

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18– 008

DATE: JANUARY 30, 2018

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

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

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

Summary of Financial Results

The calendar year-to-date Operating Result is -\$3.4 million and the incurred loss ratio to the end of 12 months is 77.5%, as summarized in the table below.

Amounts in \$000s	December 2017	December 2016	Year to date Dec 2017	Year to Date Dec 2016
Premium Written	1,978	733	25,298	15,184
Premium Earned	2,256	1,278	18,963	14,801
Incurred Losses	2,124	1,240	14,682	14,746
Underwriting & Admin Expense	656	296	7,693	5,556
Operating Result	(524)	(258)	(3,412)	(5,501)
Ratios:				
Loss ratio - Prior Accident Years	(2.4%)	(5.5%)	(20.9%)	(4.3%)
- Current Accident Year	96.6%	102.5%	98.4%	103.9%
<i>Total</i>	94.2%	97.0%	77.5%	99.6%
<i>Underwriting & Admin Expense</i>	29.1%	23.2%	40.6%	37.5%
<i>Combined Operating Ratio</i>	123.3%	120.2%	118.1%	137.1%

rounding differences may occur

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These results are discussed in some detail in the “Current Month Results” section. 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 2018

An Outlook had been prepared to provide Members with an estimate of Nova Scotia RSP operating results for calendar year 2018 based on the actuarial valuation at June 30, 2017, and reflecting actual experience to date as detailed in the August 2017 Operational Report. This Outlook was posted on October 3, 2017 (please refer to Bulletin [F17-078](#)), and projected a Net Result from Operations for 2018 of -\$12.7 million, and a combined operating ratio of 136.0%. Projections for 2018 have been updated each month since as per our usual practice (although until this month, the bulletins have focused on projections to the end of 2017).

The projected calendar year Operating Result to December 2018 is now -\$11.3 million (a \$1.4 million improvement relative to the Outlook) and the estimated combined operating ratio to December 2018 is 135.9% (a 0.1 point improvement relative to the Outlook). The improvement mainly stems from a \$1.4 million favourable impact associated with the \$3.8 million decrease in projected earned premium (at a combined ratio of 136.0%).

NS RSP 2018 Yr-end Projection	Current	Prior Mth		Final 2018
Amounts in \$000s	(Dec 2017)	(Nov 2017)	Change	Outlook*
Premium Written	36,094	35,811	283	39,593
Premium Earned	31,402	31,250	152	35,242
Incurred Losses	30,028	29,904	124	33,944
Underwriting & Admin Expense	12,653	12,549	104	13,954
Net Result from Operations	(11,279)	(11,203)	(76)	(12,656)
Ratios:				
Loss ratio - Prior Accident Years	(0.9%)	(1.0%)	0.1%	(1.6%)
- Current Accident Year	96.5%	96.7%	(0.2%)	98.0%
<i>Total</i>	95.6%	95.7%	(0.1%)	96.4%
Underwriting & Admin Expense	40.3%	40.2%	0.1%	39.6%
Combined Operating Ratio	135.9%	135.9%	0.0%	136.0%

rounding differences may occur

*as posted to FA's website Oct. 3, 2017

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$0.5 million Operating Result in the month of December 2017, a \$0.3 million deterioration from the same month last year. This deterioration is composed of an estimated \$0.2 million unfavourable impact associated with the \$1.0 million increase in earned premium (at a combined ratio of 120.2%), with the remaining \$0.1 million deterioration stemming from the overall increase in the combined ratio (from 120.2% to 123.3%

applied to \$2.3 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 117.3% at the end of 11 months to 118.1% at the end of 12 months. The 0.8 percentage point increase is composed of a 2.5 percentage point increase in the Prior Accident Year loss ratio, offset by a 0.2 percentage point decrease in the Current Accident Year loss ratio, further offset by a 1.5 percentage point decrease in the expense ratio.

Variances from Projections

The table immediately below provides a summary of key components of the operating results as compared to the estimates projected last month.

December 2017	Actual	Projection	Difference	Difference %
Written Premium	1,978	1,637	341	20.8%
Earned Premium	2,256	2,079	177	8.5%
Reported Losses				
Paid Losses	1,704	1,460	244	16.7%
Paid Expenses	24	66	(42)	(63.6%)
Change in Outstanding Losses	(219)	420	(639)	(152.1%)
Total Reported Losses	1,509	1,946	(437)	(22.5%)
Change in IBNR Provision *	615	12	603	
Change in Premium Deficiency (DPAC) *	(16)	(15)	(1)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP December 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 December 2017, reported losses were \$0.4 million lower than projected. The Current Accident Year had a \$0.5 million favourable variance in reported losses, while the Prior Accident Years had a \$0.1 million unfavourable variance. No 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 the Prior Accident Years for the month. Management investigated paid 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.

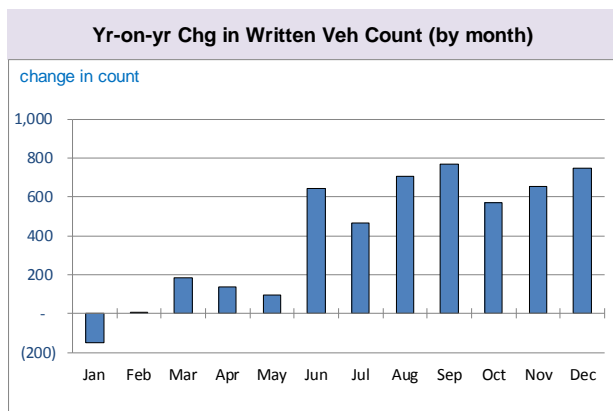
Booking IBNR

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. IBNR is discussed in more detail in the [Nova Scotia RSP December 2017 Operational Report – Actuarial Highlights](#).

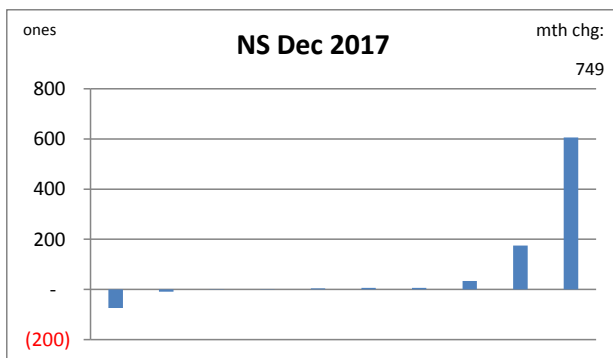
Effect of Quarterly Valuation

The December 2017 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, 2017). The actuarial valuation will be updated next as at December 31, 2017 and we anticipate that the results will be reflected in the March 2018 Operational Report.

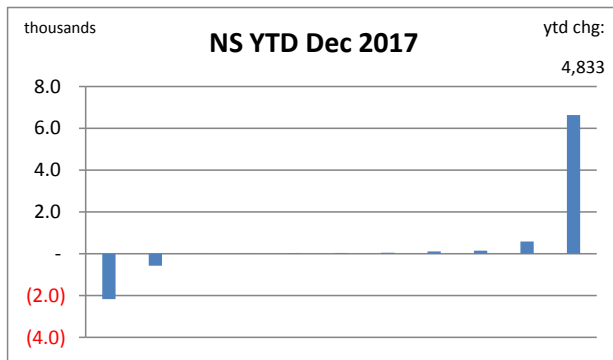
Management Comments



The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with December showing an increase of 749 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 556 vehicles, indicating a variance of 193 from the actual transfers. This variance was mainly due to one member company group transferring a higher number of vehicles to the pool in December than projected.

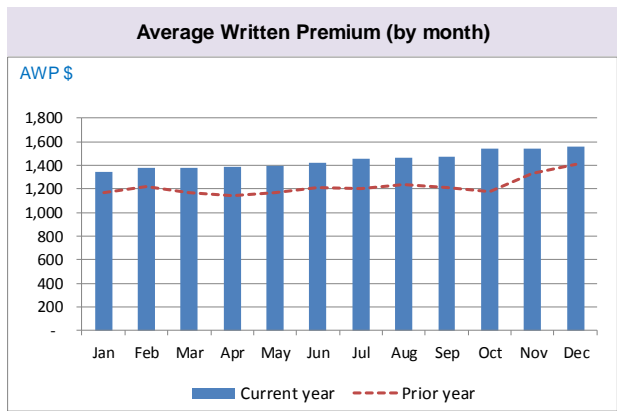
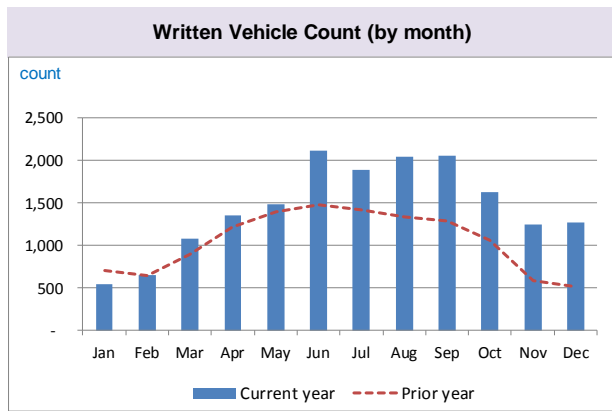


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Three member company groups transferred fewer vehicles to the pool this month compared with a year ago, while seven transferred more. Of the 3 member company groups transferring fewer vehicles, 1 member company group accounted for 89% of the total transfer decrease for these “decliner” members. Of the 7 member company groups transferring more vehicles, 1 member company group accounted for 73% of the total transfer increase for these “grower” members.



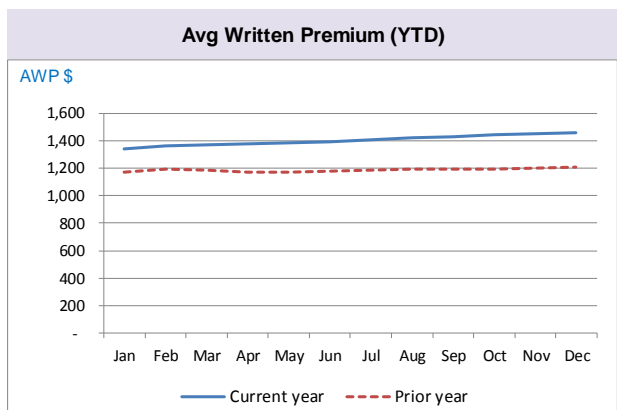
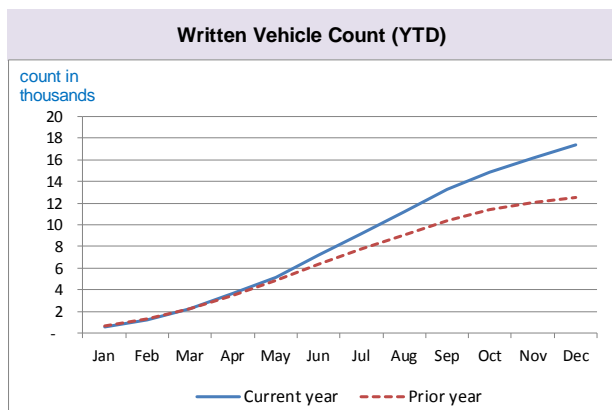
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

December’s vehicle count transfers to the pool represent a 144.2% increase from December 2016, and vehicle counts were up 38.5% year-to-date. Average written premium was up 10.6% in December 2017, and was up 20.3% year-to-date (see charts immediately below).



	Dec-17	Dec-16	Amt Chg	% Chg
W. Veh curr mth	1,268	519	749	144.2%

	Dec-17	Dec-16	Amt Chg	% Chg
AWP curr mth	1,560	1,411	149	10.6%



	Dec-17	Dec-16	Amt Chg	% Chg
W. Vehicles YTD	17,388	12,555	4,833	38.5%

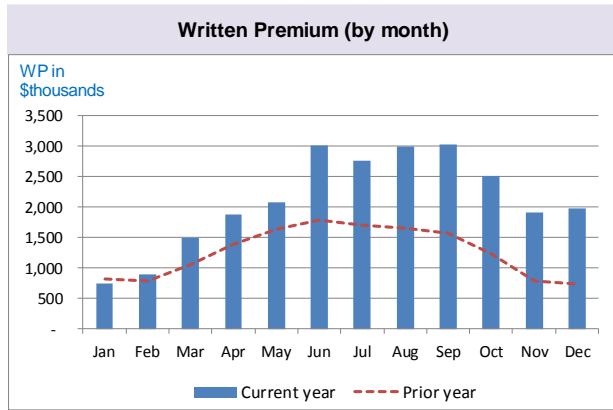
	Dec-17	Dec-16	Amt Chg	% Chg
Avg W. Prem YTD	1,455	1,209	246	20.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 170.0% for the month compared with the 123.5% increase we

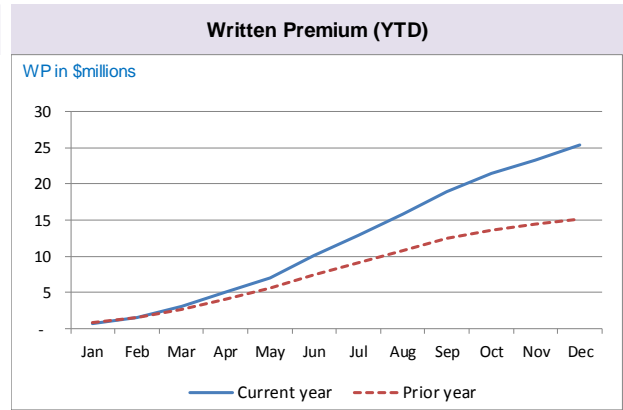
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projected last month (based in particular on a significant increase in transfers projected by one member), and was up 66.6% year-to-date (see charts immediately below).



	Dec-17	Dec-16	Amt Chg	% Chg
WP (\$000s) curr mth	1,978	733	1,245	170.0%



	Dec-17	Dec-16	Amt Chg	% Chg
WP (\$000s) YTD	25,297	15,184	10,113	66.6%

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 December 2017 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2017

Risk Sharing Pool - Nova Scotia

Operating Results for the 12 Months Ended December 31, 2017 (Discounted basis)

Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2017 YTD	CY2018 12 MONTHS Updated Projection	CY2016 12 MONTHS Actual
Underwriting Revenue:															
Net Premiums Written	\$739	\$895	\$1,493	\$1,876	\$2,082	\$3,012	\$2,757	\$3,005	\$3,035	\$2,509	\$1,917	\$1,978	\$25,298	\$36,094	\$15,184
Decrease (Increase) in Unearned Premiums	529	241	(193)	(566)	(684)	(1,570)	(1,189)	(1,329)	(1,273)	(607)	28	278	(6,335)	(4,692)	(383)
Net Premiums Earned	\$1,268	\$1,136	\$1,300	\$1,310	\$1,398	\$1,442	\$1,568	\$1,676	\$1,762	\$1,902	\$1,945	\$2,256	\$18,963	\$31,402	\$14,801
Claims Incurred:															
Prior Accident Years:															
Undiscounted	(\$35)	(\$36)	(\$1,321)	(\$9)	(\$27)	(\$8)	(\$17)	(\$2,163)	(\$4)	\$1,485	(\$2)	\$1	(\$2,136)	\$0	\$441
Effect of Discounting	(88)	(47)	(566)	(42)	12	(64)	(52)	(509)	(31)	(308)	(85)	(56)	(1,836)	(284)	(1,075)
Discounted	(\$123)	(\$83)	(\$1,887)	(\$51)	(\$15)	(\$72)	(\$69)	(\$2,672)	(\$35)	\$1,177	(\$87)	(\$55)	(\$3,972)	(\$284)	(\$634)
Current Accident Year:															
Undiscounted	\$1,272	\$1,146	\$1,252	\$1,274	\$1,418	\$1,412	\$1,546	\$1,051	\$1,628	\$1,922	\$1,814	\$2,102	\$17,837	\$29,016	\$14,225
Effect of Discounting	117	93	52	77	113	104	110	(11)	100	(89)	74	77	817	1,296	1,155
Discounted	\$1,389	\$1,239	\$1,304	\$1,351	\$1,531	\$1,516	\$1,656	\$1,040	\$1,728	\$1,833	\$1,888	\$2,179	\$18,654	\$30,312	\$15,380
Claims Incurred	\$1,266	\$1,156	(\$583)	\$1,300	\$1,516	\$1,444	\$1,587	(\$1,632)	\$1,693	\$3,010	\$1,801	\$2,124	\$14,682	\$30,028	\$14,746
Underwriting Expenses:															
Expense Allowance	\$225	\$274	\$461	\$581	\$645	\$933	\$853	\$931	\$941	\$777	\$594	\$614	\$7,829	\$10,899	\$5,288
Change in UPDR/DPAC:															
Undiscounted	5	5	(73)	(2)	60	(7)	(3)	(685)	(73)	12	(12)	-	(773)	198	(184)
Effect of Discounting	(50)	(22)	(99)	48	77	131	100	(37)	92	(183)	(4)	(16)	37	292	(22)
Discounted	(\$45)	(\$17)	(\$172)	\$46	\$137	\$124	\$97	(\$722)	\$19	(\$171)	(\$16)	(\$16)	(736)	\$490	(\$206)
Underwriting Expenses	\$180	\$257	\$289	\$627	\$782	\$1,057	\$950	\$209	\$960	\$606	\$578	\$598	\$7,093	\$11,389	\$5,082
Net Underwriting Gain (Loss)	(\$178)	(\$277)	\$1,594	(\$617)	(\$900)	(\$1,059)	(\$969)	\$3,099	(\$891)	(\$1,714)	(\$434)	(\$466)	(\$2,812)	(\$10,015)	(\$5,027)
Administrative Expenses	\$46	\$61	\$45	\$51	\$62	\$48	\$46	\$50	\$42	\$47	\$44	\$58	\$600	\$1,264	\$474
Operating Result	(\$224)	(\$338)	\$1,549	(\$668)	(\$962)	(\$1,107)	(\$1,015)	\$3,049	(\$933)	(\$1,761)	(\$478)	(\$524)	(\$3,412)	(\$11,279)	(\$5,501)
Ratios:															
Claims & Expenses Incurred (Earned)															
Prior Accident Years	-9.7%	-7.3%	-145.2%	-3.9%	-1.1%	-5.0%	-4.4%	-159.4%	-2.0%	61.9%	-4.5%	-2.4%	-20.9%	-0.9%	-4.3%
Current Accident Year	109.5%	109.1%	100.3%	103.1%	109.5%	105.1%	105.6%	62.1%	98.1%	96.4%	97.1%	96.6%	98.4%	96.5%	103.9%
All Accident Years Combined	99.8%	101.8%	-44.9%	99.2%	108.4%	100.1%	101.2%	-97.3%	96.1%	158.3%	92.6%	94.2%	77.5%	95.6%	99.6%
Underwriting & Administrative Expenses (Earned)	17.8%	28.0%	25.7%	51.8%	60.4%	76.6%	63.5%	15.5%	56.9%	34.3%	32.0%	29.1%	40.6%	40.3%	37.5%
Combined Operating Ratio	117.6%	129.8%	-19.2%	151.0%	168.8%	176.7%	164.7%	-81.8%	153.0%	192.6%	124.6%	123.3%	118.1%	135.9%	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