

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
ONTARIO RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F2020 – 052

DATE: JULY 30, 2020

SUBJECT: ONTARIO RISK SHARING POOL
– JUNE 2020 OPERATIONAL REPORT

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

Please be advised that the June 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 currently being used include an initial assessment of the incurred impacts associated with the COVID-19 pandemic;
- (b) The *2020 year-to-date net operating deficit was \$29 million*, with a COR of 113.2% on earned premium of \$218 million;
- (c) The *projected 2020 year-end net operating deficit is now \$162 million*, with a COR of 136.5% on earned premium of \$442 million (our Outlook for 2020 was \$261 million of net operating deficit with a COR of 165.2% on earned premium of \$401 million); and
- (d) As per the quarterly process for the RSPs, member pool usage has been updated to reflect recent member transfers.

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 May 2020 Operational Report, bringing members' sharing current to the second quarter of 2020. The usage update is reflected in the June 2020 Operational Report.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$28.9 million and the incurred loss ratio to the end of six months is 98.2% as summarized in the following table.

Bulletin F2020-052
Ontario Risk Sharing Pool – June 2020 Operational Report

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

Amounts in \$000s	June 2020	June 2019	Year to date Jun 2020	Year to Date Jun 2019
Premium Written	33,656	35,385	204,180	185,547
Premium Earned	33,651	27,199	217,981	167,653
Incurred Losses	39,979	36,134	214,158	236,942
Underwriting & Admin Expense	11,502	14,335	32,720	69,826
Operating Result	(17,830)	(23,270)	(28,897)	(139,115)
Ratios:				
Loss ratio - Prior Accident Years	(7.3%)	(13.0%)	(28.0%)	(1.5%)
- Current Accident Year	126.1%	145.8%	126.2%	142.8%
<i>Total</i>	118.8%	132.8%	98.2%	141.3%
<i>Underwriting & Admin Expense</i>	34.2%	52.7%	15.0%	41.6%
<i>Combined Operating Ratio</i>	153.0%	185.5%	113.2%	182.9%

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: June’s reported claims projections include an additional 10% decrease in Current Accident Year reported claims activity - reducing the projected reported activity over the next month and spreading over the remainder of the year, reflecting a shift in Current Accident Year claims reporting and emergence patterns due to the COVID-19 pandemic impact. This is consistent with previous month’s projections following the valuation assumptions update.

The projected calendar year Operating Result to December 2020 is -\$161.7 million and the estimated combined operating ratio to December 2020 is 136.5%, as summarized in the following table. This updated projection to the end of the year has improved by \$2.5 million from the projection provided last month (see the second and third columns in the table). The improvement is driven by the \$4.3 million decrease in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections.

Bulletin F2020–052
Ontario Risk Sharing Pool – June 2020 Operational Report

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

ON RSP 2020 Yr-end Projection Amounts in \$000s	Current (Jun 2020)	Prior Mth (May 2020)	Change	Final 2020 Outlook*
Premium Written	456,929	461,266	(4,337)	416,066
Premium Earned	442,481	446,864	(4,383)	400,999
Incurred Losses	471,753	477,126	(5,373)	523,840
Underwriting & Admin Expense	132,401	133,929	(1,528)	138,522
Net Result from Operations	(161,673)	(164,191)	2,518	(261,363)
Ratios:				
Loss ratio - Prior Accident Years	(16.9%)	(16.7%)	(0.2%)	(5.9%)
- Current Accident Year	123.5%	123.5%	-	136.6%
<i>Total</i>	106.6%	106.8%	(0.2%)	130.7%
Underwriting & Admin Expense	29.9%	30.0%	(0.1%)	34.5%
Combined Operating Ratio	136.5%	136.8%	(0.3%)	165.2%

rounding differences may occur

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

Current Month Results

The Ontario Risk Sharing Pool produced a -\$17.8 million Operating Result in the month of June 2020, a \$5.4 million improvement compared with the same month last year. This improvement is composed of a \$10.9 million favourable impact stemming from the overall decrease in the combined ratio (from 185.5% to 153% applied to \$33.7 million in earned premium), offset by a \$5.5 million unfavourable impact associated with the \$6.5 million increase in earned premium (at a prior combined ratio of 185.5%).

This month's results moved the year-to-date combined operating ratio from 105.9% at the end of five months to 113.2% at the end of six months. The 7.3 percentage point increase is composed of a 3.8 percentage point increase in the Prior Accident Years loss ratio, coupled with a 3.5 percentage point increase in the expense 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 F2020–052
Ontario Risk Sharing Pool – June 2020 Operational Report

ON RSP Summary of Actual vs Projected variances

June 2020	Actual	Projection	Difference	Difference %
Written Premium	33,656	36,064	(2,408)	(6.7%)
Earned Premium	33,651	36,044	(2,393)	(6.6%)
Reported Losses				
Paid Losses	25,323	25,488	(165)	(0.6%)
Paid Expenses	1,328	2,756	(1,428)	(51.8%)
Change in Outstanding Losses	1,714	1,529	185	12.1%
Total Reported Losses	28,365	29,773	(1,408)	(4.7%)
Change in IBNR Provision*	11,614	13,108	(1,494)	
Change in Premium Deficiency (DPAC)*	1,626	1,462	164	

(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 June 2020, reported losses were \$1.4 million lower than projected. The Current Accident Year had a \$3.5 million favourable variance in reported losses, while the Prior Accident Years had a \$2.1 million unfavourable variance. Of all the Prior Accident Years, 2017 had the largest variance in reported losses at \$2.9 million unfavourable, followed by 2018 at \$1.3 million unfavourable, 2012 at \$1.3 million favourable, and 2019 at \$1.1 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. 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. All other variances were within the set thresholds for the month.

Booking IBNR

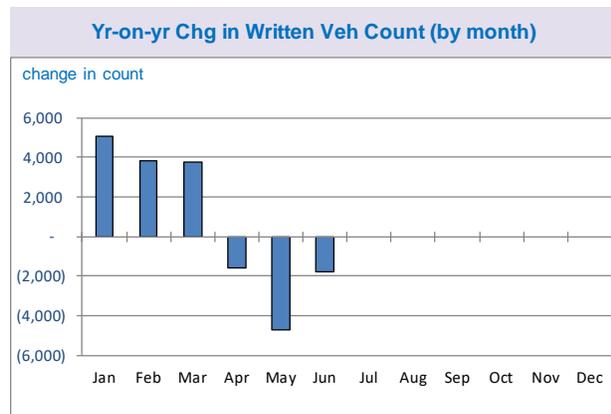
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

Effect of Quarterly Valuation

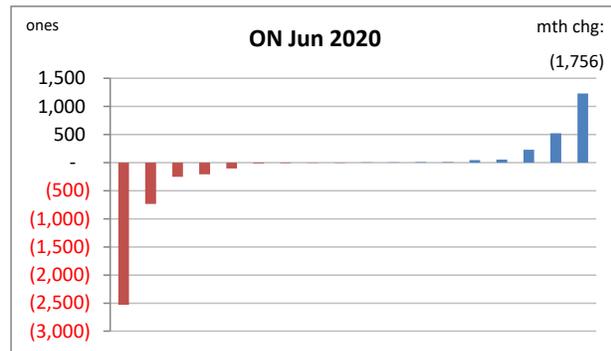
The June 2020 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2020). The actuarial valuation will be updated next as at June 30, 2020 and we anticipate that the results will be reflected in the August 2020 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 up 0.7% from 2019, being 2.7% of the 2018 industry private passenger vehicle count (including farmers) (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 June reporting a decrease of 1,756 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 287 vehicles, indicating a variance of 1,469 vehicles from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the RSP in June 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. Nine member company groups transferred fewer vehicles to the pool this month compared to a year ago, while nine transferred more¹. Of the 9 member company group transferring fewer vehicles, 1 member company group accounted for 66% of the total transfer decrease for the “decliner” members.

Of the 9 member company groups transferring more vehicles, 1 member company group accounted for

¹For 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.

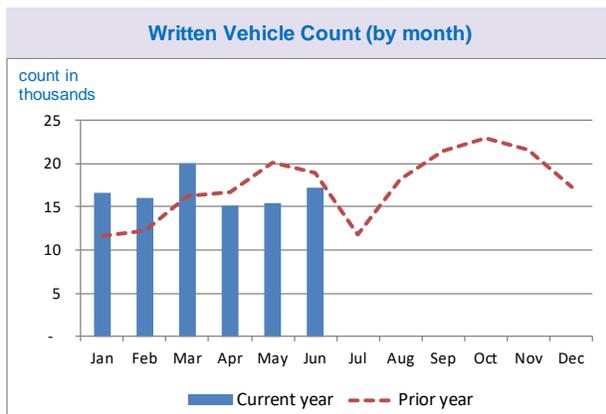
Bulletin F2020-052
Ontario Risk Sharing Pool – June 2020 Operational Report

59% of the total transfer increases for the “grower” members.

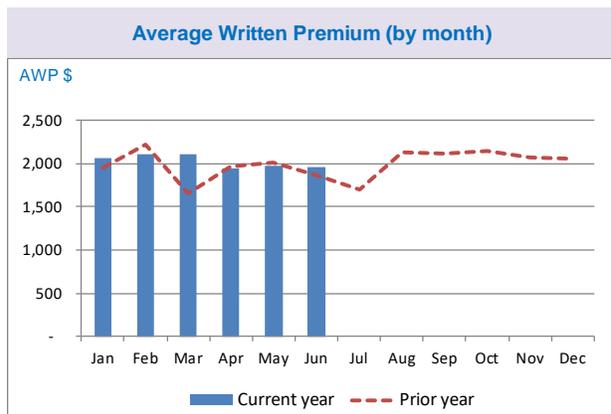


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

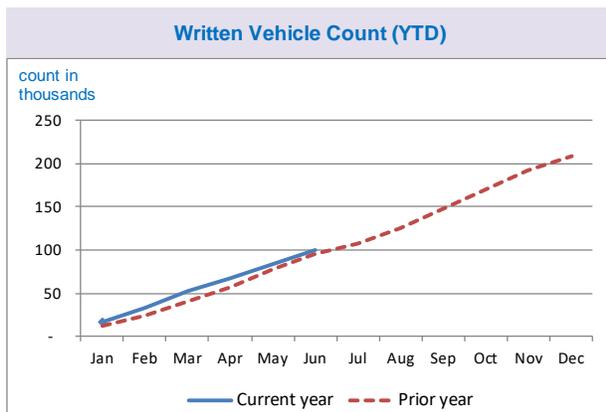
June’s vehicle count transfers to the pool represents a 9.3% decrease from June 2019, however, counts were still up 4.8% year-to-date. Average written premium was up 4.8% in June 2020 compared with the same month in 2019, and was up 5.0% year-to-date (see the following charts).



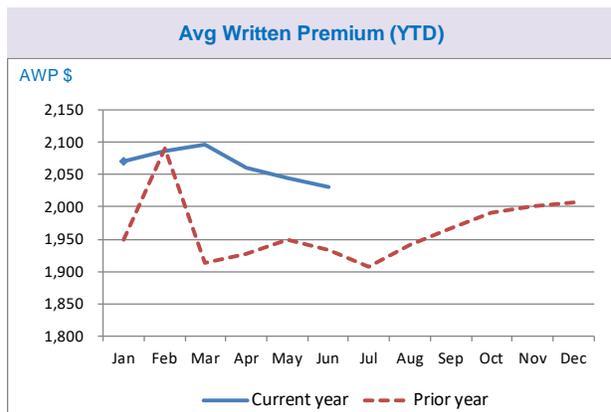
	Jun-20	Jun-19	Amt Chg	% Chg
W. Veh curr mth	17,167	18,923	(1,756)	-9.3%



	Jun-20	Jun-19	Amt Chg	% Chg
AWP curr mth	1,960	1,870	90	4.8%



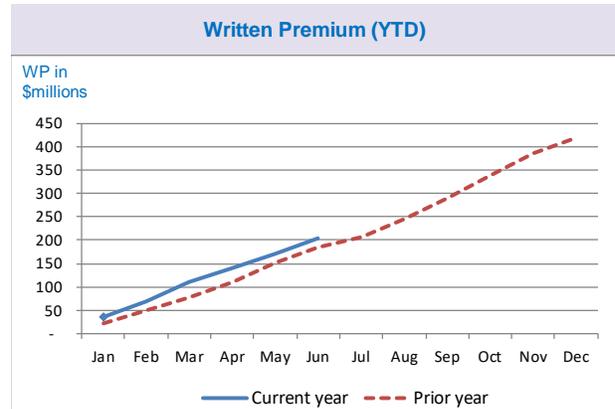
	Jun-20	Jun-19	Amt Chg	% Chg
W. Vehicles YTD	100,542	95,942	4,600	4.8%



	Jun-20	Jun-19	Amt Chg	% Chg
Avg W. Prem YTD	2,031	1,934	97	5.0%

Bulletin F2020-052
Ontario Risk Sharing Pool – June 2020 Operational Report

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 4.9% for the month compared with the 1.9% increase we projected last month, yet was still up 10% year-to-date (see the following charts).



	Jun-20	Jun-19	Amt Chg	% Chg
WP (\$000s) curr mth	33,656	35,385	(1,730)	-4.9%

	Jun-20	Jun-19	Amt Chg	% Chg
WP (\$000s) YTD	204,179	185,546	18,633	10.0%

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 June 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 6 Months Ended June 30, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Net Premiums Written	\$34,572	\$33,748	\$42,191	\$29,308	\$30,705	\$33,656	\$204,180	\$456,929	\$419,790
Decrease (Increase) in Unearned Premiums	1,929	923	(3,646)	\$8,114	\$6,486	(\$5)	13,801	(14,448)	(60,036)
Net Premiums Earned	\$36,501	\$34,671	\$38,545	\$37,422	\$37,191	\$33,651	\$217,981	\$442,481	\$359,754
Claims Incurred:									
Prior Accident Years:									
Undiscounted	\$102	(\$383)	(\$45,015)	(\$101)	(\$18,176)	(\$219)	(\$63,792)	(\$63,791)	(\$78,927)
Effect of Discounting	(2,874)	(2,208)	(7,525)	(1,594)	19,237	(2,230)	2,806	(11,024)	(16,000)
Discounted	(\$2,772)	(\$2,591)	(\$52,540)	(\$1,695)	\$1,061	(\$2,449)	(\$60,986)	(\$74,815)	(\$94,927)
Current Accident Year:									
Undiscounted	\$45,573	\$43,809	\$42,285	\$44,818	\$30,138	\$37,803	\$244,426	\$495,192	\$444,417
Effect of Discounting	5,911	4,511	2,979	4,538	8,154	4,625	30,718	51,376	38,828
Discounted	\$51,484	\$48,320	\$45,264	\$49,356	\$38,292	\$42,428	\$275,144	\$546,568	\$483,245
Claims Incurred	\$48,712	\$45,729	(\$7,276)	\$47,661	\$39,353	\$39,979	\$214,158	\$471,753	\$388,318
Underwriting Expenses:									
Expense Allowance	\$10,247	\$10,010	\$12,548	\$8,855	\$9,120	\$9,753	\$60,533	\$135,346	\$123,090
Change in UPDR/DPAC:									
Undiscounted	(447)	(108)	(12,094)	(1,349)	(15,938)	1,450	(28,486)	(10,271)	11,983
Effect of Discounting	(247)	(106)	(2,349)	(927)	3,374	176	(79)	5,538	11,538
Discounted	(694)	(214)	(14,443)	(2,276)	(12,564)	1,626	(28,565)	(4,733)	23,521
Underwriting Expenses	\$9,553	\$9,796	(\$1,895)	\$6,579	(\$3,444)	\$11,379	\$31,968	\$130,613	\$146,611
Net Underwriting Gain (Loss)	(\$21,764)	(\$20,854)	\$47,716	(\$16,818)	\$1,282	(\$17,707)	(\$28,145)	(\$159,885)	(\$175,175)
Administrative Expenses	\$111	\$166	\$112	\$127	\$113	\$123	\$752	\$1,788	\$1,624
Operating Result	(\$21,875)	(\$21,020)	\$47,604	(\$16,945)	\$1,169	(\$17,830)	(\$28,897)	(\$161,673)	(\$176,799)
Ratios:									
Claims & Expenses Incurred (Earned)									
Prior Accident Years	-7.6%	-7.5%	-136.3%	-4.5%	2.9%	-7.3%	-28.0%	-16.9%	-26.4%
Current Accident Year	141.0%	139.4%	117.4%	131.9%	103.0%	126.1%	126.2%	123.5%	134.3%
All Accident Years Combined	133.4%	131.9%	-18.9%	127.4%	105.9%	118.8%	98.2%	106.6%	107.9%
Underwriting & Administrative Expenses (Earned)	26.5%	28.7%	-4.6%	17.9%	-9.0%	34.2%	15.0%	29.9%	41.2%
Combined Operating Ratio	159.9%	160.6%	-23.5%	145.3%	96.9%	153.0%	113.2%	136.5%	149.1%

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