

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F16 – 042**

**DATE: JUNE 24, 2016**

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

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

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

### **New This Month**

#### *Annual Update of Member Sharing Ratios*

The May 2016 Operational Report reflects the annual update of member sharing ratios for Accident Years 2014, 2015, 2016 and 2017. Please refer to Bulletin [F16-46](#) for additional information.

#### *Valuation*

A valuation of the Nova Scotia Risk Sharing Pool (“RSP”) as at March 31, 2016 has been completed since last month’s Operational Report and the results of that valuation have been incorporated into this month’s Operational Report. The valuation was completed by the Facility Association’s internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

The implementation of the new valuation resulted in an estimated overall **\$0.4 million unfavourable** impact on the month’s net result from operations, adding an estimated 7.1 points to the year-to-date Combined Operating Ratio (ending at 134.1%). The impact is summarized in the tables at the top of the next page<sup>1</sup>.

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<sup>1</sup> In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dscst rate” refers to the impact of changes in the selected discount rate applied to projected cashflows; and “apv adj.” refers to “actuarial present value adjustments”.

## Bulletin F16-042

### Nova Scotia Risk Sharing Pool – May 2016 Operational Report

NS	unfav / (fav) for the month and ytd						ytd EP 5,964 (actual)						
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:						
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins		
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL		Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	[6]
PAYs	294	36	330	21	-	351	4.9%	0.6%	5.5%	0.4%	-	-	5.9%
CAY	31	8	39	6	-	45	0.5%	0.1%	0.7%	0.1%	-	-	0.8%
Prem Def	(31)	50	19	6	-	25	(0.5%)	0.8%	0.3%	0.1%	-	-	0.4%
TOTAL	294	94	388	33	-	421	4.9%	1.6%	6.5%	0.6%	-	-	7.1%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.4 million unfavourable impact – see column [3] in the left table above), offset by the impact of a 3 basis point decrease in the selected discount rate (from 0.64% to 0.61%, generating a \$33 thousand unfavourable impact – see column [4] in the left table above). Finally, there was no change in the margin for adverse deviation in investment yield (remains at 25 basis points) and no changes to the margins for adverse deviation for claims development as selected at the coverage / accident year level (hence zeros in all rows of column [5] in the left table at the bottom of the previous page).

Please see “Effect of Quarterly Valuation” further in this bulletin for additional details on the impacts of the updated valuation.

### Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$2.0 million and the incurred loss ratio to the end of 5 months is 104.5%, as summarized in the table below.

Amounts in \$000s	May 2016	May 2015	Year to date May 2016	Year to Date May 2015
Written Premiums	1,631	1,513	5,681	5,478
Earned Premiums	1,244	1,183	5,964	5,666
Incurred Losses	1,654	1,191	6,230	5,674
Underwriting Expenses and Others	674	765	1,766	2,344
<b>Net Result from Operations</b>	<b>(1,084)</b>	<b>(773)</b>	<b>(2,032)</b>	<b>(2,352)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Year</b>	24.9%	(13.4%)	(2.6%)	(4.2%)
<b>- Current Accident Years</b>	108.0%	114.1%	107.1%	104.4%
<b>Total</b>	<b>132.9%</b>	<b>100.7%</b>	<b>104.5%</b>	<b>100.2%</b>
<b>Underwriting &amp; Admin Exp.%</b>	<b>54.2%</b>	<b>64.7%</b>	<b>29.6%</b>	<b>41.4%</b>
<b>Combined Operating Ratio</b>	<b>187.1%</b>	<b>165.4%</b>	<b>134.1%</b>	<b>141.6%</b>

*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.

**Bulletin F16-042**  
**Nova Scotia Risk Sharing Pool – May 2016 Operational Report**

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Updated Projection to Year-end 2016

The projected calendar year Net Result from Operations to December 2016 is -\$5.0 million and the estimated combined operating ratio to December 2016 is 134.4%. This updated projection to the end of the year has deteriorated by \$0.1 million from the projection provided last month (-\$4.9 million and 133.7%), mainly due to impact of the March 31, 2016 valuation, as summarized in the table immediately below (see more information under “Effect of Quarterly Valuation”). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

NS	unfav / (fav) projected for full year						year EP 10,067 (projected this month)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % full year EP from changes in:					
	ults & payout patterns			dsct rate		margins	ults & payout patterns			dsct rate		margins
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	294	70	364	19	-	383	2.9%	0.7%	3.6%	0.2%	-	3.8%
CAY	74	8	82	10	-	92	0.7%	0.1%	0.8%	0.1%	-	0.9%
Prem Def	(328)	19	(309)	7	-	(302)	(3.3%)	0.2%	(3.1%)	0.1%	-	(3.0%)
TOTAL	40	97	137	36	-	173	0.4%	1.0%	1.4%	0.4%	-	1.7%

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$1.1 million Net Result from Operations in the month of May 2016, a \$0.3 million deterioration from the same month last year. This deterioration mainly stems from the overall increase in the combined ratio (from 165.4% to 187.1% applied to \$1.2 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 120.0% at the end of 4 months to 134.1% at the end of 5 months. The 14.1 percentage point increase is composed of a 7.3 percentage point increase in the Prior Accident Year loss ratio, coupled with a 0.3 percentage point increase in the Current Accident Year loss ratio, and a 6.5 percentage point increase in the expense 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 F16-042**

**Nova Scotia Risk Sharing Pool – May 2016 Operational Report**

May 2016	Actual	Projection	Difference	Difference %
Written Premiums	1,631	1,438	193	13.4%
Earned Premiums	1,244	1,282	(38)	(3.0%)
Reported Losses				
Paid Losses	494	431	63	14.6%
Loss Expenses Paid	43	11	32	290.9%
Change in Outstanding Losses	108	114	(6)	(5.3%)
<b>Total Reported Losses</b>	<b>645</b>	<b>556</b>	<b>89</b>	<b>16.0%</b>
Change in IBNR *	1,009	750	259	
Change in Premium Deficiency (DPAC) *	63	22	41	

(Amounts in \$000 's)

Rounding differences may occur.

\* Detailed information is included at [Nova Scotia RSP May 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.

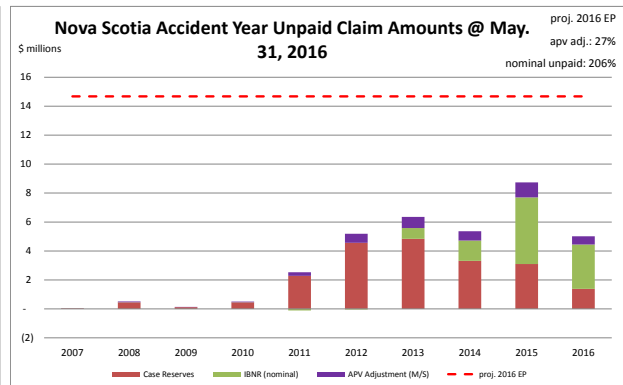
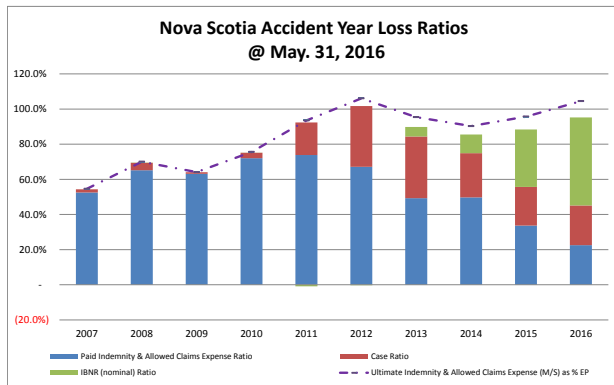
For the month of May 2016, reported losses were \$89 thousand higher than projected. The Current Accident Year had a \$10 thousand favourable variance in reported losses, while the Prior Accident Years had a \$99 thousand unfavourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

**Effect of Quarterly Valuation**

The May 2016 Nova Scotia Risk Sharing Pool Operational Report reflects the results of an updated valuation as at March 31, 2016, with the associated impacts in relation to the results for May 2016 summarized in the table immediately below.

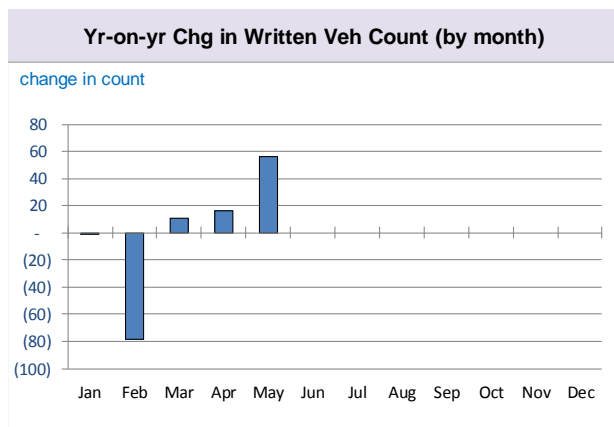
NS	unfav / (fav) for the month and ytd						mth EP 1,244 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate		margins	ults & payout patterns			dsct rate		margins
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	294	36	330	21	-	351	23.6%	2.9%	26.5%	1.7%	-	28.2%
CAY	31	8	39	6	-	45	2.5%	0.6%	3.1%	0.5%	-	3.6%
Prem Def	(31)	50	19	6	-	25	(2.5%)	4.0%	1.5%	0.5%	-	2.0%
<b>TOTAL</b>	<b>294</b>	<b>94</b>	<b>388</b>	<b>33</b>	<b>-</b>	<b>421</b>	<b>23.6%</b>	<b>7.6%</b>	<b>31.2%</b>	<b>2.7%</b>	<b>-</b>	<b>33.8%</b>

The charts at the top of the next page summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.

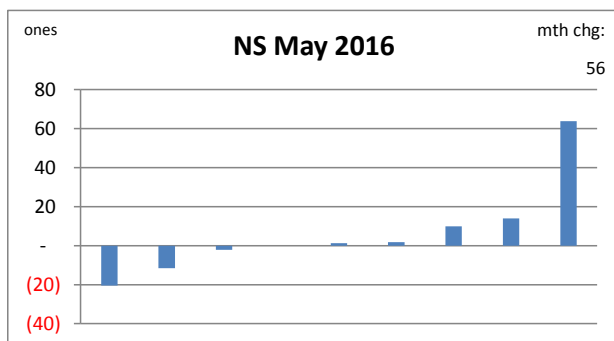


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Nova Scotia RSP May 2016 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at March 31, 2016](#). The actuarial valuation will be updated next as at June 30, 2016 and we anticipate the results will be reflected in the August 2016 Operational Report.

**Management Comments**

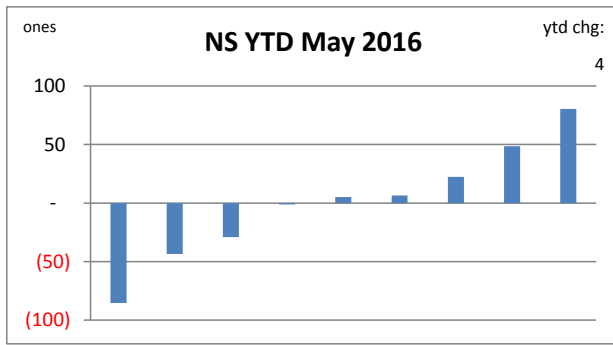


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with May showing an increase of 56 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 96 vehicles, indicating a variance of 152 from the actual transfers. This variance was mainly due to one member company groups transferring a greater number of vehicles to the pool in May than projected.



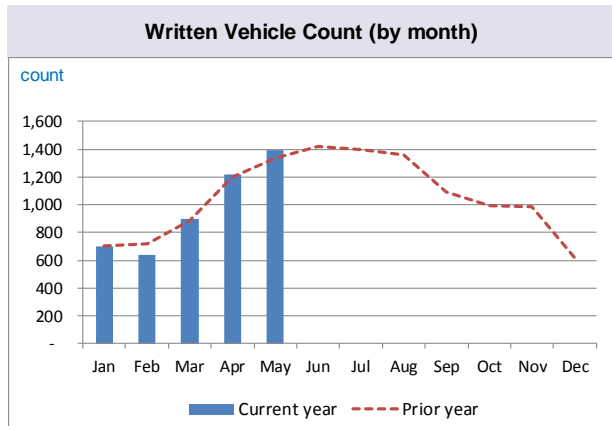
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Three member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 5 transferred more and 1 remained the same. Of the 3 member company groups transferring

fewer vehicles, 1 member company group accounted for 60% of the total transfer decrease for these “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 70% of the total transfer increase for these “grower” members.

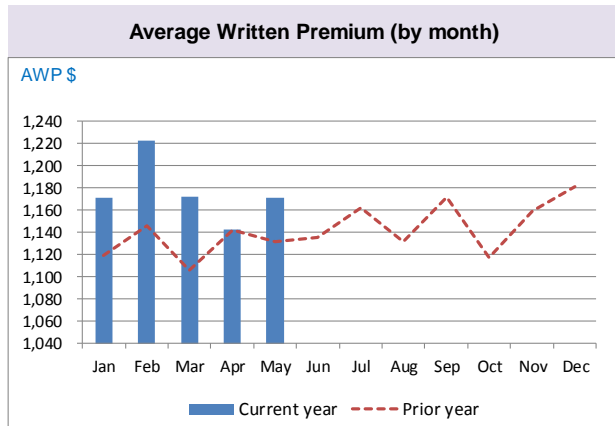


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

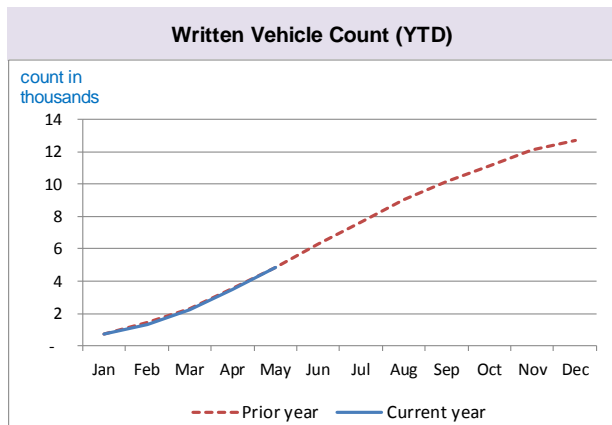
May’s vehicle count transfers to the pool represent a 4.2% increase from May 2015, and vehicle counts were up 0.1% year-to-date. Average written premium was up 3.4% in May 2016, and was up 3.6% year-to-date (see charts immediately below).



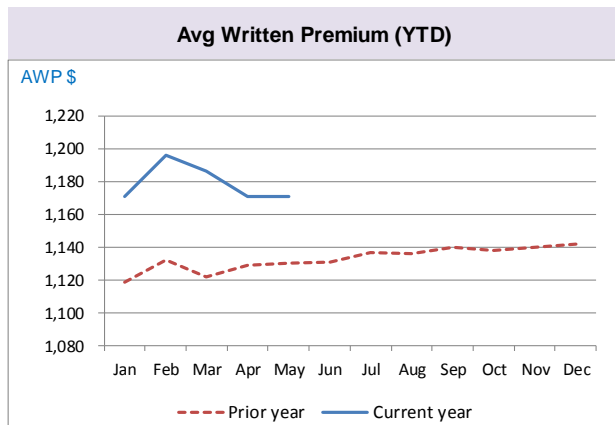
	May-16	May-15	Amt Chg	% Chg
W. Veh curr mth	1,393	1,336	56	4.2%



	May-16	May-15	Amt Chg	% Chg
AWP curr mth	1,171	1,132	39	3.4%



	May-16	May-15	Amt Chg	% Chg
W. Vehicles YTD	4,851	4,847	4	0.1%

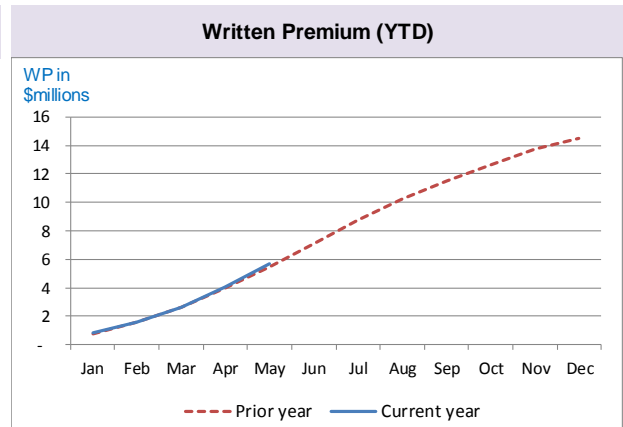
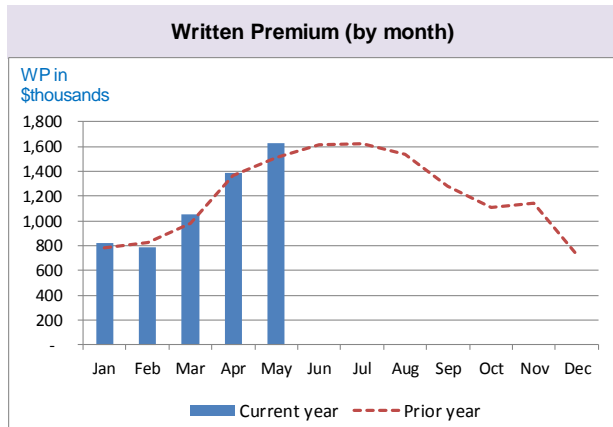


	May-16	May-15	Amt Chg	% Chg
Avg W. Prem YTD	1,171	1,130	41	3.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 7.8% for the month compared with the 5.0% decrease we projected last month, and was up 3.7% year-to-date (see charts at the top of the next page).

**Bulletin F16-042**

**Nova Scotia Risk Sharing Pool – May 2016 Operational Report**



	May-16	May-15	Amt Chg	% Chg
WP (\$000s) curr mth	1,631	1,513	118	7.8%

	May-16	May-15	Amt Chg	% Chg
WP (\$000s) YTD	5,681	5,477	204	3.7%

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 May 2016 Operational Report – Actuarial Highlights](#)

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at March 31, 2016](#)

[Actuarial Quarterly Valuation Highlights Exhibits – Nova Scotia RSP](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2016**

Risk Sharing Pool - Nova Scotia

EXHIBIT 1

Operating Results for the 5 Months Ended May 31, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

	January	February	March	April	May	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
<b>Underwriting Revenue:</b>								
Net Premiums Written	\$822	\$783	\$1,055	\$1,390	\$1,631	\$5,681	\$14,646	\$14,500
Decrease (Increase) in Unearned Premiums	343	360	167	(200)	(387)	283	31	(421)
<b>Net Premiums Earned</b>	<b>\$1,165</b>	<b>\$1,143</b>	<b>\$1,222</b>	<b>\$1,190</b>	<b>\$1,244</b>	<b>\$5,964</b>	<b>\$14,677</b>	<b>\$14,079</b>
<b>Claims Incurred:</b>								
Prior Accident Years:								
Undiscounted	(\$78)	(\$16)	(\$271)	(\$12)	\$285	(\$92)	(\$92)	\$431
Effect of Discounting	(33)	(33)	15	(38)	25	(64)	(542)	(255)
Discounted	(\$111)	(\$49)	(\$256)	(\$50)	\$310	(\$156)	(\$634)	\$176
Current Accident Year:								
Undiscounted	\$1,245	\$1,159	\$1,055	\$1,138	\$1,218	\$5,815	\$14,111	\$13,503
Effect of Discounting	132	102	101	110	126	571	1,196	1,187
Discounted	\$1,377	\$1,261	\$1,156	\$1,248	\$1,344	\$6,386	\$15,307	\$14,690
<b>Claims Incurred</b>	<b>\$1,266</b>	<b>\$1,212</b>	<b>\$900</b>	<b>\$1,198</b>	<b>\$1,654</b>	<b>\$6,230</b>	<b>\$14,673</b>	<b>\$14,866</b>
<b>Underwriting Expenses:</b>								
Expense Allowance	\$287	\$273	\$368	\$484	\$568	\$1,980	\$5,100	\$5,008
Change in UPDR/DPAC:								
Undiscounted	6	(16)	(336)	1	(33)	(378)	(562)	546
Effect of Discounting	(36)	(36)	(59)	20	96	(15)	(8)	181
Discounted	(\$30)	(\$52)	(\$395)	\$21	\$63	(393)	(\$570)	\$727
<b>Underwriting Expenses</b>	<b>\$257</b>	<b>\$221</b>	<b>(\$27)</b>	<b>\$505</b>	<b>\$631</b>	<b>\$1,587</b>	<b>\$4,530</b>	<b>\$5,735</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$358)</b>	<b>(\$290)</b>	<b>\$349</b>	<b>(\$513)</b>	<b>(\$1,041)</b>	<b>(\$1,853)</b>	<b>(\$4,526)</b>	<b>(\$6,522)</b>
<b>Administrative Expenses</b>	<b>\$29</b>	<b>\$36</b>	<b>\$37</b>	<b>\$34</b>	<b>\$43</b>	<b>\$179</b>	<b>\$519</b>	<b>\$507</b>
<b>Net Result from Operations</b>	<b>(\$387)</b>	<b>(\$326)</b>	<b>\$312</b>	<b>(\$547)</b>	<b>(\$1,084)</b>	<b>(\$2,032)</b>	<b>(\$5,045)</b>	<b>(\$7,029)</b>
<b>Ratios:</b>								
<b>Claims &amp; Expenses Incurred (Earned)</b>								
Prior Accident Years	-9.5%	-4.3%	-20.9%	-4.2%	24.9%	-2.6%	-4.3%	1.3%
Current Accident Year	118.2%	110.3%	94.6%	104.9%	108.0%	107.1%	104.3%	104.3%
All Accident Years Combined	108.7%	106.0%	73.7%	100.7%	132.9%	104.5%	100.0%	105.6%
Underwriting & Administrative Expenses (Earned)	24.5%	22.5%	0.8%	45.3%	54.2%	29.6%	34.4%	44.3%
<b>Combined Operating Ratio</b>	<b>133.2%</b>	<b>128.5%</b>	<b>74.5%</b>	<b>146.0%</b>	<b>187.1%</b>	<b>134.1%</b>	<b>134.4%</b>	<b>149.9%</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