



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
ONTARIO RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F2020 – 076

DATE: OCTOBER 29, 2020

SUBJECT: ONTARIO RISK SHARING POOL
– SEPTEMBER 2020 OPERATIONAL REPORT

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

Please be advised that the September 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 a review and assessment of the incurred impacts associated with the COVID-19 pandemic;
- (b) The **2020 year-to-date net operating surplus was \$51 million**, with a COR of 84.1% on earned premium of \$322 million; and
- (c) The **projected 2020 year-end net operating deficit is now \$8.1 million**, with a COR of 101.8% on earned premium of \$433 million (our Outlook for 2020 was \$261 million of net operating deficit with a COR of 165.2% on earned premium of \$401 million);
- (d) As per the quarterly process for the RSPs, member pool usage has been updated to reflect recent member transfers.

Summary of Financial Results

The calendar year-to-date Operating Result is \$51.0 million and the incurred loss ratio to the end of nine months is 69.3% as summarized in the following table.

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

Amounts in \$000s	September 2020	September 2019	Year to date Sep 2020	Year to Date Sep 2019
Premium Written	36,222	45,425	312,331	289,884
Premium Earned	32,953	30,391	321,579	258,056
Incurred Losses	32,596	39,517	223,091	267,580
Underwriting & Admin Expense	16,482	19,594	47,454	97,413
Operating Result	(16,125)	(28,720)	51,034	(106,937)
Ratios:				
Loss ratio - <i>Prior Accident Years</i>	(8.8%)	(3.9%)	(38.7%)	(32.6%)
- <i>Current Accident Year</i>	107.7%	133.9%	108.0%	136.2%
<i>Total</i>	98.9%	130.0%	69.3%	103.6%
Underwriting & Admin Expense	50.0%	64.5%	14.8%	37.7%
Combined Operating Ratio	148.9%	194.5%	84.1%	141.3%

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

The projected calendar year Operating Result to December 2020 is -\$8.1 million and the estimated combined operating ratio to December 2020 is 101.8%, as summarized in the following table. This updated projection to the end of the year has improved by \$5.8 million from the projection provided last month (see the second and third columns in the table). The improvement is driven by the \$10.6 million decrease in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections.

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 (Sep 2020)	Prior Mth (Aug 2020)	Change	Final 2020 Outlook*
Premium Written	441,859	452,481	(10,622)	416,066
Premium Earned	433,376	438,607	(5,231)	400,999
Incurred Losses	330,724	336,599	(5,875)	523,840
Underwriting & Admin Expense	110,727	115,837	(5,110)	138,522
Net Result from Operations	(8,075)	(13,829)	5,754	(261,363)
Ratios:				
Loss ratio - Prior Accident Years	(30.3%)	(29.7%)	(0.6%)	(5.9%)
- Current Accident Year	106.6%	106.4%	0.2%	136.6%
<i>Total</i>	76.3%	76.7%	(0.4%)	130.7%
Underwriting & Admin Expense	25.5%	26.4%	(0.9%)	34.5%
Combined Operating Ratio	101.8%	103.1%	(1.3%)	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 -\$16.1 million Operating Result in the month of September 2020, a \$12.6 million improvement compared with the same month last year. This improvement is composed of a \$15.0 million favourable impact stemming from the overall decrease in the combined ratio (from 194.6% to 148.9% applied to \$33.0 million in earned premium), offset by a \$2.4 million unfavourable impact associated with the \$2.6 million increase in earned premium (at a prior combined ratio of 194.5%).

This month's results moved the year-to-date combined operating ratio from 76.7% at the end of eight months to 84.1% at the end of nine months. The 7.4 percentage point increase is composed of a 3.4 percentage point increase in the Prior Accident Years loss ratio and a 4.1 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.

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ON RSP Summary of Actual vs Projected variances

September 2020	Actual	Projection	Difference	Difference %
Written Premium	36,222	45,457	(9,235)	(20.3%)
Earned Premium	32,953	36,726	(3,773)	(10.3%)
Reported Losses				
Paid Losses	28,643	25,408	3,235	12.7%
Paid Expenses	1,390	2,382	(992)	(41.6%)
Change in Outstanding Losses	(3,278)	1,674	(4,952)	(295.8%)
Total Reported Losses	26,755	29,464	(2,709)	(9.2%)
Change in IBNR Provision*	5,841	7,663	(1,822)	
Change in Premium Deficiency (DPAC)*	5,983	7,230	(1,247)	

(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 September 2020, reported losses were \$2.7 million lower than projected. The Current Accident Year had an approximately \$4.2 million favourable variance in reported losses, while the Prior Accident Years had an approximately \$1.5 million unfavourable variance. Of all the Prior Accident Years, 2018 had the largest variance in reported losses at \$3.0 million unfavourable, followed by 2015 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.

Booking IBNR

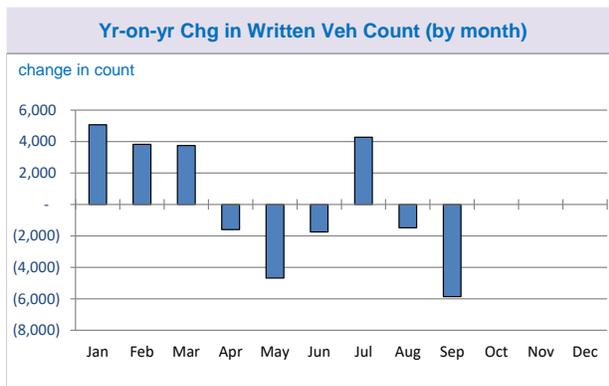
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

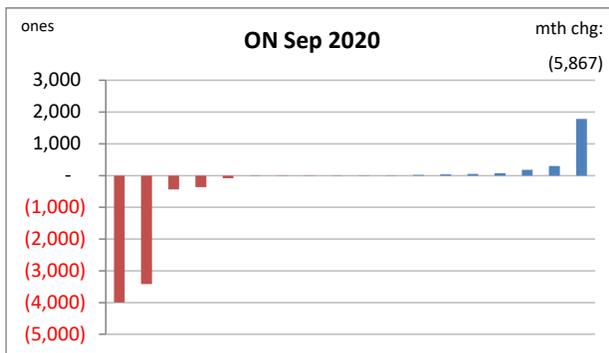
The September 2020 Ontario Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at June 30, 2020). The actuarial valuation will be updated next as at September 30, 2020 and we anticipate that the results will be reflected in the October 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 1.5% from 2019, being 2.6% of the 2019 industry private passenger vehicle count (including farmers) (as we don't have an industry farmers private passenger count yet for 2019, we continue to use the 2018 farmer 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.



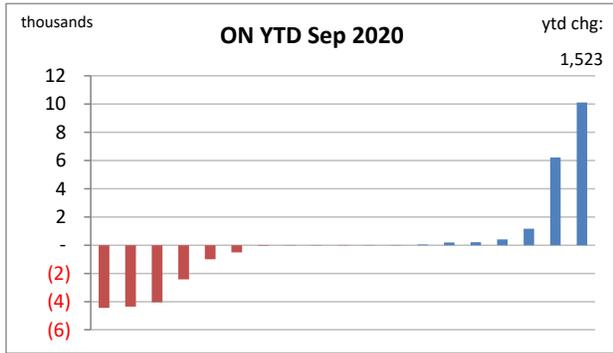
The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with September reporting a decrease of 5,867 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 1,820 vehicles, indicating a variance of 4,047 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 September 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. Ten member company groups transferred fewer vehicles to the pool this month compared to a year ago, while nine transferred more¹. Of the 10 member company groups transferring fewer vehicles, 3 member company groups accounted for 76% of the total transfer decrease for the “decliner” members. Of the 9 member company groups transferring more vehicles, 1 member company group accounted

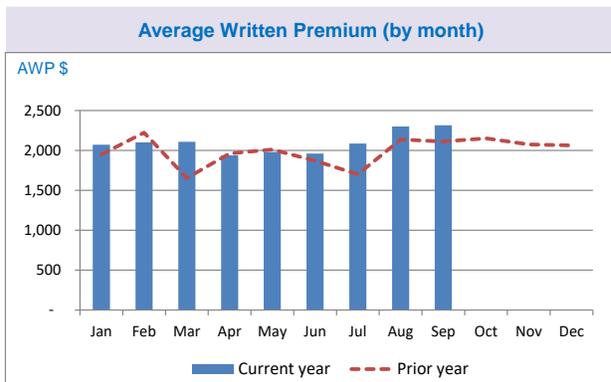
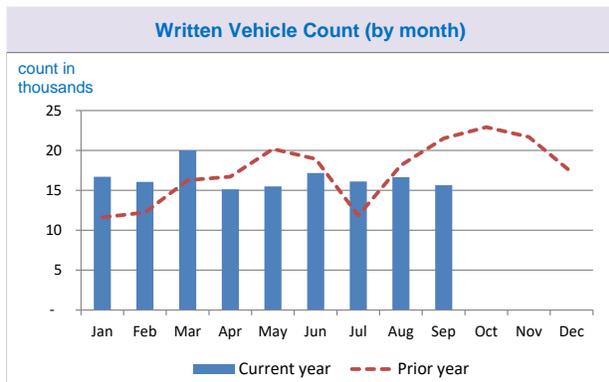
¹For the purposes of discussion here, we only include those member company groups that transferred at least one vehicle in either 2019 or 2020. Groups that have not transferred vehicles in these two periods are ignored.

for 78% of the total transfer increases for the “grower” members.



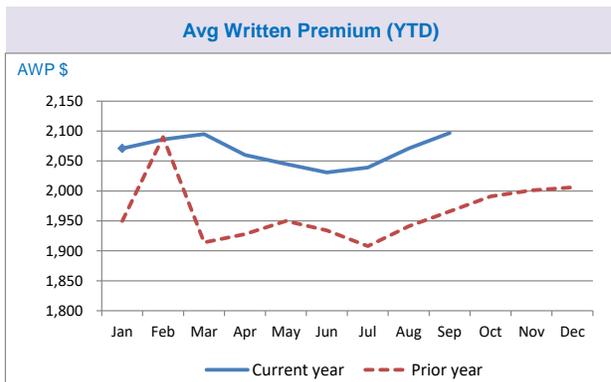
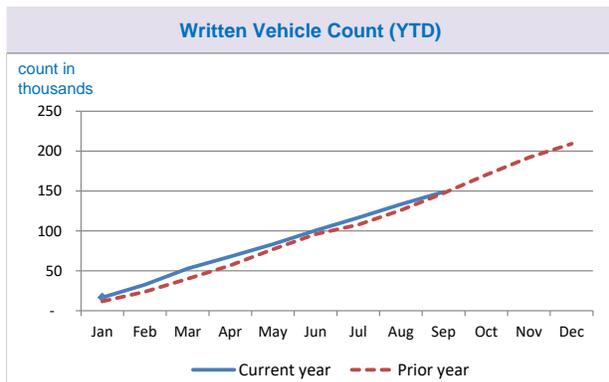
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

September’s vehicle count transfers to the pool represents a 27.3% decrease from September 2019, however, counts were up 1.0% year-to-date. Average written premium was up 9.7% in September 2020 compared with the same month in 2019, and was up 6.7% year-to-date (see the following charts).



	Sep-20	Sep-19	Amt Chg	% Chg
W. Veh curr mth	15,639	21,506	(5,867)	-27.3%

	Sep-20	Sep-19	Amt Chg	% Chg
AWP curr mth	2,316	2,112	204	9.7%



	Sep-20	Sep-19	Amt Chg	% Chg
W. Vehicles YTD	148,949	147,426	1,523	1.0%

	Sep-20	Sep-19	Amt Chg	% Chg
Avg W. Prem YTD	2,097	1,966	131	6.7%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 20.3% for the month compared with the 0.1% increase we projected last month, but was still up 7.7% year-to-date (see the following charts).



	Sep-20	Sep-19	Amt Chg	% Chg
WP (\$000s) curr mth	36,222	45,425	(9,203)	-20.3%



	Sep-20	Sep-19	Amt Chg	% Chg
WP (\$000s) YTD	312,330	289,883	22,447	7.7%

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 September 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 9 Months Ended September 30, 2020 (Discounted basis)
Source: Monthly Operational Report
(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	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	\$33,615	\$38,314	\$36,222	\$312,331	\$441,859	\$419,790
Decrease (Increase) in Unearned Premiums	1,929	923	(3,646)	\$8,114	\$6,486	(\$5)	\$1,030	(\$2,314)	(\$3,269)	9,248	(8,483)	(60,036)
Net Premiums Earned	\$36,501	\$34,671	\$38,545	\$37,422	\$37,191	\$33,651	\$34,645	\$36,000	\$32,953	\$321,579	\$433,376	\$359,754
Claims Incurred:												
Prior Accident Years:												
Undiscounted	\$102	(\$383)	(\$45,015)	(\$101)	(\$18,176)	(\$219)	(\$755)	(\$45,434)	(\$750)	(\$110,731)	(\$110,730)	(\$78,927)
Effect of Discounting	(2,874)	(2,208)	(7,525)	(1,594)	19,237	(2,230)	(1,911)	(12,399)	(2,134)	(13,638)	(20,548)	(16,000)
Discounted	(\$2,772)	(\$2,591)	(\$52,540)	(\$1,695)	\$1,061	(\$2,449)	(\$2,666)	(\$57,833)	(\$2,884)	(\$124,369)	(\$131,278)	(\$94,927)
Current Accident Year:												
Undiscounted	\$45,573	\$43,809	\$42,285	\$44,818	\$30,138	\$37,803	\$39,430	(\$6,828)	\$32,086	\$309,114	\$415,767	\$444,417
Effect of Discounting	5,911	4,511	2,979	4,538	8,154	4,625	4,835	(601)	3,394	38,346	46,235	38,828
Discounted	\$51,484	\$48,320	\$45,264	\$49,356	\$38,292	\$42,428	\$44,265	(\$7,429)	\$35,480	\$347,460	\$462,002	\$483,245
Claims Incurred	\$48,712	\$45,729	(\$7,276)	\$47,661	\$39,353	\$39,979	\$41,599	(\$65,262)	\$32,596	\$223,091	\$330,724	\$388,318
Underwriting Expenses:												
Expense Allowance	\$10,247	\$10,010	\$12,548	\$8,855	\$9,120	\$9,753	\$9,572	\$10,889	\$10,371	\$91,365	\$129,705	\$123,090
Change in UPDR/DPAC:												
Undiscounted	(447)	(108)	(12,094)	(1,349)	(15,938)	1,450	1,406	(23,196)	4,926	(45,350)	(25,765)	11,983
Effect of Discounting	(247)	(106)	(2,349)	(927)	3,374	176	47	(713)	1,057	312	5,126	11,538
Discounted	(694)	(214)	(14,443)	(2,276)	(12,564)	1,626	1,453	(23,909)	5,983	(45,038)	(20,639)	23,521
Underwriting Expenses	\$9,553	\$9,796	(\$1,895)	\$6,579	(\$3,444)	\$11,379	\$11,025	(\$13,020)	\$16,354	\$46,327	\$109,066	\$146,611
Net Underwriting Gain (Loss)	(\$21,764)	(\$20,854)	\$47,716	(\$16,818)	\$1,282	(\$17,707)	(\$17,979)	\$114,282	(\$15,997)	\$52,161	(\$6,414)	(\$175,175)
Administrative Expenses	\$111	\$166	\$112	\$127	\$113	\$123	\$134	\$113	\$128	\$1,127	\$1,661	\$1,624
Operating Result	(\$21,875)	(\$21,020)	\$47,604	(\$16,945)	\$1,169	(\$17,830)	(\$18,113)	\$114,169	(\$16,125)	\$51,034	(\$8,075)	(\$176,799)
Ratios:												
Claims & Expenses Incurred (Earned)												
Prior Accident Years	-7.6%	-7.5%	-136.3%	-4.5%	2.9%	-7.3%	-7.7%	-160.6%	-8.8%	-38.7%	-30.3%	-26.4%
Current Accident Year	141.0%	139.4%	117.4%	131.9%	103.0%	126.1%	127.8%	-20.6%	107.7%	108.0%	106.6%	134.3%
All Accident Years Combined	133.4%	131.9%	-18.9%	127.4%	105.9%	118.8%	120.1%	-181.2%	98.9%	69.3%	76.3%	107.9%
Underwriting & Administrative Expenses (Earned)	26.5%	28.7%	-4.6%	17.9%	-9.0%	34.2%	32.2%	-35.9%	50.0%	14.8%	25.5%	41.2%
Combined Operating Ratio	159.9%	160.6%	-23.5%	145.3%	96.9%	153.0%	152.3%	-217.1%	148.9%	84.1%	101.8%	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