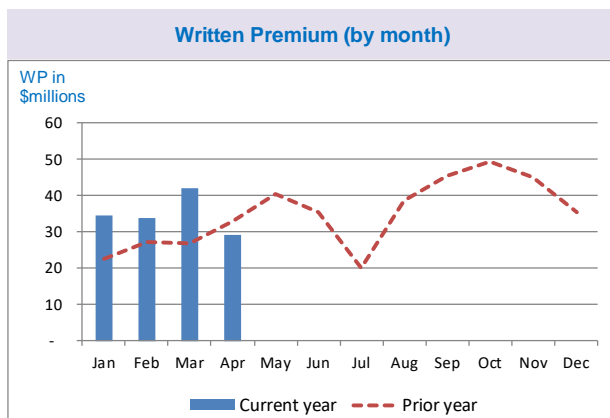


	Apr-20	Apr-19	Amt Chg	% Chg
W. Vehicles YTD	67,871	56,833	11,038	19.4%

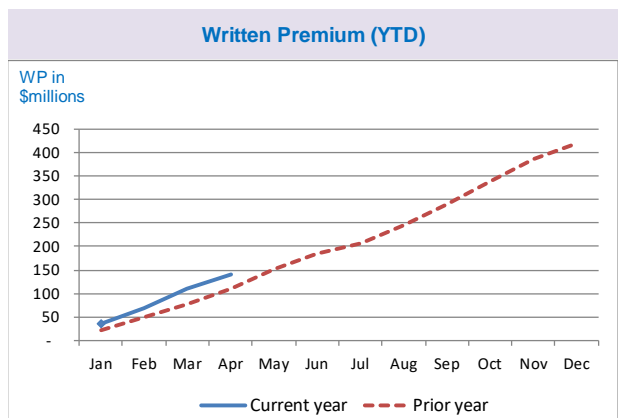


	Apr-20	Apr-19	Amt Chg	% Chg
Avg W. Prem YTD	2,060	1,928	132	6.8%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 10.6% for the month compared with the 0.2% increase we projected last month, yet was still up 27.6% year-to-date (see the following charts).



	Apr-20	Apr-19	Amt Chg	% Chg
WP (\$000s) curr mth	29,308	32,790	(3,482)	-10.6%



	Apr-20	Apr-19	Amt Chg	% Chg
WP (\$000s) YTD	139,819	109,554	30,265	27.6%

Should you require any further information, please call Aidan Chen, AVP Data & Analytics at (416) 863-1750 x 4804.

Saskia Matheson  
President & CEO

**Related links:**

[Ontario RSP April 2020 Operational Report – Actuarial Highlights](#)

\*For additional details on Actual vs Projected variances, IBNR, and valuation (if applicable)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2020**

Risk Sharing Pool - Ontario

Operating Results for the 4 Months Ended April 30, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Net Premiums Written	\$34,572	\$33,748	\$42,191	\$29,308	\$139,819	\$424,774	\$419,790
Decrease (Increase) in Unearned Premiums	1,929	923	(3,646)	\$8,114	7,320	17,875	(60,036)
<b>Net Premiums Earned</b>	<b>\$36,501</b>	<b>\$34,671</b>	<b>\$38,545</b>	<b>\$37,422</b>	<b>\$147,139</b>	<b>\$442,649</b>	<b>\$359,754</b>
<b>Claims Incurred:</b>							
Prior Accident Years:							
Undiscounted	\$102	(\$383)	(\$45,015)	(\$101)	(\$45,397)	(\$45,396)	(\$78,927)
Effect of Discounting	(2,874)	(2,208)	(7,525)	(1,594)	(14,201)	(28,808)	(16,000)
Discounted	(\$2,772)	(\$2,591)	(\$52,540)	(\$1,695)	(\$59,598)	(\$74,204)	(\$94,927)
Current Accident Year:							
Undiscounted	\$45,573	\$43,809	\$42,285	\$44,818	\$176,485	\$529,620	\$444,417
Effect of Discounting	5,911	4,511	2,979	4,538	17,939	44,133	38,828
Discounted	\$51,484	\$48,320	\$45,264	\$49,356	\$194,424	\$573,753	\$483,245
<b>Claims Incurred</b>	<b>\$48,712</b>	<b>\$45,729</b>	<b>(\$7,276)</b>	<b>\$47,661</b>	<b>\$134,826</b>	<b>\$499,549</b>	<b>\$388,318</b>
<b>Underwriting Expenses:</b>							
Expense Allowance	\$10,247	\$10,010	\$12,548	\$8,855	\$41,660	\$126,008	\$123,090
Change in UPDR/DPAC:							
Undiscounted	(447)	(108)	(12,094)	(1,349)	(13,998)	(11,332)	11,983
Effect of Discounting	(247)	(106)	(2,349)	(927)	(3,629)	(4,402)	11,538
Discounted	(694)	(214)	(14,443)	(2,276)	(17,627)	(15,734)	23,521
<b>Underwriting Expenses</b>	<b>\$9,553</b>	<b>\$9,796</b>	<b>(\$1,895)</b>	<b>\$6,579</b>	<b>\$24,033</b>	<b>\$110,274</b>	<b>\$146,611</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$21,764)</b>	<b>(\$20,854)</b>	<b>\$47,716</b>	<b>(\$16,818)</b>	<b>(\$11,720)</b>	<b>(\$167,174)</b>	<b>(\$175,175)</b>
<b>Administrative Expenses</b>	<b>\$111</b>	<b>\$166</b>	<b>\$112</b>	<b>\$127</b>	<b>\$516</b>	<b>\$1,704</b>	<b>\$1,624</b>
<b>Operating Result</b>	<b>(\$21,875)</b>	<b>(\$21,020)</b>	<b>\$47,604</b>	<b>(\$16,945)</b>	<b>(\$12,236)</b>	<b>(\$168,878)</b>	<b>(\$176,799)</b>
<b>Ratios:</b>							
<b>Claims &amp; Expenses Incurred (Earned)</b>							
Prior Accident Years	-7.6%	-7.5%	-136.3%	-4.5%	-40.5%	-16.8%	-26.4%
Current Accident Year	141.0%	139.4%	117.4%	131.9%	132.1%	129.6%	134.3%
All Accident Years Combined	133.4%	131.9%	-18.9%	127.4%	91.6%	112.8%	107.9%
Underwriting & Administrative Expenses (Earned)	26.5%	28.7%	-4.6%	17.9%	16.7%	25.3%	41.2%
<b>Combined Operating Ratio</b>	<b>159.9%</b>	<b>160.6%</b>	<b>-23.5%</b>	<b>145.3%</b>	<b>108.3%</b>	<b>138.1%</b>	<b>149.1%</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