

TO: MEMBERS OF THE FACILITY ASSOCIATION

**ATTENTION: CHIEF EXECUTIVE OFFICER
NEW BRUNSWICK RISK SHARING POOL PROJECT MANAGER**

BULLETIN NO.: F18 – 074

DATE: SEPTEMBER 27, 2018

**SUBJECT: NEW BRUNSWICK RISK SHARING POOL
– AUGUST 2018 OPERATIONAL REPORT**

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

Please be advised that the August 2018 New Brunswick 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 New Brunswick Risk Sharing Pool (“RSP”) as at June 30, 2018 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 **\$1.5 million unfavourable** impact on the month’s net result from operations, adding an estimated 18.1 points from the year-to-date Combined Operating Ratio (ending at 121.5%). The impact is summarized in the tables immediately below¹.

NB	unfav / (fav) for the month and ytd						ytd EP 8,444 (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	1,320	67	1,387	24	(31)	1,380	15.6%	0.8%	16.4%	0.3%	(0.4%)	16.3%
CAY	94	(5)	89	9	-	98	1.1%	(0.1%)	1.1%	0.1%	-	1.2%
Prem Def	49	(9)	40	12	-	52	0.6%	(0.1%)	0.5%	0.1%	-	0.6%
TOTAL	1,463	53	1,516	45	(31)	1,530	17.3%	0.6%	18.0%	0.5%	(0.4%)	18.1%

The valuation result is due to changes generated from updated nominal ultimate selections and

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”.

projected cash flows (generating a \$1.5 million unfavourable impact – see column [3] in the left table at the bottom of the previous page), combined with the impact of a 6 basis point decrease in the selected discount rate (from 1.93% to 1.87%, generating a \$45 thousand unfavourable impact – see column [4] in the left table at the bottom of the previous page). While there was no change in the margin for adverse deviation in investment yield (remains at 25 basis points), as per our usual practice with the June 30 valuations, the margins for adverse deviation for claims development as selected at the coverage / accident year level were updated with this valuation (generating a \$31 thousand favourable impact – see column [5] in the left table at the bottom of the previous page).

Management has observed favourable *total* valuation impacts over the last 12 valuation implementations, with 5 of 12 valuation implementations being unfavourable over that period, as shown in the table below (summarizing the same information as provided in the left table above as relates to the most recent 12 valuation implementations). Nominal estimate updates (column [1]) drive the overall impacts. It should be noted that the impacts in column [3] are largely outside of the control of FA (as being related to macroeconomic factors).

RSP: New Brunswick, as at: 2018 Q2		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LRs & exp [1]	APVs @ prior assumptions [2]	updated dsct rate [3]	updated margins [4]	Total Impact [5] = sum([1] to [5])	Booked Policy Liabilities [6]	Total Impact as % Book Liabs [7] = [5] / [6]	Nominal Impact as % Book Liabs [8] = [1] / [6]
2015 Q3	Oct 2015	372	32	125	-	529	26,351	2.0%	1.4%
2015 Q4	Mar 2016	(2,379)	(243)	40	-	(2,582)	23,779	(10.9%)	(10.0%)
2016 Q1	May 2016	(226)	(38)	25	-	(239)	23,693	(1.0%)	(1.0%)
2016 Q2	Aug 2016	(418)	(103)	43	(471)	(949)	23,496	(4.0%)	(1.8%)
2016 Q3	Oct 2016	379	32	41	-	452	24,304	1.9%	1.6%
2016 Q4	Mar 2017	(736)	(71)	(312)	-	(1,119)	23,149	(4.8%)	(3.2%)
2017 Q1	May 2017	(552)	(57)	53	-	(556)	23,168	(2.4%)	(2.4%)
2017 Q2	Aug 2017	(701)	(95)	(129)	(46)	(971)	23,538	(4.1%)	(3.0%)
2017 Q3	Oct 2017	1,415	101	(354)	-	1,162	24,385	4.8%	5.8%
2017 Q4	Mar 2018	55	37	(6)	-	86	23,228	0.4%	0.2%
2018 Q1	May 2018	(320)	(50)	(110)	-	(480)	23,274	(2.1%)	(1.4%)
2018 Q2	Aug 2018	1,463	53	45	(31)	1,530	26,690	5.7%	5.5%
12-qtrs	-	(1,648)	(402)	(539)	(548)	(3,137)			
% of total		52.5%	12.8%	17.2%	17.5%	100.0%			
Averages									
12-qtrs		(137)	(34)	(45)	(46)	(261)	24,088	(1.1%)	(0.6%)
2015 Q3 to 2017 Q2		(533)	(68)	(14)	(65)	(679)	23,935	(2.8%)	(2.2%)
2017 Q3 to 2018 Q2		653	35	(106)	(8)	575	24,394	2.4%	2.7%

The FA valuation approach is focused on providing best estimates on a nominal basis, and we expect this to manifest itself as a close-to-zero 12-quarter impact for column [1] in the table above. While this objective has not been met, we note the overall impact has been relatively small. The nominal impacts, as a percentage of booked policy liabilities, should ideally be small (less than 2.5%) – this percentage is provided in column [8] above, and, while 5 of the 12 valuation implementations above indicate an impact greater than 2.5%, part of this may be attributed to the fact that this is a smaller RSP, and the overall average impact at 0.6% is below the 2.5% level. Finally, potential “bias” in the nominal impacts should be considered (per either

column [1] or [8]). We generally anticipate approximately 1/3rd of nominal valuation impacts will be unfavourable, and 2/3^{rds} will be favourable (due to the skewness of the development), and this seems to be satisfied.

In summary, we believe the nominal valuation impacts are moving toward our target impacts (long term zero impact; individual valuation impact of no more than 2.5% of policy liabilities; no bias evident), although the small RSP size may make it challenging to meet the 2.5% target.

Please see “Effect of Quarterly Valuation” on page 5 for additional valuation result detail.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$1.8 million and the incurred loss ratio to the end of 8 months is 85.3%, as summarized in the table below.

Amounts in \$000s	August 2018	August 2017	Year to date Aug 2018	Year to Date Aug 2017
Premium Written	1,827	1,347	9,763	7,748
Premium Earned	1,154	884	8,444	6,748
Incurred Losses	2,341	(93)	7,201	2,946
Underwriting & Admin Expense	505	176	3,059	2,304
Operating Result	(1,692)	801	(1,816)	1,498
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	117.4%	(64.0%)	7.9%	(34.0%)
- Current Accident Year	85.4%	53.5%	77.4%	77.7%
<i>Total</i>	202.8%	(10.5%)	85.3%	43.7%
<i>Underwriting & Admin Expense</i>	43.8%	19.9%	36.2%	34.1%
<i>Combined Operating Ratio</i>	246.6%	9.4%	121.5%	77.8%

rounding differences may occur

These results are discussed in some detail in the “Current Month Results” section. For additional numeric detail, 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 -\$2.3 million and the estimated combined operating ratio to December 2018 is 116.9%, as summarized in the table at the top of the next page.

NB RSP 2018 Yr-end Projection	Current	Prior Mth	Change	Final 2018
Amounts in \$000s	(Aug 2018)	(Jul 2018)		Outlook*
Premium Written	14,452	14,764	(312)	17,486
Premium Earned	13,243	13,288	(45)	15,974
Incurred Losses	10,804	9,281	1,523	11,739
Underwriting & Admin Expense	4,689	4,778	(90)	5,688
Net Result from Operations	(2,250)	(771)	(1,478)	(1,453)
Ratios:				
Loss ratio - Prior Accident Years	4.5%	(5.8%)	10.3%	(1.7%)
- Current Accident Year	77.0%	75.6%	1.4%	75.1%
<i>Total</i>	81.5%	69.8%	11.7%	73.4%
Underwriting & Admin Expense	35.4%	36.0%	(0.6%)	35.6%
Combined Operating Ratio	116.9%	105.8%	11.1%	109.0%

rounding differences may occur

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

This updated projection to the end of the year has deteriorated by \$1.5 million from the projection provided last month (-\$0.8 million and 105.8%), mainly due to the \$1.5 million overall unfavourable impact of the valuation implementation as summarized in the tables immediately below (see more information under “Effect of Quarterly Valuation” on page 5). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

NB	unfav / (fav) projected for full year						year EP 13,243 (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	1,320	60	1,380	25	(29)	1,376	10.0%	0.5%	10.4%	0.2%	(0.2%)	10.4%
CAY	146	(10)	136	13	-	149	1.1%	(0.1%)	1.0%	0.1%	-	1.1%
Prem Def	8	(12)	(4)	13	-	9	0.1%	(0.1%)	-	0.1%	-	0.1%
TOTAL	1,474	38	1,512	51	(29)	1,534	11.1%	0.3%	11.4%	0.4%	(0.2%)	11.6%

Current Month Results

The New Brunswick Risk Sharing Pool produced a -\$1.7 million Operating Result in the month of August 2018, a deterioration of \$2.5 million compared with the same month last year. This deterioration is composed of a \$2.7 million unfavourable impact stemming from the overall increase in the combined ratio (from 9.4% to 246.6% applied to \$1.2 million in earned premium), offset by a \$0.2 million favourable impact associated with the \$0.3 million increase in earned premium (at a combined ratio of 9.4%). 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 101.6% at the end of 7 months to 121.5% at the end of 8 months. The 19.9 percentage point increase is composed of a 17.4 percentage point increase in the Prior Accident Years loss ratio, coupled with a 1.3 percentage point increase in the Current Accident Year loss ratio, and a 1.2 percentage point increase in the expense ratio.

Variations from Projections

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

August 2018	Actual	Projection	Difference	Difference %
Written Premium	1,827	1,635	192	11.7%
Earned Premium	1,154	1,187	(33)	(2.8%)
Reported Losses				
Paid Losses	380	660	(280)	(42.4%)
Paid Expenses	47	67	(20)	(29.9%)
Change in Outstanding Losses	50	227	(177)	(78.0%)
Total Reported Losses	477	954	(477)	(50.0%)
Change in IBNR Provision*	1,864	(83)	1,947	
Change in Premium Deficiency (DPAC)*	(72)	(80)	8	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [New Brunswick RSP August 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.

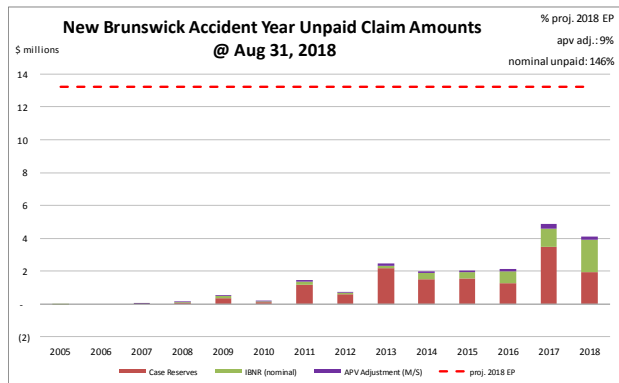
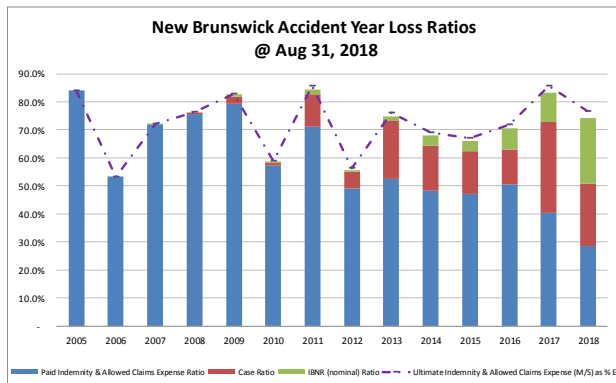
For the month of August 2018, reported losses were \$0.5 million lower than projected. The Current Accident Year had a \$0.4 million favourable variance in reported losses, and the Prior Accident Years had a \$0.1 million favourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

Effect of Quarterly Valuation

The August 2018 New Brunswick Risk Sharing Pool Operational Report reflects the results of an updated valuation as at June 30, 2018 with the associated impacts in relation to the results for August 2018 summarized in the tables immediately below.

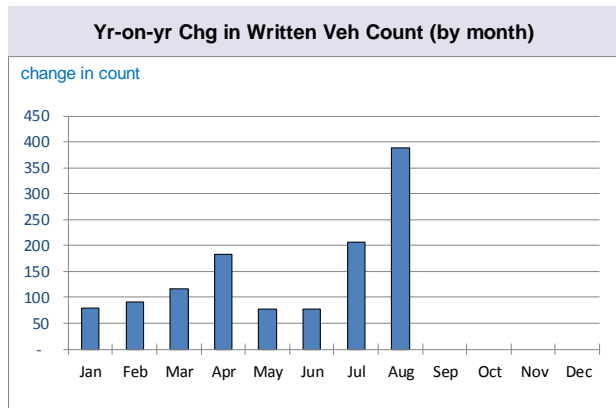
NB	unfav / (fav) for the month and ytd						mth EP 1,154 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	1,320	67	1,387	24	(31)	1,380	114.4%	5.8%	120.2%	2.1%	(2.7%)	119.6%
CAY	94	(5)	89	9	-	98	8.1%	(0.4%)	7.7%	0.8%	-	8.5%
Prem Def	49	(9)	40	12	-	52	4.2%	(0.8%)	3.5%	1.0%	-	4.5%
TOTAL	1,463	53	1,516	45	(31)	1,530	126.8%	4.6%	131.4%	3.9%	(2.7%)	132.6%

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.

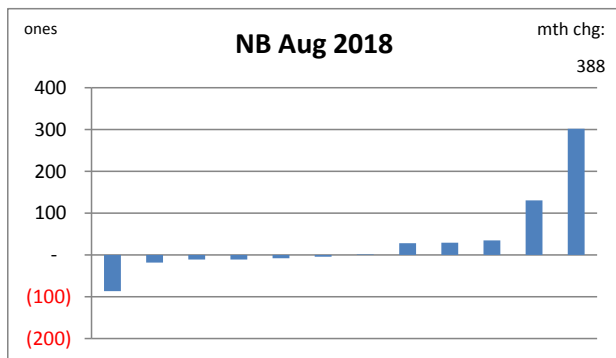


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [New Brunswick RSP August 2018 Operational Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at June 30, 2018 is expected to be posted this fall. The actuarial valuation will be updated next as at September 30, 2018 and we anticipate the results will be reflected in the October 2018 Operational Report.

Management Comments

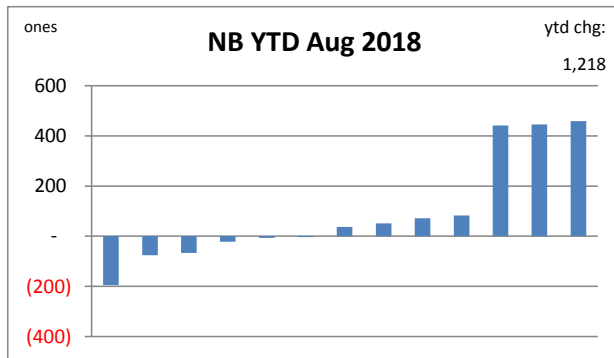


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with August showing an increase of 388 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 183 vehicles, indicating a variance of 205 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the pool in August than projected.



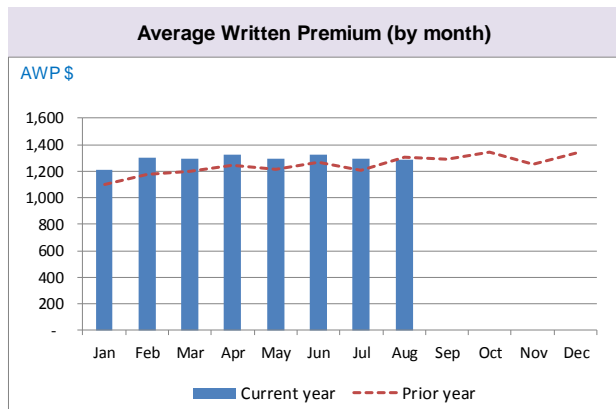
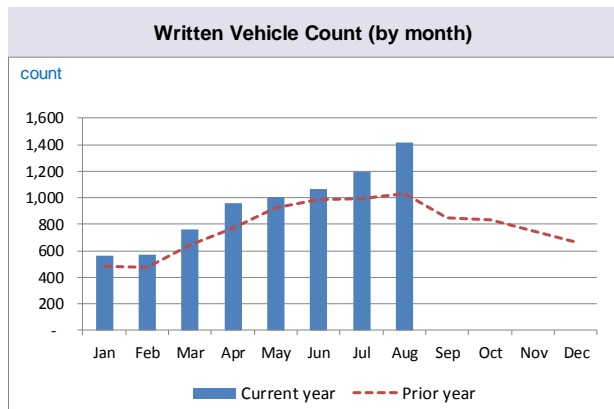
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Six member company groups transferred fewer vehicles to the pool this month compared with a year ago, while six transferred more. Of the 6 member company groups transferring fewer vehicles, 4 member company groups accounted for 92% of the

total transfer decrease for the “decliner” members. Of the 6 member company groups transferring more vehicles, 2 member company groups accounted for 82% of the total transfer increase for the “grower” members.



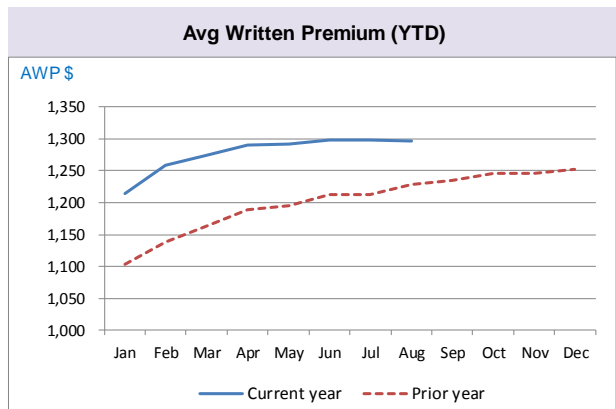
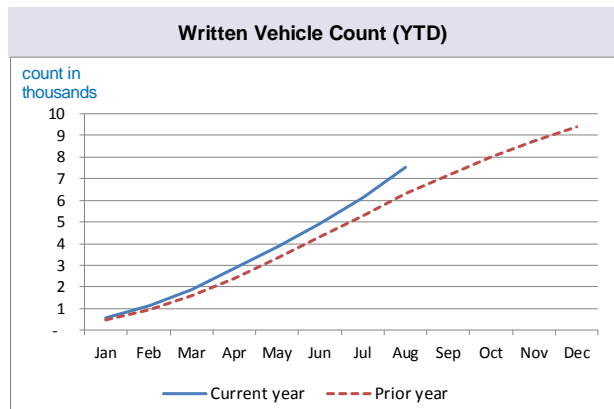
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

August's vehicle count transfers to the pool represent a 37.7% increase from August 2017, and counts were up 19.3% year-to-date. Average written premium was down 1.5% in August 2018, but up 5.6% year-to-date (see charts immediately below).



	Aug-18	Aug-17	Amt Chg	% Chg
W. Veh curr mth	1,417	1,029	388	37.7%

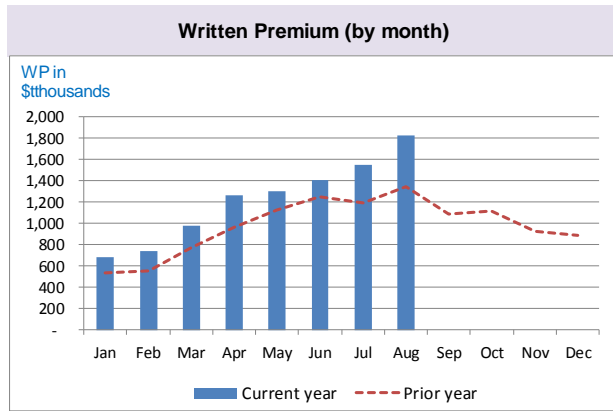
	Aug-18	Aug-17	Amt Chg	% Chg
AWP curr mth	1,290	1,309	(19)	-1.5%



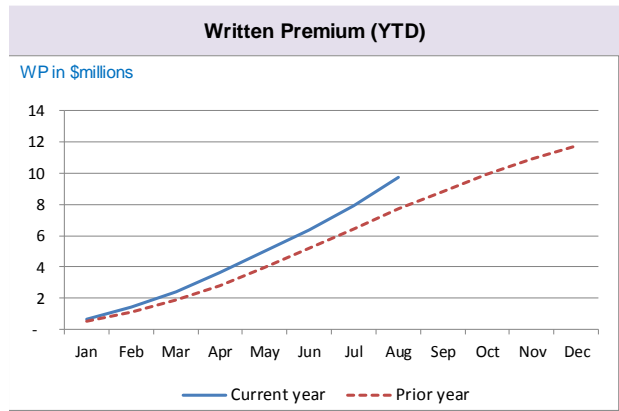
	Aug-18	Aug-17	Amt Chg	% Chg
W. Vehicles YTD	7,529	6,311	1,218	19.3%

	Aug-18	Aug-17	Amt Chg	% Chg
Avg W. Prem YTD	1,297	1,228	69	5.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 35.6% for the month compared with the 21.3% increase we projected last month, and was up 26.0% year-to-date (see charts at the top of the next page).



	Aug-18	Aug-17	Amt Chg	% Chg
WP (\$000s) curr mth	1,827	1,347	480	35.6%



	Aug-18	Aug-17	Amt Chg	% Chg
WP (\$000s) YTD	9,763	7,748	2,015	26.0%

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:

[New Brunswick RSP August 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - New Brunswick

Operating Results for the 8 Months Ended August 31, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Underwriting Revenue:											
Net Premiums Written	\$682	\$739	\$984	\$1,267	\$1,304	\$1,410	\$1,550	\$1,827	\$9,763	\$14,452	\$11,775
Decrease (Increase) in Unearned Premiums	339	190	39	(234)	(226)	(335)	(419)	(673)	(1,319)	(1,209)	(1,161)
Net Premiums Earned	\$1,021	\$929	\$1,023	\$1,033	\$1,078	\$1,075	\$1,131	\$1,154	\$8,444	\$13,243	\$10,614
Claims Incurred:											
Prior Accident Years:											
Undiscounted	(\$5)	(\$5)	(\$63)	(\$7)	(\$315)	(\$7)	(\$5)	\$1,304	\$897	\$896	(\$340)
Effect of Discounting	46	(86)	(40)	(30)	(138)	(17)	(19)	51	(233)	(295)	(915)
Discounted	\$41	(\$91)	(\$103)	(\$37)	(\$453)	(\$24)	(\$24)	\$1,355	\$664	\$601	(\$1,255)
Current Accident Year:											
Undiscounted	\$742	\$674	\$789	\$763	\$789	\$794	\$831	\$952	\$6,334	\$9,896	\$7,958
Effect of Discounting	35	16	32	29	14	21	22	34	203	307	256
Discounted	\$777	\$690	\$821	\$792	\$803	\$815	\$853	\$986	\$6,537	\$10,203	\$8,214
Claims Incurred	\$818	\$599	\$718	\$755	\$350	\$791	\$829	\$2,341	\$7,201	\$10,804	\$6,959
Underwriting Expenses:											
Expense Allowance	\$193	\$211	\$280	\$362	\$372	\$402	\$443	\$521	\$2,784	\$4,125	\$3,744
Change in UPDR/DPAC:											
Undiscounted	87	49	77	(53)	(52)	(74)	(89)	(100)	(155)	(115)	(556)
Effect of Discounting	(13)	(6)	-	11	(26)	12	15	28	21	18	(109)
Discounted	74	43	77	(42)	(78)	(62)	(74)	(72)	(134)	(97)	(\$665)
Underwriting Expenses	\$267	\$254	\$357	\$320	\$294	\$340	\$369	\$449	\$2,650	\$4,028	\$3,079
Net Underwriting Gain (Loss)	(\$64)	\$76	(\$52)	(\$42)	\$434	(\$56)	(\$67)	(\$1,636)	(\$1,407)	(\$1,589)	\$576
Administrative Expenses	\$41	\$57	\$59	\$48	\$55	\$45	\$48	\$56	\$409	\$661	\$603
Operating Result	(\$105)	\$19	(\$111)	(\$90)	\$379	(\$101)	(\$115)	(\$1,692)	(\$1,816)	(\$2,250)	(\$27)
Ratios:											
Claims & Expenses Incurred (Earned)											
Prior Accident Years	4.0%	-9.8%	-10.1%	-3.6%	-42.0%	-2.2%	-2.1%	117.4%	7.9%	4.5%	-11.8%
Current Accident Year	76.1%	74.3%	80.3%	76.7%	74.5%	75.8%	75.4%	85.4%	77.4%	77.0%	77.4%
All Accident Years Combined	80.1%	64.5%	70.2%	73.1%	32.5%	73.6%	73.3%	202.8%	85.3%	81.5%	65.6%
Underwriting & Administrative Expenses (Earned)	30.2%	33.5%	40.7%	35.6%	32.4%	35.8%	36.9%	43.8%	36.2%	35.4%	34.7%
Combined Operating Ratio	110.3%	98.0%	110.9%	108.7%	64.9%	109.4%	110.2%	246.6%	121.5%	116.9%	100.3%

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