

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 058

DATE: July 30, 2018

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

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

Please be advised that the June 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 -\$3.3 million and the incurred loss ratio to the end of 6 months is 90.7%, as summarized in the table below.

Amounts in \$000s	June 2018	June 2017	Year to date Jun 2018	Year to Date Jun 2017
Premium Written	2,674	3,012	13,275	10,097
Premium Earned	2,301	1,442	13,390	7,854
Incurred Losses	2,231	1,444	12,141	6,099
Underwriting & Admin Expense	873	1,105	4,563	3,505
Operating Result	(803)	(1,107)	(3,314)	(1,750)
Ratios:				
Loss ratio - Prior Accident Years	(1.4%)	(5.0%)	(8.1%)	(28.4%)
- Current Accident Year	98.4%	105.1%	98.8%	106.1%
<i>Total</i>	97.0%	100.1%	90.7%	77.7%
<i>Underwriting & Admin Expense</i>	37.9%	76.6%	34.1%	44.6%
<i>Combined Operating Ratio</i>	134.9%	176.7%	124.8%	122.3%

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 2018” attached to this bulletin.

Updated Projection to Year-end 2018

The projected calendar year Operating Result to December 2018 is -\$8.5 million and the estimated combined operating ratio to December 2018 is 130.3%, as summarized in the table below. This updated projection to the end of the year has not changed significantly from the projection provided last month as shown in the table below.

NS RSP 2018 Yr-end Projection Amounts in \$000s	Current (Jun 2018)	Prior Mth (May 2018)	Change	Final 2018 Outlook*
Premium Written	29,607	30,053	(446)	39,593
Premium Earned	27,975	28,260	(285)	35,242
Incurred Losses	26,186	26,448	(262)	33,944
Underwriting & Admin Expense	10,277	10,471	(194)	13,954
Net Result from Operations	(8,488)	(8,659)	171	(12,656)
Ratios:				
Loss ratio - Prior Accident Years	(4.7%)	(4.7%)	0.0%	(1.6%)
- Current Accident Year	98.3%	98.3%	0.0%	98.0%
<i>Total</i>	93.6%	93.6%	0.0%	96.4%
Underwriting & Admin Expense	36.7%	37.1%	(0.4%)	39.6%
Combined Operating Ratio	130.3%	130.7%	(0.4%)	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 -\$0.8 million Operating Result in the month of June 2018, a \$0.3 million improvement from the same month last year. This improvement is composed of a \$1.0 million improvement stemming from the overall decrease in the combined ratio (from 176.7% to 134.9% applied to \$2.3 million in earned premium), offset by a \$0.7 million unfavourable impact associated with the \$0.9 million increase in earned premium (at a combined ratio of 176.7%).

This month's results moved the year-to-date combined operating ratio from 122.7% at the end of 5 months to 124.8% at the end of 6 months. The 2.1 percentage point increase is composed of a 1.4 percentage point increase in the Prior Accident Years loss ratio, and a 0.8 percentage point increase in the expense ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss ratio.

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Variations from Projections

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

June 2018	Actual	Projection	Difference	Difference %
Written Premium	2,674	3,120	(446)	(14.3%)
Earned Premium	2,301	2,385	(84)	(3.5%)
Reported Losses				
Paid Losses	1,018	1,387	(369)	(26.6%)
Paid Expenses	59	75	(16)	(21.3%)
Change in Outstanding Losses	566	(1,362)	1,928	(141.6%)
Total Reported Losses	1,643	100	1,543	>999.9%
Change in IBNR Provision *	588	2,185	(1,597)	
Change in Premium Deficiency (DPAC) *	19	24	(5)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP June 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 June 2018, reported losses were \$1.5 million higher than projected. The Current Accident Year had a \$0.2 million favourable variance in reported losses, while the Prior Accident Years had an approximately \$1.7 million unfavourable variance. Of the Prior Accident Years, 2016 had the largest variance in reported losses at \$1.0 million unfavourable. No other single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

Booking IBNR

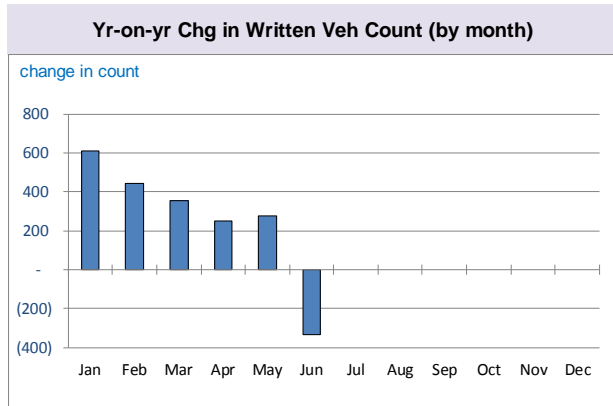
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 June 2018 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

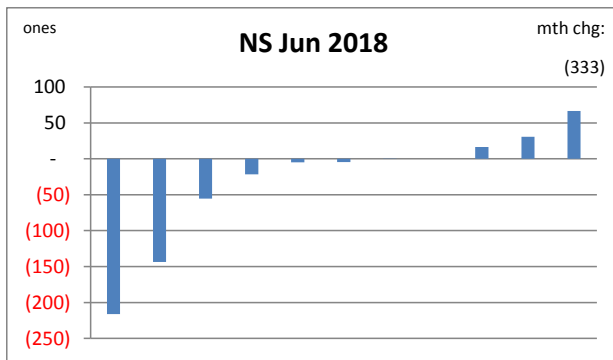
The June 2018 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results of

an updated valuation (the most recent valuation is as at March 31, 2018). The actuarial valuation will be updated next as at June 30, 2018 and we anticipate that the results will be reflected in the August 2018 Operational Report.

Management Comments

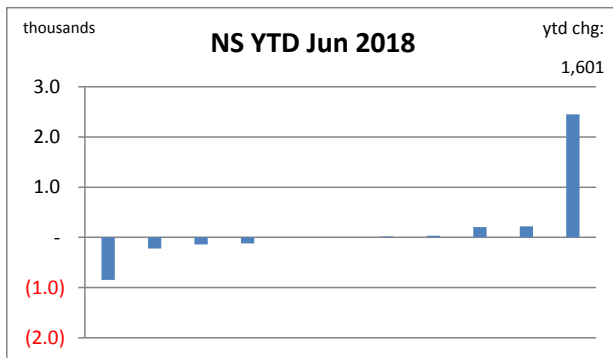


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with June showing a decrease of 333 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 127 vehicles, indicating a variance of 460 from the actual transfers. This variance was mainly due to two member company group transferring a lower number of vehicles to the pool in June than projected.



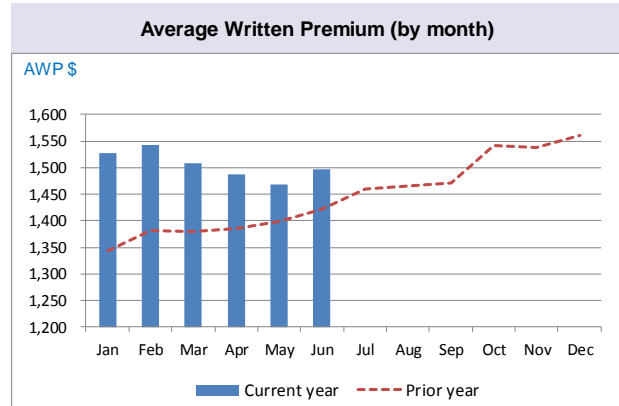
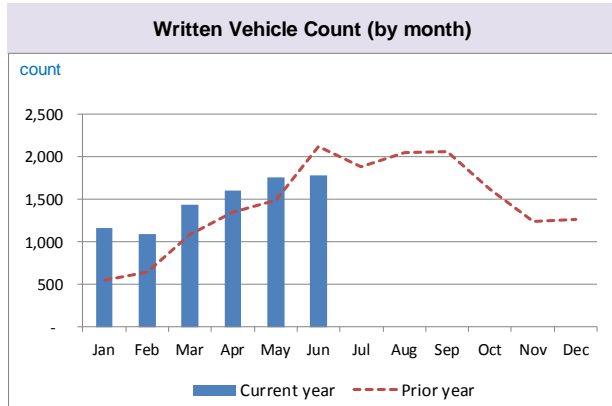
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Seven member company groups transferred fewer vehicles to the pool this month compared with a year ago, while three transferred more and one remained the same. Of the 7 member company groups transferring fewer vehicles, 2 member company groups accounted for 81% of the total transfer decrease for these “decliner” members.

Of the 3 member company groups transferring more vehicles, 1 member company group accounted for 59% of the total transfer increase for these “grower” members.



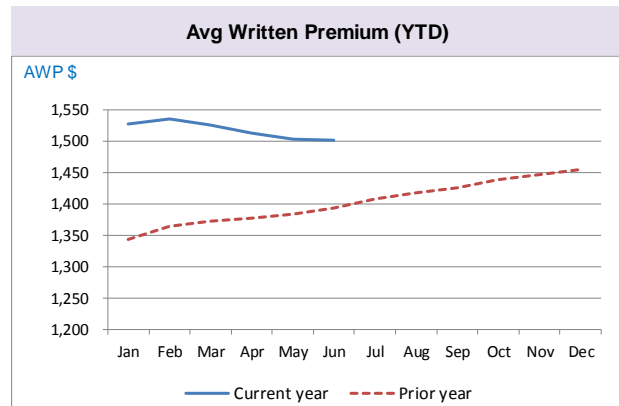
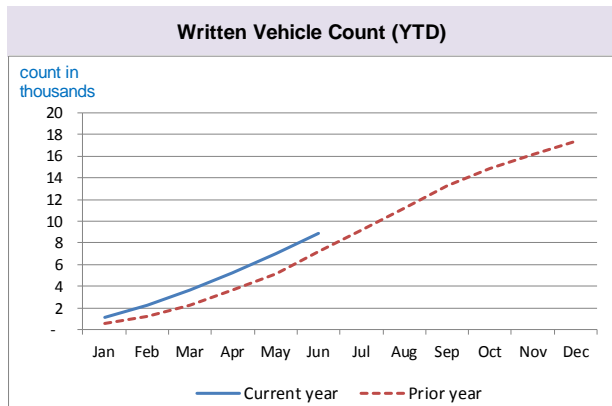
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

June’s vehicle count transfers to the pool represent a 15.7% decrease from June 2017, but vehicle counts were up 22.1% year-to-date. Average written premium was up 5.3% in June 2018, and was up 7.7% year-to-date (see charts immediately below).



	Jun-18	Jun-17	Amt Chg	% Chg
W. Veh curr mth	1,787	2,120	(333)	-15.7%

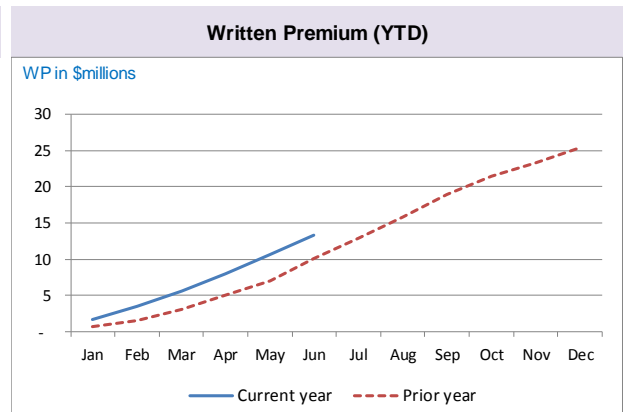
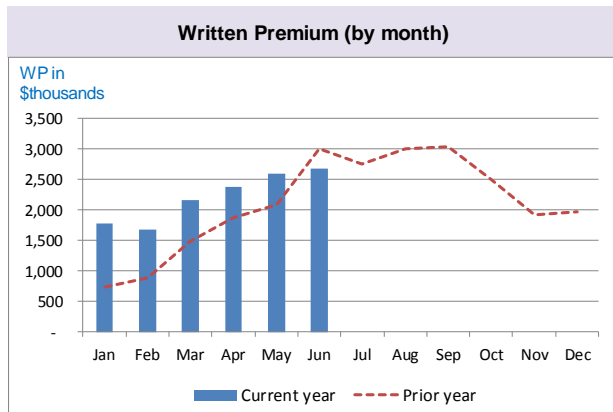
	Jun-18	Jun-17	Amt Chg	% Chg
AWP curr mth	1,496	1,421	75	5.3%



	Jun-18	Jun-17	Amt Chg	% Chg
W. Vehicles YTD	8,845	7,244	1,601	22.1%

	Jun-18	Jun-17	Amt Chg	% Chg
Avg W. Prem YTD	1,501	1,394	107	7.7%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 11.2% for the month compared with the 10.5% increase we projected last month, but was up 31.5% year-to-date (see charts at the top of the next page).



	Jun-18	Jun-17	Amt Chg	% Chg
WP (\$000s) curr mth	2,674	3,012	(338)	-11.2%

	Jun-18	Jun-17	Amt Chg	% Chg
WP (\$000s) YTD	13,277	10,097	3,180	31.5%

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

Related links:

[Nova Scotia RSP June 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Nova Scotia

Operating Results for the 6 Months Ended June 30, 2018 (Discounted basis)

Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Underwriting Revenue:									
Net Premiums Written	\$1,773	\$1,686	\$2,164	\$2,385	\$2,593	\$2,674	\$13,275	\$29,607	\$25,298
Decrease (Increase) in Unearned Premiums	389	337	118	(124)	(232)	(373)	115	(1,632)	(6,335)
Net Premiums Earned	\$2,162	\$2,023	\$2,282	\$2,261	\$2,361	\$2,301	\$13,390	\$27,975	\$18,963
Claims Incurred:									
Prior Accident Years:									
Undiscounted	(\$29)	(\$8)	(\$2,276)	\$0	\$1,366	(\$10)	(\$957)	(\$957)	(\$2,136)
Effect of Discounting	90	(39)	(48)	(32)	(79)	(23)	(131)	(364)	(1,836)
Discounted	\$61	(\$47)	(\$2,324)	(\$32)	\$1,287	(\$33)	(\$1,088)	(\$1,321)	(\$3,972)
Current Accident Year:									
Undiscounted	\$2,026	\$1,877	\$2,194	\$2,118	\$2,283	\$2,177	\$12,675	\$26,414	\$17,837
Effect of Discounting	117	92	108	100	50	87	554	1,093	817
Discounted	\$2,143	\$1,969	\$2,302	\$2,218	\$2,333	\$2,264	\$13,229	\$27,507	\$18,654
Claims Incurred	\$2,204	\$1,922	(\$22)	\$2,186	\$3,620	\$2,231	\$12,141	\$26,186	\$14,682
Underwriting Expenses:									
Expense Allowance	\$534	\$509	\$653	\$720	\$783	\$807	\$4,006	\$8,937	\$7,829
Change in UPDR/DPAC:									
Undiscounted	25	24	173	8	72	(2)	300	363	(773)
Effect of Discounting	(21)	(18)	17	8	(55)	21	(48)	51	37
Discounted	\$4	\$6	\$190	\$16	\$17	\$19	252	414	(\$736)
Underwriting Expenses	\$538	\$515	\$843	\$736	\$800	\$826	\$4,258	\$9,351	\$7,093
Net Underwriting Gain (Loss)	(\$580)	(\$414)	\$1,461	(\$661)	(\$2,059)	(\$756)	(\$3,009)	(\$7,562)	(\$2,812)
Administrative Expenses	\$40	\$56	\$59	\$48	\$55	\$47	\$305	\$926	\$600
Operating Result	(\$620)	(\$470)	\$1,402	(\$709)	(\$2,114)	(\$803)	(\$3,314)	(\$8,488)	(\$3,412)
Ratios:									
Claims & Expenses Incurred (Earned)									
Prior Accident Years	2.8%	-2.3%	-101.8%	-1.4%	54.5%	-1.4%	-8.1%	-4.7%	-20.9%
Current Accident Year	99.1%	97.3%	100.9%	98.1%	98.8%	98.4%	98.8%	98.3%	98.4%
All Accident Years Combined	101.9%	95.0%	-0.9%	96.7%	153.3%	97.0%	90.7%	93.6%	77.5%
Underwriting & Administrative Expenses (Earned)	26.7%	28.2%	39.5%	34.7%	36.2%	37.9%	34.1%	36.7%	40.6%
Combined Operating Ratio	128.6%	123.2%	38.6%	131.4%	189.5%	134.9%	124.8%	130.3%	118.1%

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