

TO: MEMBERS OF THE FACILITY ASSOCIATION

**ATTENTION: CHIEF EXECUTIVE OFFICER
NOVA SCOTIA RISK SHARING POOL PROJECT MANAGER**

BULLETIN NO.: F16 – 021

DATE: MARCH 29, 2016

**SUBJECT: NOVA SCOTIA RISK SHARING POOL
– FEBRUARY 2016 OPERATIONAL REPORT**

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

Please be advised that the February 2016 Nova Scotia Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Government Line Allocation Ratio Process

FA has implemented an updated process for determining allocation ratios used to allocate certain values among government lines. The new process uses ratios reviewed and approved by the Appointed Actuary that are applied to current and projection months' IBNR and actuarial present value adjustments, and to projection months' claims payments and case reserves. The new process was introduced in part to deal with the issue discussed in the Ontario RSP April 2015 Bulletin [F15-033](#), but also in an effort to reduce volatility in the government line amounts from month-to-month.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$0.7 million and the incurred loss ratio to the end of 2 months is 107.4%, as summarized in the table at the top of the next page.

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Amounts in \$000s	February 2016	February 2015	Year to date Feb 2016	Year to Date Feb 2015
Written Premiums	783	824	1,605	1,611
Earned Premiums	1,143	1,055	2,308	2,197
Incurred Losses	1,212	1,017	2,478	2,146
Underwriting Expenses and Others	257	306	543	605
Net Result from Operations	(326)	(268)	(713)	(554)
Ratios:				
Loss ratio % - Prior Accident Year	(4.3%)	(4.4%)	(6.9%)	(4.6%)
- Current Accident Years	110.3%	100.8%	114.3%	102.3%
<i>Total</i>	106.0%	96.4%	107.4%	97.7%
Underwriting & Admin Exp.%	22.5%	29.0%	23.5%	27.5%
Combined Operating Ratio	128.5%	125.4%	130.9%	125.2%

Rounding differences may apply.

These results are discussed in some detail in the “Current Month Results” section below. For additional numeric details, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2016” attached to this bulletin.

Updated Projection to Year-end 2016

The updated calendar year Net Result from Operations to December 2016 is -\$6.1 million and the estimated combined operating ratio to December 2016 is 142.5%. This updated projection to the end of the year has deteriorated by \$0.2 million from the projection provided last month (-\$5.9 million and 141.2%). This deterioration mainly stems from the overall increase in the combined ratio (from 141.2% to 142.5% applied to \$14.4 million in projected earned premium).

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$0.3 million Net Result from Operations in the month of February 2016, no significant change from the same month last year.

This month’s results moved the year-to-date combined operating ratio from 133.2% at the end of 1 month to 130.9% at the end of 2 months. The 2.3 percentage point decrease is composed of a 3.9 percentage point decrease in the Current Accident Year loss ratio, and a 0.1 percentage point decrease in the expense ratio, offset by a 2.6 percentage point increase in the Prior 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.

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February 2016	Actual	Projection	Difference	Difference %
Written Premiums	783	759	24	3.2%
Earned Premiums	1,143	1,180	(37)	(3.1%)
Reported Losses				
Paid Losses	536	531	5	0.9%
Loss Expenses Paid	31	24	7	29.2%
Change in Outstanding Losses	394	332	62	18.7%
Total Reported Losses	961	887	74	8.3%
Change in IBNR *	251	368	(117)	
Change in Premium Deficiency (DPAC) *	(52)	(60)	8	

*(Amounts in \$000's)**Rounding differences may occur.** Detailed information is included at [Nova Scotia RSP February 2016 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 above set thresholds and responds as appropriate. For this month, the variances were within threshold levels associated with the monthly reporting volatility.

For the month of February 2016, reported losses were \$0.1 million higher than projected. The Current Accident Year had a \$0.2 million unfavourable variance in reported losses, while the Prior Accident Years had a \$0.1 million favourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

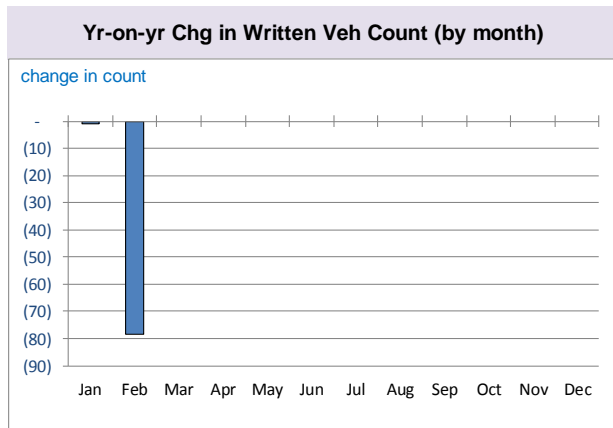
Booking IBNR

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 [Nova Scotia RSP February 2016 Operational Report – Actuarial Highlights](#).

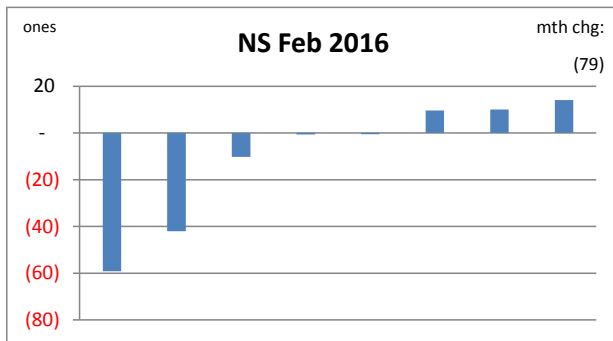
Effect of Quarterly Valuation

The February 2016 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2015). The actuarial valuation will be updated next as at December 31, 2015 and we anticipate that the results will be reflected in the March 2016 Operational Report.

Management Comments

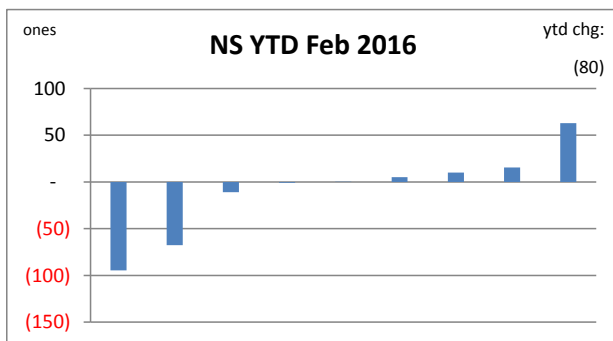


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with February showing a decrease of 79 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 77 vehicles, indicating a variance of 2 from the actual transfers.



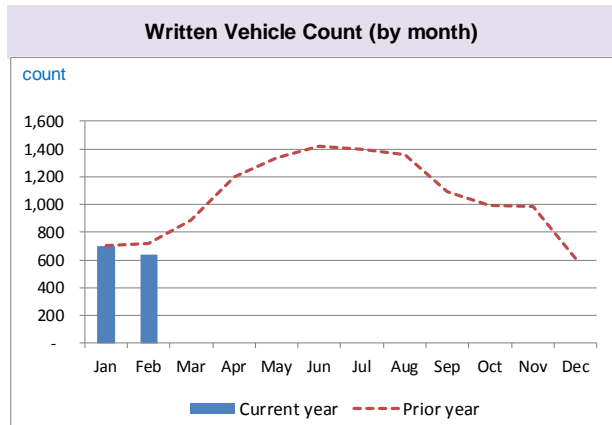
The chart on the left shows the overall change in the month, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 3 transferred more. Of the 5 member company groups transferring fewer vehicles, 2 member

company groups accounted for 90% of the total transfer decrease for these “decliner” members. Of the 3 member company groups transferring more vehicles, 1 member company group accounted for 42% of the total transfer increase for these “grower” members.

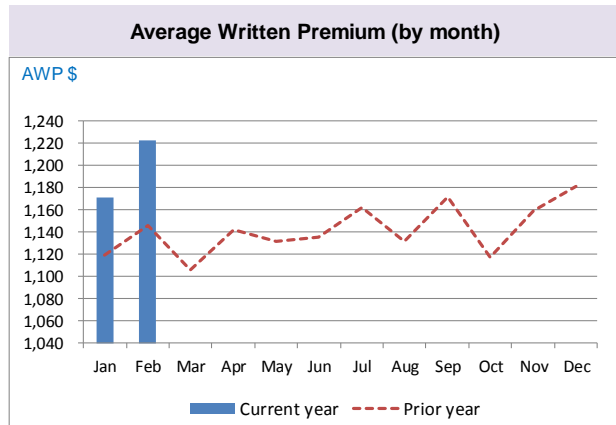


The chart on the left presents the same information as the previous chart, but on a year-to-date basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by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

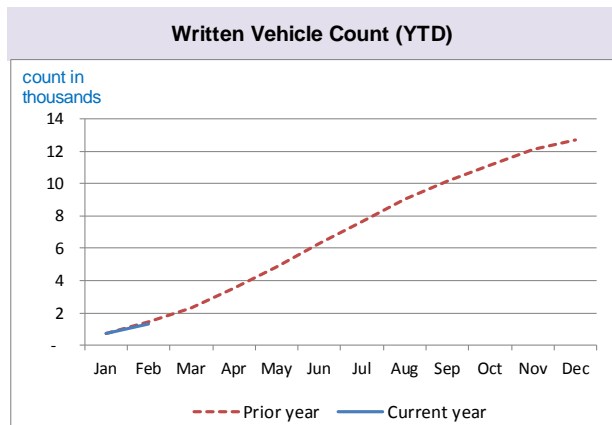
February’s vehicle count transfers to the pool represent a 10.9% decrease from February 2015, and vehicle counts were down 5.6% year-to-date. Average written premium was up 6.7% in February 2016, and was up 5.7% year-to-date (see charts at the top of the next page).



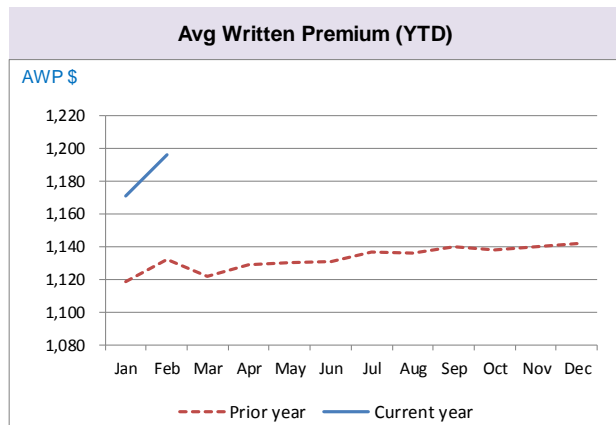
	Feb-16	Feb-15	Amt Chg	% Chg
W. Veh curr mth	640	719	(79)	-10.9%



	Feb-16	Feb-15	Amt Chg	% Chg
AWP curr mth	1,223	1,146	77	6.7%



	Feb-16	Feb-15	Amt Chg	% Chg
W. Vehicles YTD	1,342	1,422	(80)	-5.6%

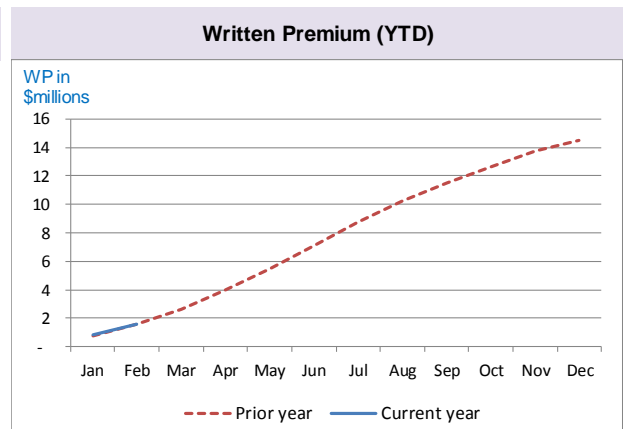
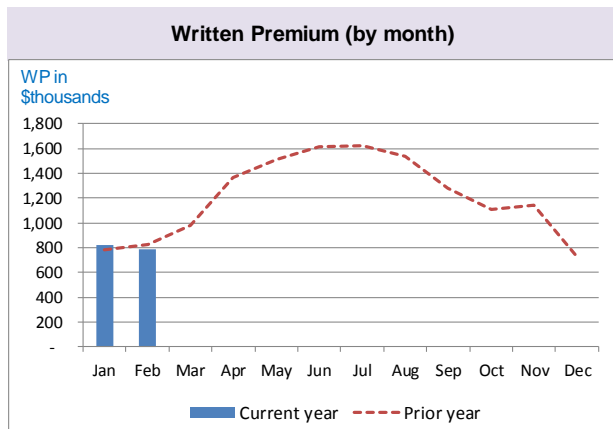


	Feb-16	Feb-15	Amt Chg	% Chg
Avg W. Prem YTD	1,196	1,132	64	5.7%

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 7.8% decrease we projected last month, and was down 0.3% year-to-date (see charts at the top of the next page).

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Nova Scotia Risk Sharing Pool – February 2016 Operational Report



	Feb-16	Feb-15	Amt Chg	% Chg
WP (\$000s) curr mth	783	824	(40)	-4.9%

	Feb-16	Feb-15	Amt Chg	% Chg
WP (\$000s) YTD	1,605	1,610	(5)	-0.3%

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

David J. Simpson, M.B.A., FCIP, C. Dir.
President & CEO

Related links:

[Nova Scotia RSP February 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Nova Scotia

EXHIBIT 1

Operating Results for 2 Months ended February 29, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

	January	February	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Underwriting Revenue:					
Net Premiums Written	\$822	\$783	\$1,605	\$14,177	\$14,500
Decrease (Increase) in Unearned Premiums	343	360	703	238	(421)
Net Premiums Earned	\$1,165	\$1,143	\$2,308	\$14,415	\$14,079
Claims Incurred:					
Prior Accident Years:					
Undiscounted	(\$78)	(\$16)	(\$94)	(\$94)	\$431
Effect of Discounting	(33)	(33)	(66)	(644)	(255)
Discounted	(\$111)	(\$49)	(\$160)	(\$738)	\$176
Current Accident Year:					
Undiscounted	\$1,245	\$1,159	\$2,404	\$14,486	\$13,503
Effect of Discounting	132	102	234	1,222	1,187
Discounted	\$1,377	\$1,261	\$2,638	\$15,708	\$14,690
Claims Incurred	\$1,266	\$1,212	\$2,478	\$14,970	\$14,866
Underwriting Expenses:					
Expense Allowance	\$287	\$273	\$560	\$4,932	\$5,008
Change in UPDR/DPAC:					
Undiscounted	6	(16)	(10)	104	546
Effect of Discounting	(36)	(36)	(72)	(14)	181
Discounted	(\$30)	(\$52)	(82)	\$90	\$727
Underwriting Expenses	\$257	\$221	\$478	\$5,022	\$5,735
Net Underwriting Gain (Loss)	(\$358)	(\$290)	(\$648)	(\$5,577)	(\$6,522)
Administrative Expenses	\$29	\$36	\$65	\$542	\$507
Net Result from Operations	(\$387)	(\$326)	(\$713)	(\$6,119)	(\$7,029)
Ratios:					
Claims & Expenses Incurred (Earned)					
Prior Accident Years	-9.5%	-4.3%	-6.9%	-5.1%	1.3%
Current Accident Year	118.2%	110.3%	114.3%	109.0%	104.3%
All Accident Years Combined	108.7%	106.0%	107.4%	103.9%	105.6%
Underwriting & Administrative Expenses (Earned)	24.5%	22.5%	23.5%	38.6%	44.3%
Combined Operating Ratio	133.2%	128.5%	130.9%	142.5%	149.9%

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