

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F17– 029

DATE: APRIL 28, 2017

**SUBJECT: NOVA SCOTIA RISK SHARING POOL
– MARCH 2017 OPERATIONAL REPORT**

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

Please be advised that the March 2017 Nova Scotia Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

New This Month

Valuation

A valuation of the Nova Scotia Risk Sharing Pool (“RSP”) as at December 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 **\$2.1 million favourable** impact on the month’s net result from operations, subtracting an estimated 56.5 points to the year-to-date Combined Operating Ratio (ending at 73.4%). The impact is summarized in the tables at the top of the next page¹.

¹In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dsct 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”.

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NS	unfav / (fav) for the month and ytd					ytd EP 3,704 (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]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(1,299)	(117)	(1,416)	(387)	-	(1,803)	(35.1%)	(3.2%)	(38.2%)	(10.4%)	-	(48.7%)
CAY	(38)	(7)	(45)	(47)	-	(92)	(1.0%)	(0.2%)	(1.2%)	(1.3%)	-	(2.5%)
Prem Def	(79)	(16)	(95)	(101)	-	(196)	(2.1%)	(0.4%)	(2.6%)	(2.7%)	-	(5.3%)
TOTAL	(1,416)	(140)	(1,556)	(535)	-	(2,091)	(38.2%)	(3.8%)	(42.0%)	(14.4%)	-	(56.5%)

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$1.6 million favourable impact – see column [3] in the left table above), offset by the impact of a 50 basis point increase in the selected discount rate (from 0.51% to 1.01%, generating a \$0.5 million favourable impact – see column [4] in the left table above). 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 with this valuation (therefore generating no impact – see column [5] in the left table above).

Please see “Effect of Quarterly Valuation” on page 4 for additional detail.

Summary of Financial Results

The calendar year-to-date Operating Result is \$1.0 million and the incurred loss ratio to the end of 3 months is 49.7%, as summarized in the table below.

Amounts in \$000s	March 2017	March 2016	Year to date Mar 2017	Year to Date Mar 2016
Premiums Written	1,493	1,055	3,127	2,660
Premiums Earned	1,300	1,222	3,704	3,530
Claims Incurred	(583)	900	1,839	3,378
General Expenses	334	10	878	553
Operating Result	1,549	312	987	(401)
Ratios:				
Loss ratio % - Prior Accident Years	(145.2%)	(20.9%)	(56.5%)	(11.8%)
- Current Accident Year	100.3%	94.6%	106.2%	107.5%
<i>Total</i>	(44.9%)	73.7%	49.7%	95.7%
General Expenses %	25.7%	0.8%	23.7%	15.7%
Combined Operating Ratio	(19.2%)	74.5%	73.4%	111.4%

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 2017” attached to this bulletin.

Updated Projection to Year-end 2017

The projected calendar year Operating Result to December 2017 is -\$8.4 million and the estimated combined operating ratio to December 2017 is 143.4%. This updated projection to the end of the year has improved by \$3.0 million from the projection provided last month (-\$11.4 million and 154.8%), mainly due to the overall favourable impact of the December 31, 2016 valuation, as summarized in the table immediately below (see also the “Effect of Quarterly Valuation” on page 4). 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 11,681 (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	(1,299)	(115)	(1,414)	(321)	-	(1,735)	(11.1%)	(1.0%)	(12.1%)	(2.7%)	-	(14.9%)
CAY	(195)	77	(118)	(202)	-	(320)	(1.7%)	0.7%	(1.0%)	(1.7%)	-	(2.7%)
Prem Def	(352)	(50)	(402)	(237)	-	(639)	(3.0%)	(0.4%)	(3.4%)	(2.0%)	-	(5.5%)
TOTAL	(1,846)	(88)	(1,934)	(760)	-	(2,694)	(15.8%)	(0.8%)	(16.6%)	(6.5%)	-	(23.1%)

Current Month Results

The Nova Scotia Risk Sharing Pool produced a \$1.5 million Operating Result in the month of March 2017, a \$1.2 million improvement from the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 74.5% to -19.2% applied to \$1.3 million in earned premium). The primary driver of the difference in combined ratios is the difference in the respective valuation implementation impacts.

This month’s results moved the year-to-date combined operating ratio from 123.3% at the end of 2 month to 73.4% at the end of 3 months. The 49.9 percentage point decrease is composed of a 47.9 percentage point decrease in the Prior Accident Year loss ratio, coupled with a 3.1 percentage point decrease in the Current Accident Year loss ratio, offset by a 1.1 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.

March 2017	Actual	Projection	Difference	Difference %
Premiums Written	1,493	2,405	(912)	(37.9%)
Premiums Earned	1,300	1,408	(108)	(7.7%)
Reported Losses				
Paid Losses	793	766	27	3.5%
Paid Expenses	35	31	4	12.9%
Change in Outstanding Losses	(3,361)	73	(3,434)	<-999.9%
Total Reported Losses	(2,533)	870	(3,403)	(391.1%)
Change in IBNR Provision *	1,950	565	1,385	
Change in Premium Deficiency (DPAC) *	(172)	100	(272)	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included at [Nova Scotia RSP March 2017 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 beyond set thresholds and responds as appropriate.

For the month of March 2017, reported losses were \$3.4 million lower than projected. The Current Accident Year had a \$0.1 million unfavourable variance in reported losses, while the Prior Accident Years had a \$3.5 million favourable variance. Of the Prior Accident Years, 2013 had the largest variance in reported losses at \$1.6 million favourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for reported claims activity for the Prior Accident Years were beyond the set threshold for the month. Management investigated the variance and determined that a member company had closed out certain case reserves as part of a claims system migration, but were unable to send “re-open” transactions to the RSPs in time for the month close. This issue accounts for the majority of the Prior Accident Years’ variance noted above. With the FA loss ratio-matching approach to determining current provisions, the case reductions have been automatically offset with increased IBNR. FA’s valuation team has been made aware of this issue, as this falls, unfortunately, on a quarter close for valuation proposes. All other variances were within the set thresholds for the month.

Effect of Quarterly Valuation

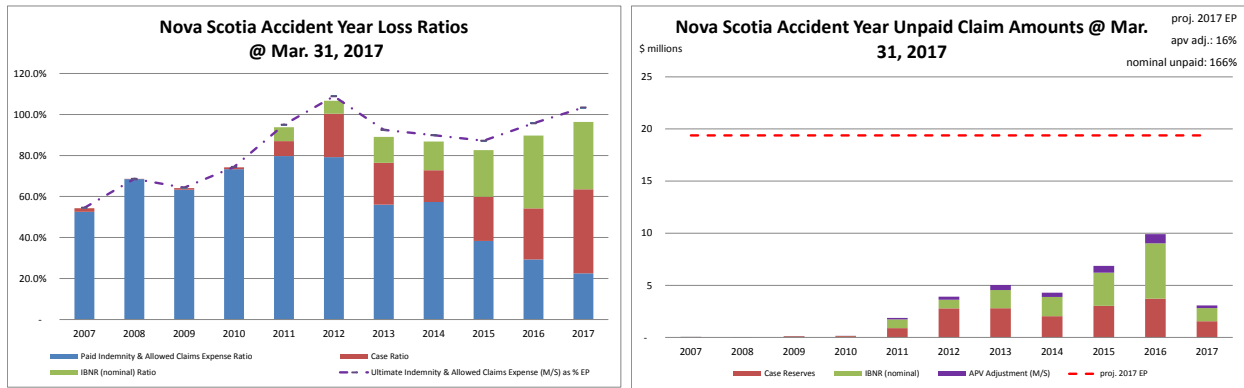
The March 2017 Nova Scotia Risk Sharing Pool Operational Report reflects the results of an updated valuation as at December 31, 2016, with the associated impacts in relation to the results for March 2017 summarized in the table at the top of the next page.

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Nova Scotia Risk Sharing Pool – March 2017 Operational Report

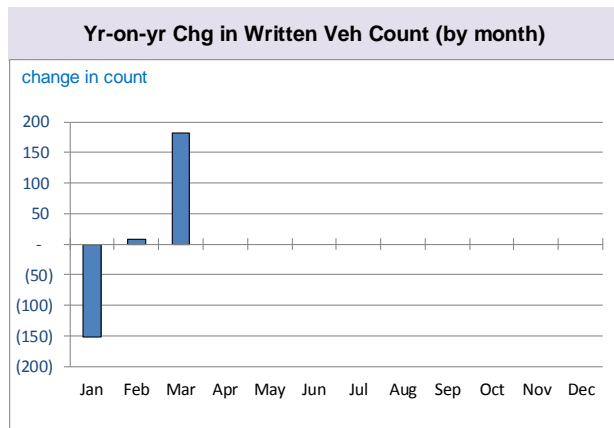
NS	unfav / (fav) for the month and ytd						mth EP 1,300 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(1,299)	(117)	(1,416)	(387)	-	(1,803)	(99.9%)	(9.0%)	(108.9%)	(29.8%)	-	(138.7%)
CAY	(38)	(7)	(45)	(47)	-	(92)	(2.9%)	(0.5%)	(3.5%)	(3.6%)	-	(7.1%)
Prem Def	(79)	(16)	(95)	(101)	-	(196)	(6.1%)	(1.2%)	(7.3%)	(7.8%)	-	(15.1%)
TOTAL	(1,416)	(140)	(1,556)	(535)	-	(2,091)	(108.9%)	(10.8%)	(119.7%)	(41.2%)	-	(160.8%)

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

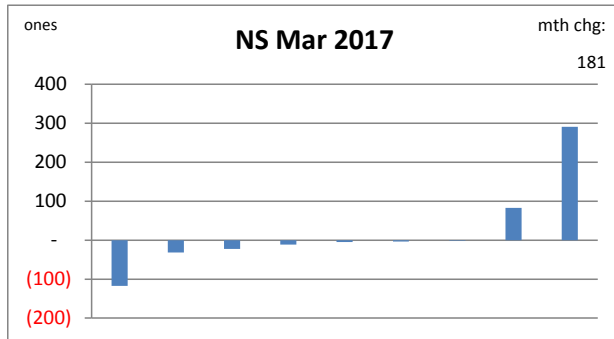


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Nova Scotia RSP March 2017 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at December 31, 2016](#). The actuarial valuation will be updated next as at March 31, 2017 and we anticipate the results will be reflected in the May 2017 Operational Report.

Management Comments

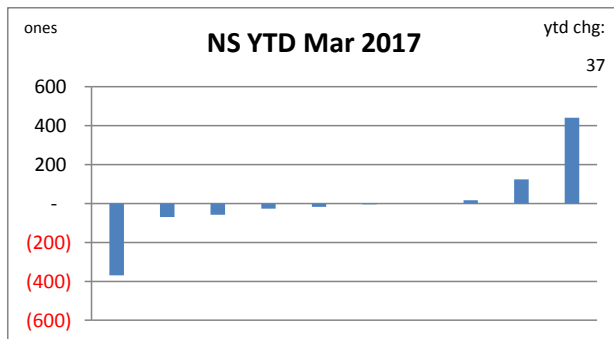


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with March showing an increase of 181 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 889 vehicles, indicating a variance of 708 from the actual transfers. This variance was mainly due to one member company groups transferring a lower number of vehicles to the pool in March than projected.



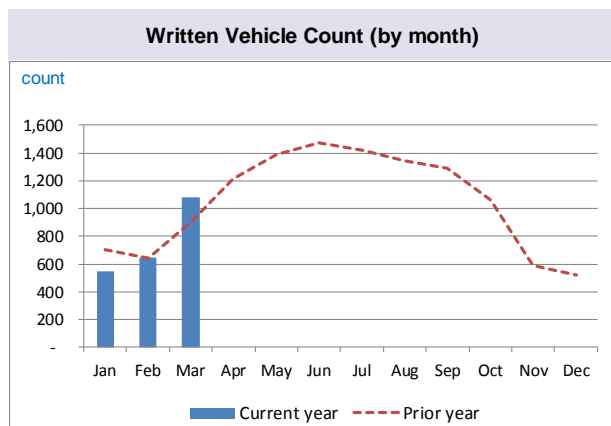
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Seven member company groups transferred fewer vehicles to the pool this month compared with a year ago, while two transferred more. Of the 7 member company groups transferring fewer vehicles, 1 member company group accounted for 61% of the total transfer decrease for these “decliner” members.

Of the 2 member company groups transferring more vehicles, 1 member company group accounted for 78% of the total transfer increase for these “grower” members.

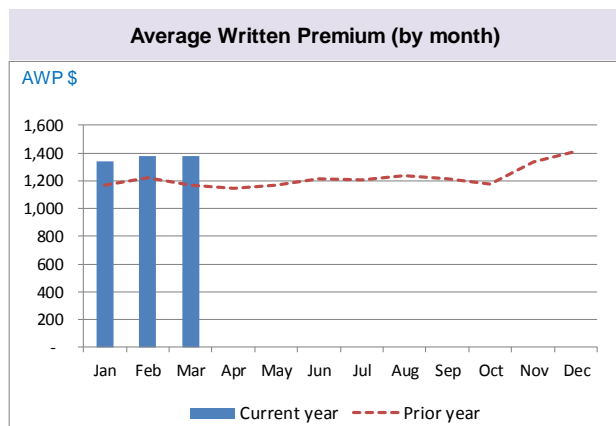


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

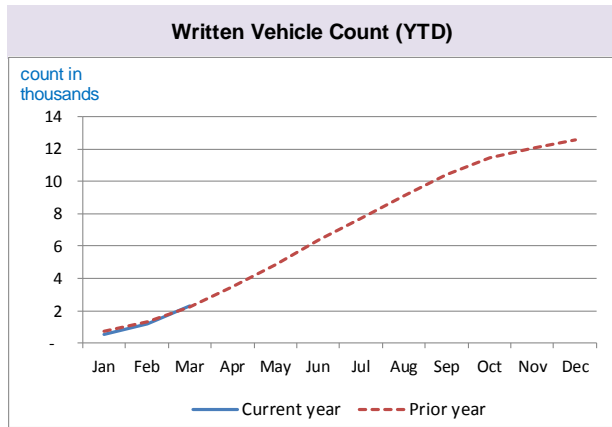
March’s vehicle count transfers to the pool represent a 20.2% increase from March 2016, and vehicle counts were up 1.6% year-to-date. Average written premium was up 17.7% in March 2017, and was up 15.7% year-to-date (see charts immediately below and at the top of the next page).



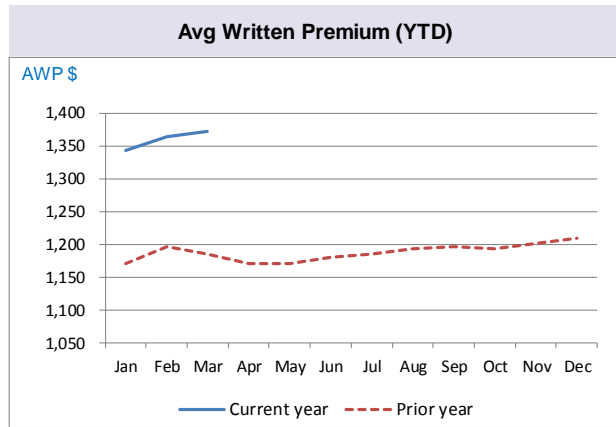
	Mar-17	Mar-16	Amt Chg	% Chg
W. Veh curr mth	1,082	900	181	20.2%



	Mar-17	Mar-16	Amt Chg	% Chg
AWP curr mth	1,379	1,172	207	17.7%

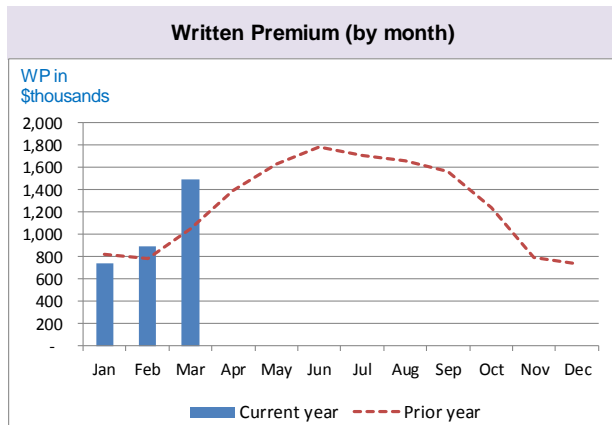


	Mar-17	Mar-16	Amt Chg	% Chg
W. Vehicles YTD	2,280	2,243	37	1.6%

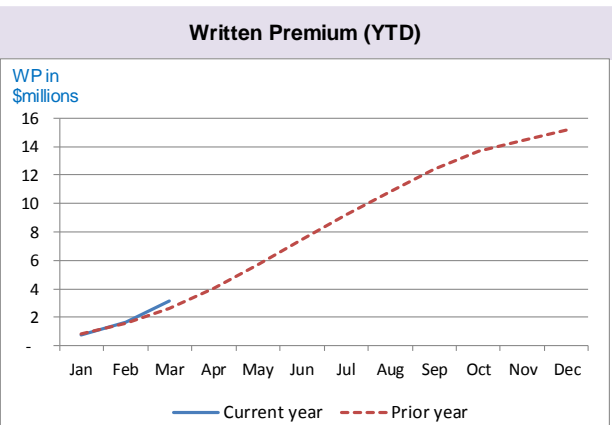


	Mar-17	Mar-16	Amt Chg	% Chg
Avg W. Prem YTD	1,372	1,186	186	15.7%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 41.4% for the month compared with the 127.9% increase we projected last month (based in particular on a significant increase in transfers projected by one member), and was up 17.5% year-to-date (see charts immediately below).



	Mar-17	Mar-16	Amt Chg	% Chg
WP (\$000s) curr mth	1,493	1,055	437	41.4%



	Mar-17	Mar-16	Amt Chg	% Chg
WP (\$000s) YTD	3,127	2,661	466	17.5%

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

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Nova Scotia Risk Sharing Pool – March 2017 Operational Report

Related links:

[Nova Scotia RSP March 2017 Operational Report – Actuarial Highlights](#)

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

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Nova Scotia

EXHIBIT 1

Operating Results for the 3 Months Ended March 31, 2017 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

	January	February	March	CY2017 YTD	CY2017 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Underwriting Revenue:						
Net Premiums Written	\$739	\$895	\$1,493	\$3,127	\$28,321	\$15,184
Decrease (Increase) in Unearned Premiums	529	241	(193)	577	(8,942)	(383)
Net Premiums Earned	\$1,268	\$1,136	\$1,300	\$3,704	\$19,379	\$14,801
Claims Incurred:						
Prior Accident Years:						
Undiscounted	(\$35)	(\$36)	(\$1,321)	(\$1,392)	(\$1,392)	\$441
Effect of Discounting	(88)	(47)	(566)	(701)	(1,170)	(1,075)
Discounted	(\$123)	(\$83)	(\$1,887)	(\$2,093)	(\$2,562)	(\$634)
Current Accident Year:						
Undiscounted	\$1,272	\$1,146	\$1,252	\$3,670	\$18,797	\$14,225
Effect of Discounting	117	93	52	262	1,120	1,155
Discounted	\$1,389	\$1,239	\$1,304	\$3,932	\$19,917	\$15,380
Claims Incurred	\$1,266	\$1,156	(\$583)	\$1,839	\$17,355	\$14,746
Underwriting Expenses:						
Expense Allowance	\$225	\$274	\$461	\$960	\$8,770	\$5,288
Change in UPDR/DPAC:						
Undiscounted	5	5	(73)	(63)	(1)	(184)
Effect of Discounting	(50)	(22)	(99)	(171)	612	(22)
Discounted	(\$45)	(\$17)	(\$172)	(234)	\$611	(\$206)
Underwriting Expenses	\$180	\$257	\$289	\$726	\$9,381	\$5,082
Net Underwriting Gain (Loss)	(\$178)	(\$277)	\$1,594	\$1,139	(\$7,357)	(\$5,027)
Administrative Expenses	\$46	\$61	\$45	\$152	\$1,042	\$474
Operating Result	(\$224)	(\$338)	\$1,549	\$987	(\$8,399)	(\$5,501)
Ratios:						
Claims & Expenses Incurred (Earned)						
Prior Accident Years	-9.7%	-7.3%	-145.2%	-56.5%	-13.2%	-4.3%
Current Accident Year	109.5%	109.1%	100.3%	106.2%	102.8%	103.9%
All Accident Years Combined	99.8%	101.8%	-44.9%	49.7%	89.6%	99.6%
Underwriting & Administrative Expenses (Earned)	17.8%	28.0%	25.7%	23.7%	53.8%	37.5%
Combined Operating Ratio	117.6%	129.8%	-19.2%	73.4%	143.4%	137.1%

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