

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 082

DATE: OCTOBER 30, 2018

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

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

Please be advised that the September 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 -\$5.9 million and the incurred loss ratio to the end of 9 months is 92.1%, as summarized in the table below.

| Amounts in \$000s | September 2018 | September 2017 | Year to date Sep 2018 | Year to Date Sep 2017 |
|--|----------------|----------------|-----------------------|-----------------------|
| Premium Written | 3,209 | 3,035 | 22,050 | 18,894 |
| Premium Earned | 2,311 | 1,762 | 20,400 | 12,860 |
| Incurred Losses | 2,201 | 1,693 | 18,805 | 7,747 |
| Underwriting & Admin Expense | 1,089 | 1,002 | 7,529 | 5,762 |
| Operating Result | (979) | (933) | (5,934) | (649) |
| Ratios: | | | | |
| Loss ratio - Prior Accident Years | (2.6%) | (2.0%) | (6.1%) | (38.9%) |
| - Current Accident Year | 97.8% | 98.1% | 98.2% | 99.2% |
| <i>Total</i> | 95.2% | 96.1% | 92.1% | 60.3% |
| Underwriting & Admin Expense | 47.1% | 56.9% | 36.9% | 44.8% |
| Combined Operating Ratio | 142.3% | 153.0% | 129.0% | 105.1% |

rounding differences may occur

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 -\$8.1 million and the estimated combined operating ratio to December 2018 is 129.3%, 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 (Sep 2018) | Prior Mth (Aug 2018) | Change | Final 2018 Outlook* |
|---|-------------------------------------|-------------------------|---------------|------------------------|
| Premium Written | 28,910 | 28,715 | 195 | 39,593 |
| Premium Earned | 27,656 | 27,612 | 44 | 35,242 |
| Incurred Losses | 25,662 | 25,682 | (20) | 33,944 |
| Underwriting & Admin Expense | 10,087 | 10,072 | 16 | 13,954 |
| Net Result from Operations | (8,093) | (8,142) | 48 | (12,656) |
| Ratios: | | | | |
| Loss ratio - Prior Accident Years | (5.1%) | (5.0%) | (0.1%) | (1.6%) |
| - Current Accident Year | 97.9% | 98.0% | (0.1%) | 98.0% |
| <i>Total</i> | 92.8% | 93.0% | (0.2%) | 96.4% |
| Underwriting & Admin Expense | 36.5% | 36.5% | 0.0% | 39.6% |
| Combined Operating Ratio | 129.3% | 129.5% | (0.2%) | 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 -\$1.0 million Operating Result in the month of September 2018, a \$46 thousand deterioration from the same month last year.

This month's results moved the year-to-date combined operating ratio from 127.4% at the end of 8 months to 129.0% at the end of 9 months. The 1.6 percentage point increase is composed of a 0.4 percentage point increase in the Prior Accident Years loss ratio and a 1.3 percentage point increase in the expense ratio, offset by a 0.1 percentage point decrease in the Current Accident Year loss 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.

| September 2018 | Actual | Projection | Difference | Difference % |
|---------------------------------------|--------------|--------------|--------------|----------------|
| Written Premium | 3,209 | 3,014 | 195 | 6.5% |
| Earned Premium | 2,311 | 2,343 | (32) | (1.4%) |
| Reported Losses | | | | |
| Paid Losses | 1,337 | 1,199 | 138 | 11.5% |
| Paid Expenses | 17 | 54 | (37) | (68.5%) |
| Change in Outstanding Losses | (154) | 509 | (663) | (130.3%) |
| Total Reported Losses | 1,200 | 1,762 | (562) | (31.9%) |
| Change in IBNR Provision * | 1,001 | 486 | 515 | |
| Change in Premium Deficiency (DPAC) * | 75 | 83 | (8) | |

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP September 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 September 2018, reported losses were \$0.6 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 \$0.2 million favourable 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. A portion of the Prior Accident Years' variances were the result of a member company group providing correcting case reserve transactions during the month. FA management reviewed the results of the transactions and have determined that they were appropriate based on available information. Management investigated other 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

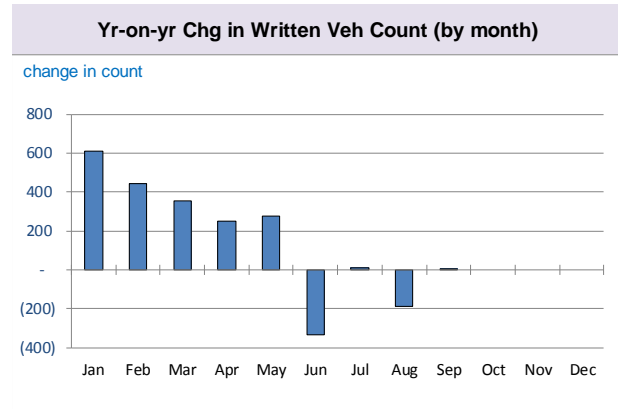
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

Effect of Quarterly Valuation

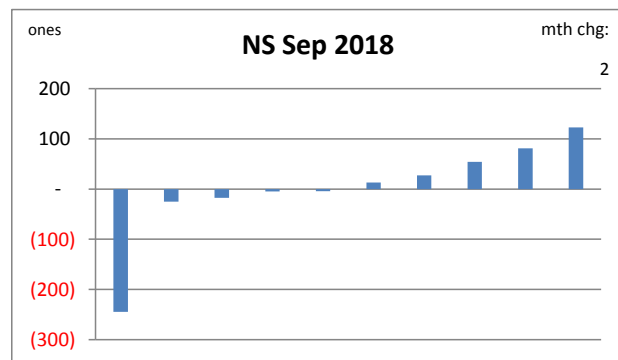
The September 2018 Nova Scotia Risk Sharing Pool Operational Report does not reflect the

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

Management Comments

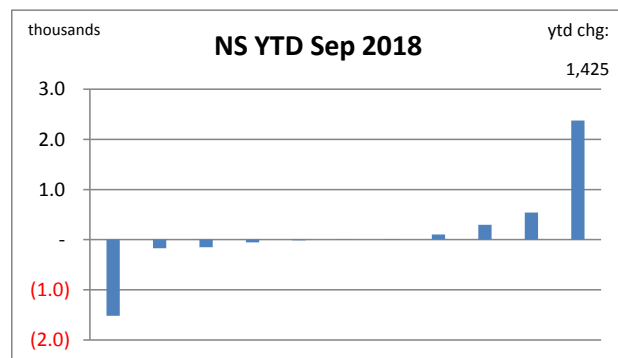


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with September showing an increase of 2 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 60 vehicles, indicating a variance of 62 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the pool in September than projected.



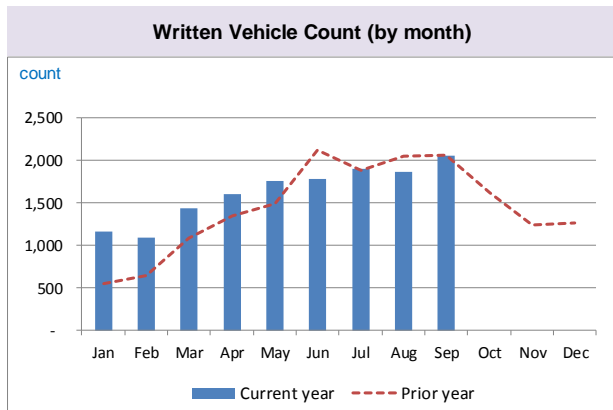
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the pool this month compared with a year ago, while five transferred more. Of the 5 member company groups transferring fewer vehicles, 1 member company group accounted for 83% of the total transfer decrease for these “decliner” members.

Of the 5 member company groups transferring more vehicles, 4 member company groups accounted for 96% of the total transfer increase for these “grower” members.

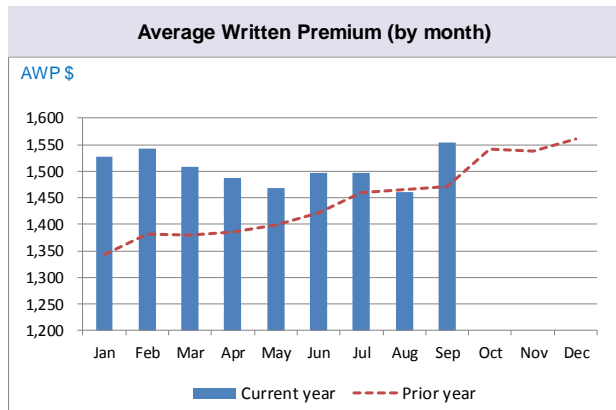


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

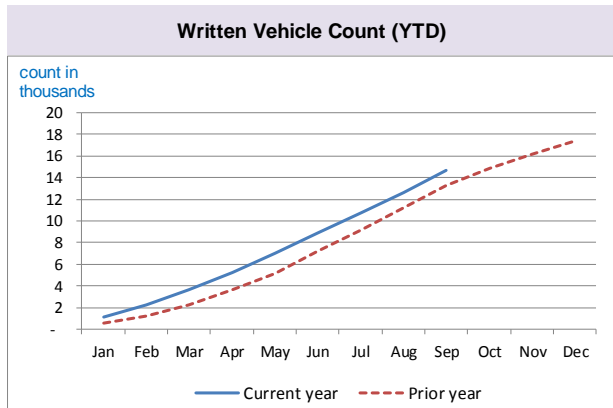
September’s vehicle count transfers to the pool represent a 0.1% increase from September 2017, and vehicle counts were up 10.8% year-to-date. Average written premium was up 5.6% in September 2018, and was up 5.4% year-to-date (see charts at the top of the next page).



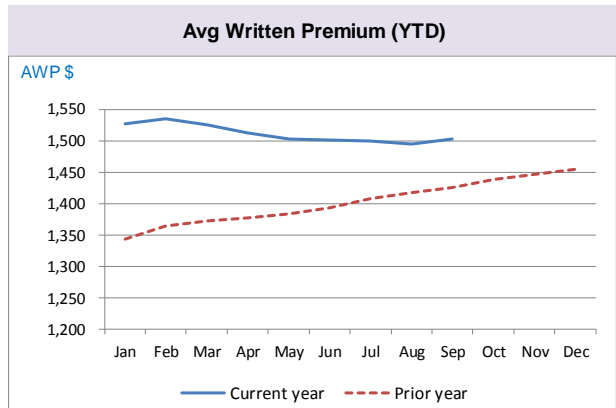
| | Sep-18 | Sep-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Veh curr mth | 2,064 | 2,062 | 2 | 0.1% |



| | Sep-18 | Sep-17 | Amt Chg | % Chg |
|--------------|--------|--------|---------|-------|
| AWP curr mth | 1,555 | 1,472 | 83 | 5.6% |

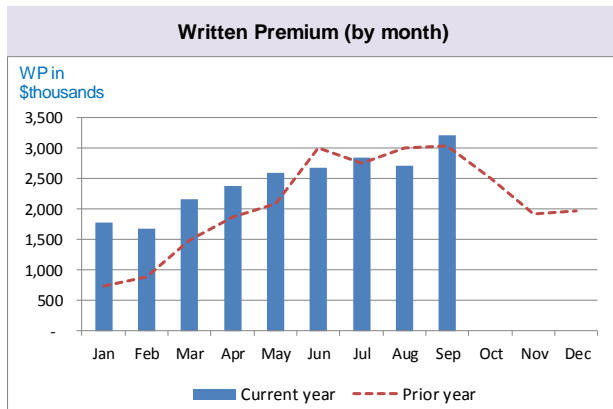


| | Sep-18 | Sep-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Vehicles YTD | 14,671 | 13,246 | 1,425 | 10.8% |

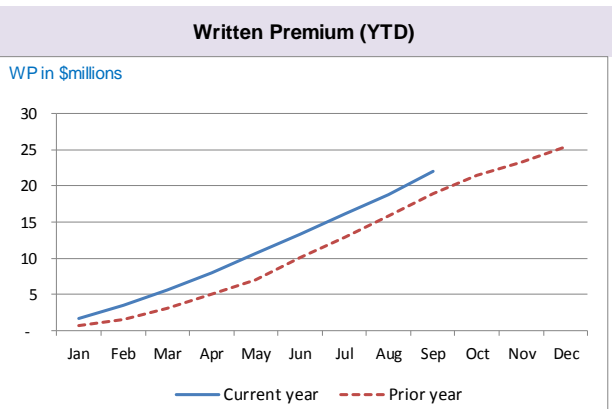


| | Sep-18 | Sep-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| Avg W. Prem YTD | 1,503 | 1,426 | 77 | 5.4% |

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 5.7% for the month compared with the 0.7% decrease we projected last month, and was up 16.7% year-to-date (see charts immediately below).



| | Sep-18 | Sep-17 | Amt Chg | % Chg |
|----------------------|--------|--------|---------|-------|
| WP (\$000s) curr mth | 3,209 | 3,035 | 174 | 5.7% |



| | Sep-18 | Sep-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| WP (\$000s) YTD | 22,051 | 18,894 | 3,157 | 16.7% |

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Nova Scotia Risk Sharing Pool – September 2018 Operational Report

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 September 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Nova Scotia

Operating Results for the 9 Months Ended September 30, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

| | January | February | March | April | May | June | July | August | September | 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 | \$2,844 | \$2,722 | \$3,209 | \$22,050 | \$28,910 | \$25,298 |
| Decrease (Increase) in Unearned Premiums | 389 | 337 | 118 | (124) | (232) | (373) | (449) | (418) | (898) | (1,650) | (1,254) | (6,335) |
| Net Premiums Earned | \$2,162 | \$2,023 | \$2,282 | \$2,261 | \$2,361 | \$2,301 | \$2,395 | \$2,304 | \$2,311 | \$20,400 | \$27,656 | \$18,963 |
| Claims Incurred: | | | | | | | | | | | | |
| Prior Accident Years: | | | | | | | | | | | | |
| Undiscounted | (\$29) | (\$8) | (\$2,276) | \$0 | \$1,366 | (\$10) | (\$6) | \$104 | (\$7) | (\$866) | (\$866) | (\$2,136) |
| Effect of Discounting | 90 | (39) | (48) | (32) | (79) | (23) | (63) | (122) | (53) | (369) | (554) | (1,836) |
| Discounted | \$61 | (\$47) | (\$2,324) | (\$32) | \$1,287 | (\$33) | (\$69) | (\$18) | (\$60) | (\$1,235) | (\$1,420) | (\$3,972) |
| Current Accident Year: | | | | | | | | | | | | |
| Undiscounted | \$2,026 | \$1,877 | \$2,194 | \$2,118 | \$2,283 | \$2,177 | \$2,262 | \$2,112 | \$2,169 | \$19,218 | \$26,012 | \$17,837 |
| Effect of Discounting | 117 | 92 | 108 | 100 | 50 | 87 | 89 | 87 | 92 | 822 | 1,070 | 817 |
| Discounted | \$2,143 | \$1,969 | \$2,302 | \$2,218 | \$2,333 | \$2,264 | \$2,351 | \$2,199 | \$2,261 | \$20,040 | \$27,082 | \$18,654 |
| Claims Incurred | \$2,204 | \$1,922 | (\$22) | \$2,186 | \$3,620 | \$2,231 | \$2,282 | \$2,181 | \$2,201 | \$18,805 | \$25,662 | \$14,682 |
| Underwriting Expenses: | | | | | | | | | | | | |
| Expense Allowance | \$534 | \$509 | \$653 | \$720 | \$783 | \$807 | \$859 | \$821 | \$969 | \$6,655 | \$8,726 | \$7,829 |
| Change in UPDR/DPAC: | | | | | | | | | | | | |
| Undiscounted | 25 | 24 | 173 | 8 | 72 | (2) | 1 | 29 | 22 | 352 | 560 | (773) |
| Effect of Discounting | (21) | (18) | 17 | 8 | (55) | 21 | 23 | 40 | 53 | 68 | 57 | 37 |
| Discounted | \$4 | \$6 | \$190 | \$16 | \$17 | \$19 | \$24 | \$69 | \$75 | 420 | 617 | (\$736) |
| Underwriting Expenses | \$538 | \$515 | \$843 | \$736 | \$800 | \$826 | \$883 | \$890 | \$1,044 | \$7,075 | \$9,343 | \$7,093 |
| Net Underwriting Gain (Loss) | (\$580) | (\$414) | \$1,461 | (\$661) | (\$2,059) | (\$756) | (\$770) | (\$767) | (\$934) | (\$5,480) | (\$7,349) | (\$2,812) |
| Administrative Expenses | \$40 | \$56 | \$59 | \$48 | \$55 | \$47 | \$48 | \$56 | \$45 | \$454 | \$744 | \$600 |
| Operating Result | (\$620) | (\$470) | \$1,402 | (\$709) | (\$2,114) | (\$803) | (\$818) | (\$823) | (\$979) | (\$5,934) | (\$8,093) | (\$3,412) |
| Ratios: | | | | | | | | | | | | |
| Claims & Expenses Incurred (Earned) | | | | | | | | | | | | |
| Prior Accident Years | 2.8% | -2.3% | -101.8% | -1.4% | 54.5% | -1.4% | -2.9% | -0.8% | -2.6% | -6.1% | -5.1% | -20.9% |
| Current Accident Year | 99.1% | 97.3% | 100.9% | 98.1% | 98.8% | 98.4% | 98.2% | 95.4% | 97.8% | 98.2% | 97.9% | 98.4% |
| All Accident Years Combined | 101.9% | 95.0% | -0.9% | 96.7% | 153.3% | 97.0% | 95.3% | 94.6% | 95.2% | 92.1% | 92.8% | 77.5% |
| Underwriting & Administrative Expenses (Earned) | 26.7% | 28.2% | 39.5% | 34.7% | 36.2% | 37.9% | 38.9% | 41.1% | 47.1% | 36.9% | 36.5% | 40.6% |
| Combined Operating Ratio | 128.6% | 123.2% | 38.6% | 131.4% | 189.5% | 134.9% | 134.2% | 135.7% | 142.3% | 129.0% | 129.3% | 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