

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F18– 022**

**DATE: MARCH 29, 2018**

**SUBJECT: NOVA SCOTIA RISK SHARING POOL  
– FEBRUARY 2018 OPERATIONAL REPORT**

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

Please be advised that the February 2018 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 -\$1.1 million and the incurred loss ratio to the end of 2 months is 98.6%, as summarized in the table below.

Amounts in \$000s	February 2018	February 2017	Year to date Feb 2018	Year to Date Feb 2017
Premium Written	1,686	895	3,459	1,634
Premium Earned	2,023	1,136	4,185	2,404
Incurred Losses	1,922	1,156	4,126	2,422
Underwriting & Admin Expense	571	318	1,149	544
<b>Operating Result</b>	<b>(470)</b>	<b>(338)</b>	<b>(1,090)</b>	<b>(562)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	<b>(2.3%)</b>	<b>(7.3%)</b>	0.3%	<b>(8.6%)</b>
- Current Accident Year	97.3%	109.1%	98.3%	109.3%
<i>Total</i>	<b>95.0%</b>	<b>101.8%</b>	<b>98.6%</b>	<b>100.7%</b>
<i>Underwriting &amp; Admin Expense</i>	<b>28.2%</b>	<b>28.0%</b>	<b>27.5%</b>	<b>22.6%</b>
<i>Combined Operating Ratio</i>	<b>123.2%</b>	<b>129.8%</b>	<b>126.1%</b>	<b>123.3%</b>

*rounding differences may occur*

**Bulletin F18-022****Nova Scotia Risk Sharing Pool – February 2018 Operational Report**

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 2018” attached to this bulletin.

Updated Projection to Year-end 2018

The projected calendar year Operating Result to December 2018 is -\$9.4 million and the estimated combined operating ratio to December 2018 is 132.4%, as summarized in the table below. This updated projection to the end of the year has improved by \$1.8 million from the projection provided last month (-\$11.2 million and 135.9%). This improvement is driven by a \$5.3 million decrease in the projected written premium for the year, based on updated projections provided by members.

<b>NS RSP 2018 Yr-end Projection</b> Amounts in \$000s	<b>Current</b> <b>(Feb 2018)</b>	Prior Mth (Jan 2018)	<b>Change</b>	Final 2018 Outlook*
Premium Written	30,647	35,920	(5,273)	39,593
Premium Earned	29,046	31,234	(2,188)	35,242
Incurred Losses	27,721	29,840	(2,119)	33,944
Underwriting & Admin Expense	10,744	12,618	(1,874)	13,954
<b>Net Result from Operations</b>	<b>(9,419)</b>	<b>(11,224)</b>	<b>1,805</b>	<b>(12,656)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(1.2%)	(1.1%)	(0.1%)	(1.6%)
- Current Accident Year	96.6%	96.6%	0.0%	98.0%
<i>Total</i>	<b>95.4%</b>	<b>95.5%</b>	<b>(0.1%)</b>	<b>96.4%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>37.0%</b>	<b>40.4%</b>	<b>(3.4%)</b>	<b>39.6%</b>
<b>Combined Operating Ratio</b>	<b>132.4%</b>	<b>135.9%</b>	<b>(3.5%)</b>	<b>136.0%</b>

*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 February 2018, a \$0.1 million deterioration from the same month last year. This deterioration is composed of an approximately \$0.2 million unfavourable impact associated with the \$0.9 million increase in earned premium (at a combined ratio of of 129.8%), offset by an estimated \$0.1 million favourable impact stemming from the overall decrease in the combined ratio (from 129.8% to 123.2% applied to \$2.0 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 128.6% at the end of 1 month to 126.1% at the end of 2 months. The 2.5 percentage point decrease is composed of a 2.5 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 0.8 percentage point decrease in the Current Accident Year loss ratio, offset by a 0.8 percentage point increase in the expense ratio.

**Bulletin F18-022****Nova Scotia Risk Sharing Pool – February 2018 Operational Report**

As noted in last month's bulletin, FA management was notified on January 31, 2018 by a member of a potential recorded case reserve overstatement. Management investigated and estimated the overstatement for the Nova Scotia RSP as at October 31, 2017 as indicated in the table immediately below.

*Estimated case reserve overstatement as at Oct 31, 2017***Case Reserve Overstatement**

400 RSP NS

	Amounts in \$000s
2012	36
2013	34
2014	42
2015	77
2016	578
2017	206
<b>TOTAL</b>	<b>973</b>

The overstatement of \$1.0 million represented 3.9% of total case reserves recorded at October 31, 2017 for the Nova Scotia RSP, and 2.8% of nominal claims liabilities.

*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.

February 2018	Actual	Projection	Difference	Difference %
Written Premium	1,686	1,804	(118)	(6.5%)
Earned Premium	2,023	2,058	(35)	(1.7%)
Reported Losses				
Paid Losses	942	882	60	6.8%
Paid Expenses	64	67	(3)	(4.5%)
Change in Outstanding Losses	1,805	490	1,315	268.4%
<b>Total Reported Losses</b>	<b>2,811</b>	<b>1,439</b>	<b>1,372</b>	<b>95.3%</b>
Change in IBNR Provision *	(889)	517	(1,406)	
Change in Premium Deficiency (DPAC) *	6	7	(1)	

*(Amounts in \$000's)**rounding differences may occur*

\*Detailed information is included at [Nova Scotia RSP February 2018 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 February 2018, reported losses were \$1.4 million higher than projected. The Current Accident Year had a \$0.3 million unfavourable variance in reported losses, and the Prior Accident Years had a \$1.1 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.

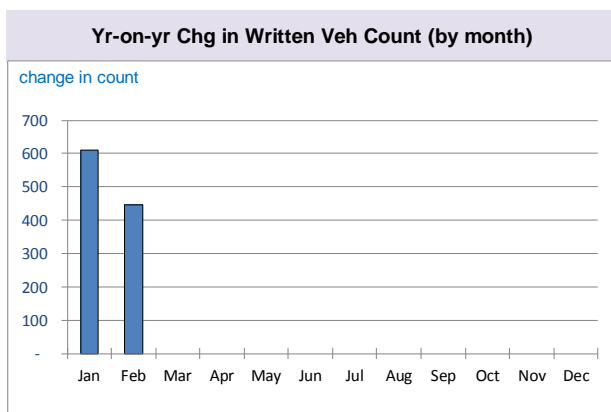
Booking IBNR

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 February 2018 Operational Report – Actuarial Highlights](#).

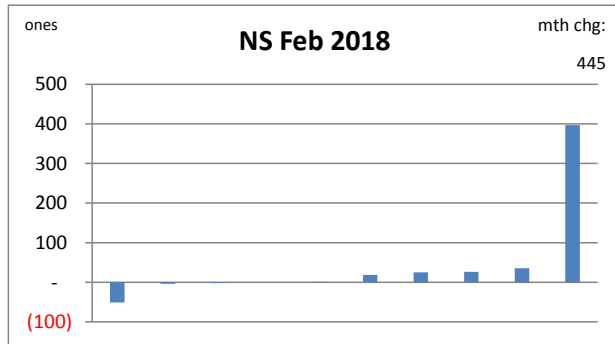
**Effect of Quarterly Valuation**

The February 2018 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**

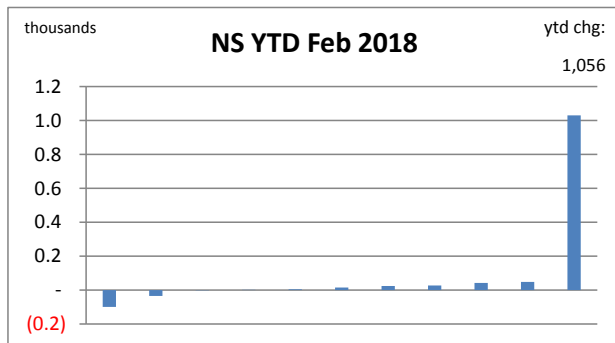


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with February showing an increase of 445 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 535 vehicles, indicating a variance of 90 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in February than projected.



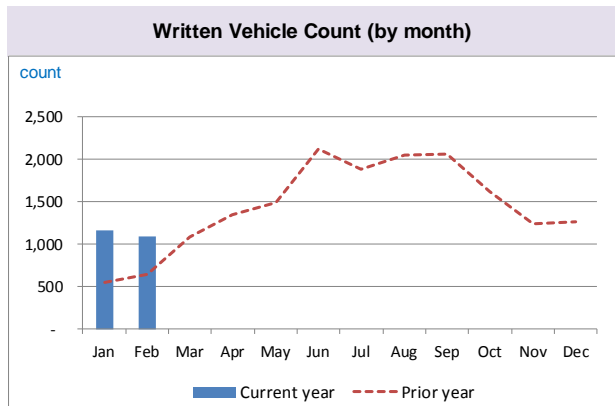
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Three member company groups transferred fewer vehicles to the pool this month compared with 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 79% of the total transfer increase for these “grower” members.

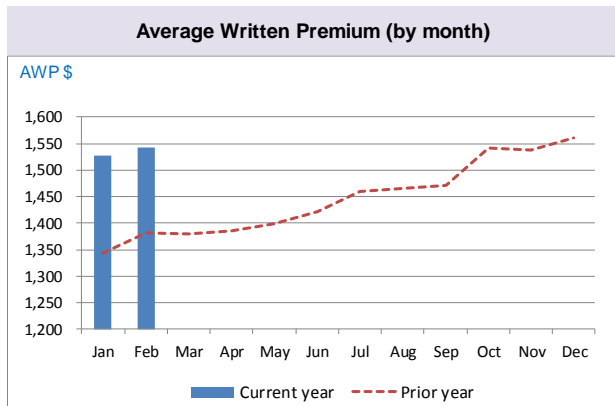


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

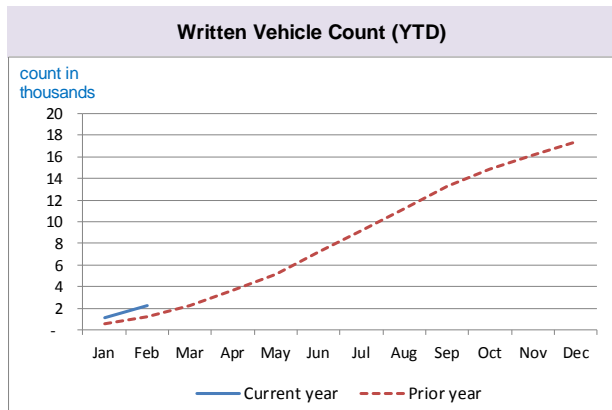
February’s vehicle count transfers to the pool represent a 68.8% increase from February 2017, and vehicle counts were up 88.2% year-to-date. Average written premium was up 11.6% in February 2018, and was up 12.5% year-to-date (see charts immediately below and at the top of the next page).



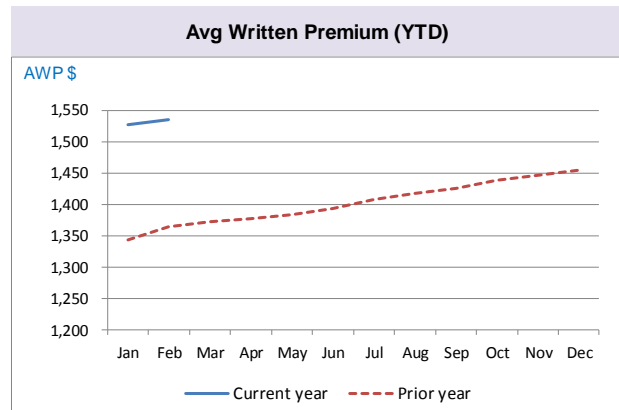
	Feb-18	Feb-17	Amt Chg	% Chg
W. Veh curr mth	1,093	647	445	68.8%



	Feb-18	Feb-17	Amt Chg	% Chg
AWP curr mth	1,543	1,382	161	11.6%

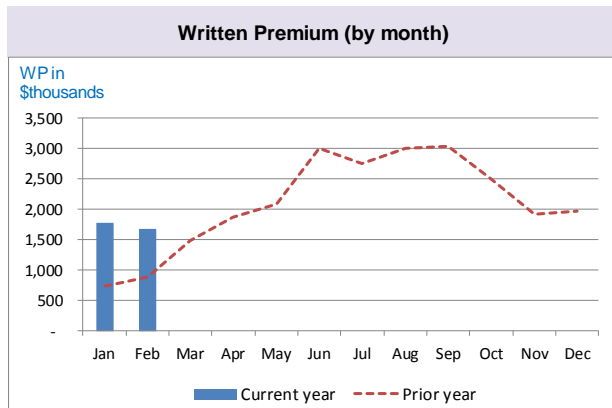


	Feb-18	Feb-17	Amt Chg	% Chg
W. Vehicles YTD	2,254	1,198	1,056	88.2%

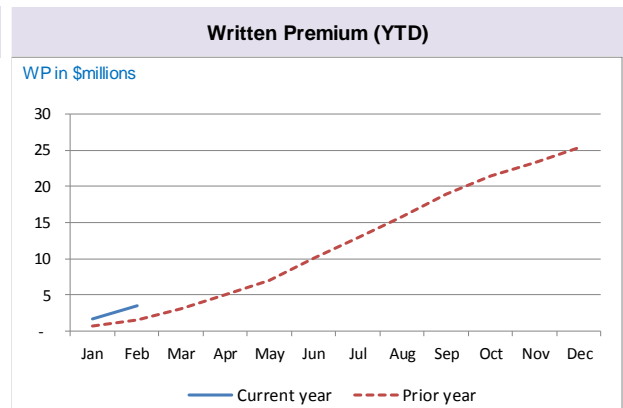


	Feb-18	Feb-17	Amt Chg	% Chg
Avg W. Prem YTD	1,535	1,364	171	12.5%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 88.4% for the month compared with the 101.6% increase we projected last month, and was up 111.7% year-to-date (see charts immediately below).



	Feb-18	Feb-17	Amt Chg	% Chg
WP (\$000s) curr mth	1,686	895	791	88.4%



	Feb-18	Feb-17	Amt Chg	% Chg
WP (\$000s) YTD	3,459	1,634	1,825	111.7%

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 February 2018 Operational Report – Actuarial Highlights](#)

## SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Nova Scotia

Operating Results for the 2 Months Ended February 28, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
<b>Underwriting Revenue:</b>					
Net Premiums Written	\$1,773	\$1,686	\$3,459	\$30,647	\$25,298
Decrease (Increase) in Unearned Premiums	389	337	726	(1,601)	(6,335)
<b>Net Premiums Earned</b>	<b>\$2,162</b>	<b>\$2,023</b>	<b>\$4,185</b>	<b>\$29,046</b>	<b>\$18,963</b>
<b>Claims Incurred:</b>					
Prior Accident Years:					
Undiscounted	(\$29)	(\$8)	(\$37)	(\$37)	(\$2,136)
Effect of Discounting	90	(39)	51	(310)	(1,836)
Discounted	\$61	(\$47)	\$14	(\$347)	(\$3,972)
Current Accident Year:					
Undiscounted	\$2,026	\$1,877	\$3,903	\$26,876	\$17,837
Effect of Discounting	117	92	209	1,192	817
Discounted	\$2,143	\$1,969	\$4,112	\$28,068	\$18,654
<b>Claims Incurred</b>	<b>\$2,204</b>	<b>\$1,922</b>	<b>\$4,126</b>	<b>\$27,721</b>	<b>\$14,682</b>
<b>Underwriting Expenses:</b>					
Expense Allowance	\$534	\$509	\$1,043	\$9,255	\$7,829
Change in UPDR/DPAC:					
Undiscounted	25	24	49	302	(773)
Effect of Discounting	(21)	(18)	(39)	113	37
Discounted	\$4	\$6	10	415	(\$736)
<b>Underwriting Expenses</b>	<b>\$538</b>	<b>\$515</b>	<b>\$1,053</b>	<b>\$9,670</b>	<b>\$7,093</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$580)</b>	<b>(\$414)</b>	<b>(\$994)</b>	<b>(\$8,345)</b>	<b>(\$2,812)</b>
<b>Administrative Expenses</b>	<b>\$40</b>	<b>\$56</b>	<b>\$96</b>	<b>\$1,074</b>	<b>\$600</b>
<b>Operating Result</b>	<b>(\$620)</b>	<b>(\$470)</b>	<b>(\$1,090)</b>	<b>(\$9,419)</b>	<b>(\$3,412)</b>
<b>Ratios:</b>					
<b>Claims &amp; Expenses Incurred (Earned)</b>					
Prior Accident Years	2.8%	-2.3%	0.3%	-1.2%	-20.9%
Current Accident Year	99.1%	97.3%	98.3%	96.6%	98.4%
All Accident Years Combined	101.9%	95.0%	98.6%	95.4%	77.5%
Underwriting & Administrative Expenses (Earned)	26.7%	28.2%	27.5%	37.0%	40.6%
<b>Combined Operating Ratio</b>	<b>128.6%</b>	<b>123.2%</b>	<b>126.1%</b>	<b>132.4%</b>	<b>118.1%</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