

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 088

DATE: NOVEMBER 29, 2018

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

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

Please be advised that the October 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 September 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 **\$0.5 million favourable** impact on the month’s net result from operations, subtracting an estimated 4.3 points from the year-to-date Combined Operating Ratio (ending at 115.1%). The impact is summarized in the tables immediately below¹.

NB	unfav / (fav) for the month and ytd						ytd EP 10,858 (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	(272)	2	(270)	(165)	-	(435)	(2.5%)	-	(2.5%)	(1.5%)	-	(4.0%)
CAY	55	6	61	(71)	-	(10)	0.5%	0.1%	0.6%	(0.7%)	-	(0.1%)
Prem Def	12	26	38	(64)	-	(26)	0.1%	0.2%	0.3%	(0.6%)	-	(0.2%)
TOTAL	(205)	34	(171)	(300)	-	(471)	(1.9%)	0.3%	(1.6%)	(2.8%)	-	(4.3%)

Please see “Effect of Quarterly Valuation” on page 4 for additional valuation result detail.

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”.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$1.6 million and the incurred loss ratio to the end of 10 months is 79.0%, as summarized in the table below.

Amounts in \$000s	October 2018	October 2017	Year to date Oct 2018	Year to Date Oct 2017
Premium Written	1,697	1,118	13,113	9,958
Premium Earned	1,250	925	10,858	8,593
Incurring Losses	499	1,870	8,581	5,443
Underwriting & Admin Expense	436	316	3,923	2,974
Operating Result	315	(1,261)	(1,646)	176
<i>Ratios:</i>				
Loss ratio				
- Prior Accident Years	(35.5%)	122.7%	1.9%	(14.4%)
- Current Accident Year	75.4%	79.5%	77.1%	77.7%
<i>Total</i>	39.9%	202.2%	79.0%	63.3%
<i>Underwriting & Admin Expense</i>	34.9%	34.2%	36.1%	34.6%
<i>Combined Operating Ratio</i>	74.8%	236.4%	115.1%	97.9%

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 -\$1.9 million and the estimated combined operating ratio to December 2018 is 114.0%, 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	(Oct 2018)	(Sep 2018)		Outlook*
Premium Written	15,556	14,751	805	17,486
Premium Earned	13,422	13,309	113	15,974
Incurred Losses	10,517	10,876	(359)	11,739
Underwriting & Admin Expense	4,780	4,716	63	5,688
Net Result from Operations	(1,875)	(2,283)	409	(1,453)
Ratios:				
Loss ratio				
- Prior Accident Years	1.4%	4.6%	(3.2%)	(1.7%)
- Current Accident Year	77.0%	77.1%	(0.1%)	75.1%
<i>Total</i>	78.4%	81.7%	(3.3%)	73.4%
Underwriting & Admin Expense	35.6%	35.4%	0.2%	35.6%
Combined Operating Ratio	114.0%	117.1%	(3.1%)	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 improved by \$0.4 million from the projection provided last month (-\$2.3 million and 117.1%), mainly due to the \$0.5 million overall favourable impact of the valuation implementation as summarized in the tables immediately below (see more information under “Effect of Quarterly Valuation” on page 4). 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 13,422 (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	(272)	4	(268)	(160)	-	(428)	(2.0%)	-	(2.0%)	(1.2%)	-	(3.2%)
CAY	67	9	76	(87)	-	(11)	0.5%	0.1%	0.6%	(0.6%)	-	(0.1%)
Prem Def	-	25	25	(62)	-	(37)	-	0.2%	0.2%	(0.5%)	-	(0.3%)
TOTAL	(205)	38	(167)	(309)	-	(476)	(1.5%)	0.3%	(1.2%)	(2.3%)	-	(3.5%)

Current Month Results

The New Brunswick Risk Sharing Pool produced a \$0.3 million Operating Result in the month of October 2018, an improvement of \$1.6 million compared with the same month last year. This improvement is composed of a \$2.0 million favourable impact stemming from the overall decrease in the combined ratio (from 236.4% to 74.8% applied to \$1.3 million in earned premium), offset by a \$0.4 million unfavourable impact associated with the \$0.3 million increase in earned premium (at a combined ratio of 236.4%). 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 120.4% at the end of 9 months to 115.1% at the end of 10 months. The 5.3 percentage point decrease is composed of a 4.9 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 0.2 percentage point decrease in the Current Accident Year loss ratio, and a 0.2 percentage point decrease in the expense ratio.

Variations from Projections

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

October 2018	Actual	Projection	Difference	Difference %
Written Premium	1,697	1,246	451	36.2%
Earned Premium	1,250	1,233	17	1.4%
Reported Losses				
Paid Losses	509	497	12	2.4%
Paid Expenses	68	44	24	54.5%
Change in Outstanding Losses	(91)	584	(675)	(115.6%)
Total Reported Losses	486	1,125	(639)	(56.8%)
Change in IBNR Provision*	13	(192)	205	
Change in Premium Deficiency (DPAC)*	(108)	(2)	(106)	

(Amounts in \$000's)

rounding differences may occur

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

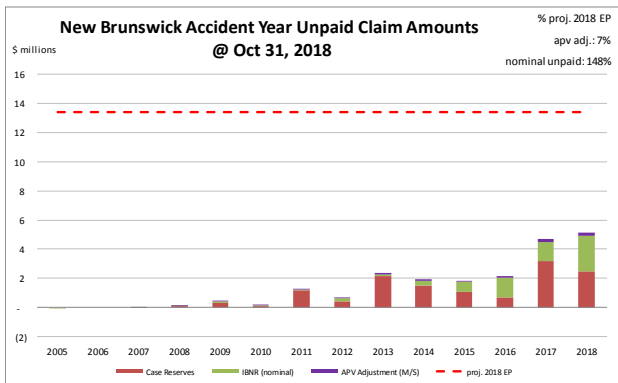
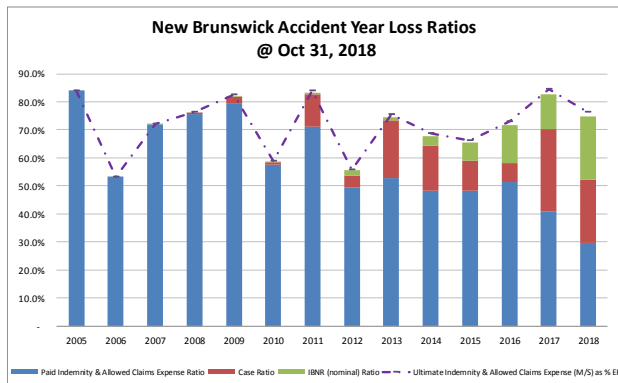
For the month of October 2018, reported losses were \$0.6 million lower than projected. The Current Accident Year had a \$0.1 million favourable variance in reported losses, and the Prior Accident Years had a \$0.5 million favourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

Effect of Quarterly Valuation

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

NB	unfav / (fav) for the month and ytd						mth EP 1,250 (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	(272)	2	(270)	(165)	-	(435)	(21.8%)	0.2%	(21.6%)	(13.2%)	-	(34.8%)
CAY	55	6	61	(71)	-	(10)	4.4%	0.5%	4.9%	(5.7%)	-	(0.8%)
Prem Def	12	26	38	(64)	-	(26)	1.0%	2.1%	3.0%	(5.1%)	-	(2.1%)
TOTAL	(205)	34	(171)	(300)	-	(471)	(16.4%)	2.7%	(13.7%)	(24.0%)	-	(37.7%)

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 valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.2 million favourable impact – see column [3] in the left table at the bottom of the previous page), augmented by the impact due to a 42 basis point increase in the selected discount rate (from 1.87% to 2.29% generating a \$0.3 million favourable impact – see column [4] in the left table at the bottom of the previous page). There was no change in the margin for adverse deviation in investment yield (remains at 25 basis points), and our usual practice is to only update margins for adverse deviation for claims development (selected at the coverage / accident year level) at the June 30 valuation, these were also left unchanged (hence \$0 in 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 4 valuation implementations being unfavourable over that 12-quarter period, as shown in column [5] of the table at the top of the next page (summarizing the same information as provided in the left table above as relates to the most recent 12 valuation implementations). 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 Q3		unfavourable / ((favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LRs & exp	APVs @ prior assumptions	updated dsct rate	updated margins	Total Impact	Booked Policy Liabilities	Total Impact as % Book Liabs	Nominal Impact as % Book Liabs
		[1]	[2]	[3]	[4]	[5] = sum([1] to [5])	[6]	[7] = [5] / [6]	[8] = [1] / [6]
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%
2018 Q3	Oct 2018	(205)	34	(300)	-	(471)	27,694	(1.7%)	(0.7%)
12-qtrs	-	(2,225)	(400)	(964)	(548)	(4,137)			
% of total		53.8%	9.7%	23.3%	13.2%	100.0%			
Averages									
12-qtrs		(185)	(33)	(80)	(46)	(345)	24,200	(1.4%)	(0.8%)
2015 Q4 to 2017 Q3		(402)	(59)	(74)	(65)	(600)	23,689	(2.5%)	(1.7%)
2017 Q4 to 2018 Q3		248	19	(93)	(8)	166	25,222	0.7%	1.0%

The FA valuation approach is focused on providing (i) best estimates on a nominal basis (i.e. the longer term average of nominal changes in column [1] should be close-to-zero); (ii) the nominal changes of any one valuation in relation to policy liabilities², should be “small” (less than 2.5%); and (iii) the valuation results should not indicate bias – that is, we generally anticipate approximately 1/3rd of nominal valuation impacts will be unfavourable, and 2/3rds will be favourable (due to the skewness of the development). On these 3 measures:

- (i) **Best estimate measurement:** This objective has not been met, as the 12-quarter nominal change in column [1] is \$2.2 million favourable. That said, the average favourable impact over the 12 quarters at \$0.2 million (nominal only) represents 0.8% of ending policy liabilities, which we would view as not significant. We do note that the latest 6 valuations have been on average less variant in magnitude than the earlier 6 valuations.
- (ii) **Nominal size measurement:** This objective has not been met, as there were 5 individual valuations showing nominal changes in excess of 2.5% of ending policy liabilities per column [8] in the table above.
- (iii) **Bias evidence measurement:** This objective has been met, as 4 of 12 valuations show unfavourable changes (column [1] of the table above), in line with our expectation (4 of 12).

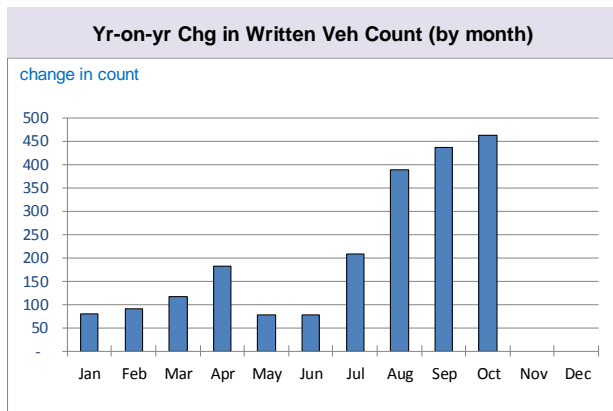
In summary, while challenging as a small RSP, we believe the nominal valuation impacts are moving toward our target impacts (long term zero impact; individual valuation impact of no

²We also consider changes in nominal estimates relative to beginning claims liabilities, with this metric also ideally being small, but in this case, less than 5.0%. Over time, our view of “small” for each of these metrics may change.

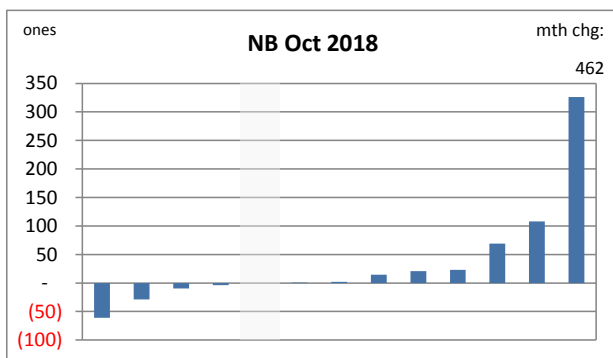
more than 2.5% of policy liabilities; no bias evident).

The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [New Brunswick RSP October 2018 Operational Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at September 30, 2018 is expected to be posted during December 2018. The actuarial valuation will be updated next as at December 31, 2018 and we anticipate the results will be reflected in the March 2019 Operational Report.

Management Comments

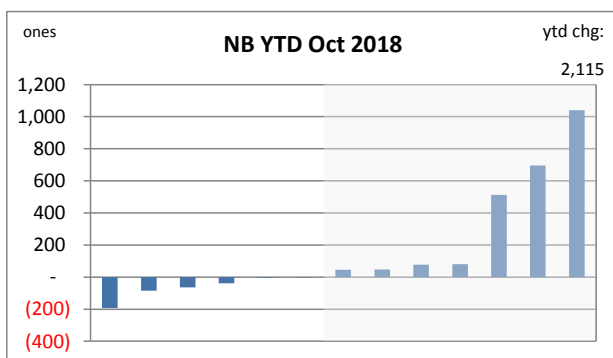


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with October showing an increase of 462 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 92 vehicles, indicating a variance of 370 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the pool in October than projected.



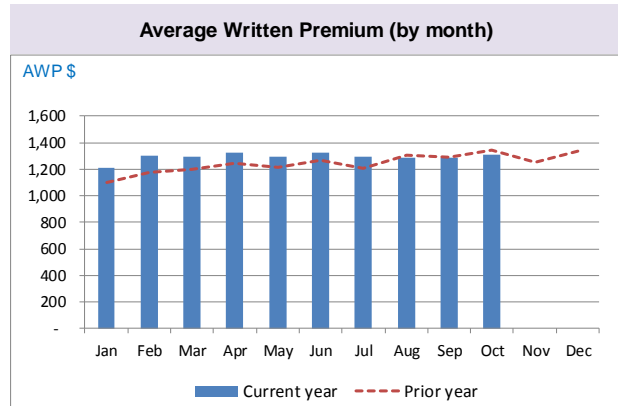
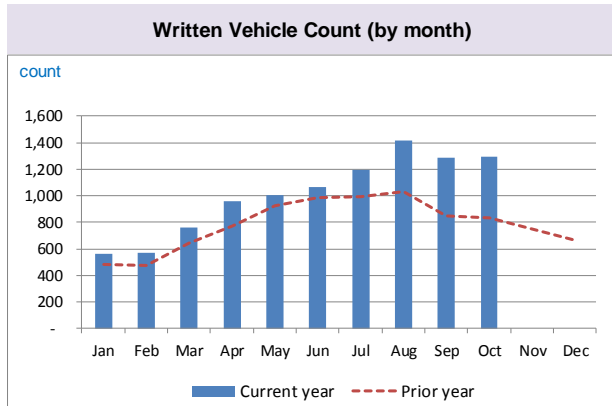
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Four member company groups transferred fewer vehicles to the pool this month compared with a year ago, while eight transferred more, and one remained the same.

Of the 4 member company groups transferring fewer vehicles, 1 member company group accounted for 59% of the total transfer decrease for the “decliner” members. Of the 8 member company groups transferring more vehicles, 1 member company group accounted for 58% of the total transfer increase for the “grower” members.



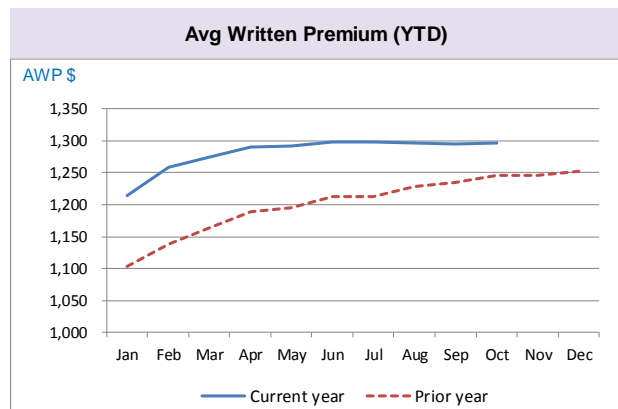
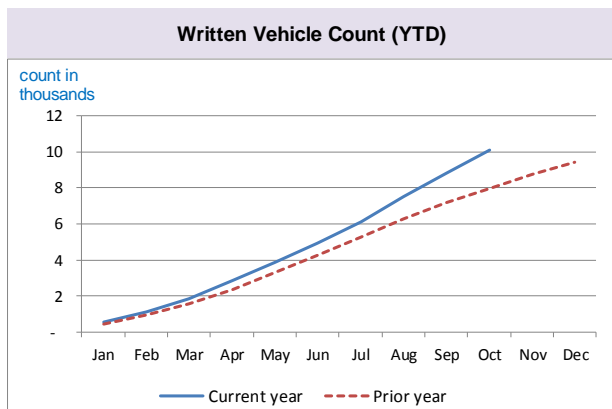
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

October’s vehicle count transfers to the pool represent a 55.4% increase from October 2017, and counts were up 26.5% year-to-date. Average written premium was down 2.3% in October 2018, but up 4.1% year-to-date (see charts immediately below).



	Oct-18	Oct-17	Amt Chg	% Chg
W. Veh curr mth	1,295	833	462	55.4%

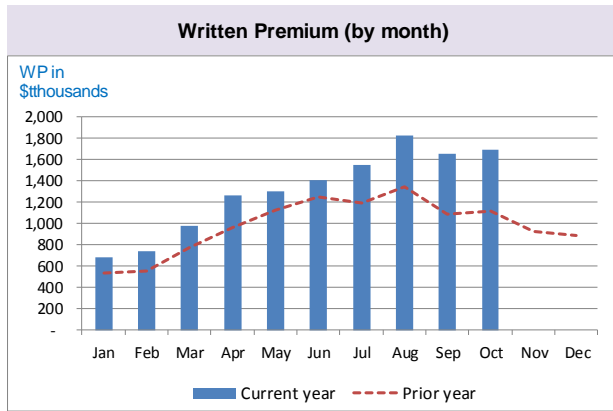
	Oct-18	Oct-17	Amt Chg	% Chg
AWP curr mth	1,311	1,342	(31)	-2.3%



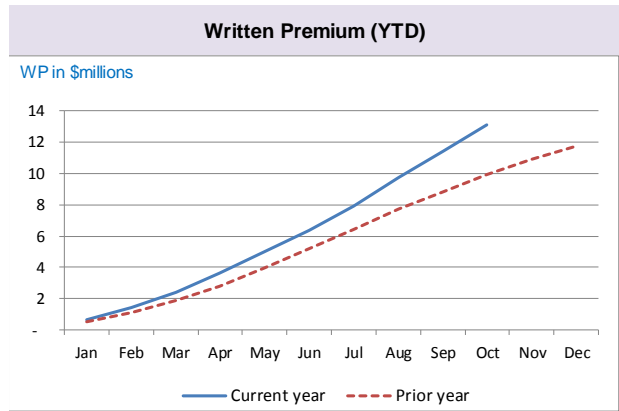
	Oct-18	Oct-17	Amt Chg	% Chg
W. Vehicles YTD	10,108	7,993	2,115	26.5%

	Oct-18	Oct-17	Amt Chg	% Chg
Avg W. Prem YTD	1,297	1,246	51	4.1%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 51.8% for the month compared with the 11.4% increase we projected last month, and was up 31.7% year-to-date (see charts at the top of the next page).



	Oct-18	Oct-17	Amt Chg	% Chg
WP (\$000s) curr mth	1,697	1,118	579	51.8%



	Oct-18	Oct-17	Amt Chg	% Chg
WP (\$000s) YTD	13,114	9,958	3,155	31.7%

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:

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - New Brunswick
 Operating Results for the 10 Months Ended October 31, 2018 (Discounted basis)
 Source: Monthly Operational Report
 (thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	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	\$1,653	\$1,697	\$13,113	\$15,556	\$11,775
Decrease (Increase) in Unearned Premiums	339	190	39	(234)	(226)	(335)	(419)	(673)	(489)	(447)	(2,255)	(2,134)	(1,161)
Net Premiums Earned	\$1,021	\$929	\$1,023	\$1,033	\$1,078	\$1,075	\$1,131	\$1,154	\$1,164	\$1,250	\$10,858	\$13,422	\$10,614
Claims Incurred:													
Prior Accident Years:													
Undiscounted	(\$5)	(\$5)	(\$63)	(\$7)	(\$315)	(\$7)	(\$5)	\$1,304	(\$3)	(\$273)	\$621	\$620	(\$340)
Effect of Discounting	46	(86)	(40)	(30)	(138)	(17)	(19)	51	(9)	(171)	(413)	(433)	(915)
Discounted	\$41	(\$91)	(\$103)	(\$37)	(\$453)	(\$24)	(\$24)	\$1,355	(\$12)	(\$444)	\$208	\$187	(\$1,255)
Current Accident Year:													
Undiscounted	\$742	\$674	\$789	\$763	\$789	\$794	\$831	\$952	\$868	\$983	\$8,185	\$10,102	\$7,958
Effect of Discounting	35	16	32	29	14	21	22	34	25	(40)	188	228	256
Discounted	\$777	\$690	\$821	\$792	\$803	\$815	\$853	\$986	\$893	\$943	\$8,373	\$10,330	\$8,214
Claims Incurred	\$818	\$599	\$718	\$755	\$350	\$791	\$829	\$2,341	\$881	\$499	\$8,581	\$10,517	\$6,959
Underwriting Expenses:													
Expense Allowance	\$193	\$211	\$280	\$362	\$372	\$402	\$443	\$521	\$473	\$485	\$3,742	\$4,441	\$3,744
Change in UPDR/DPAC:													
Undiscounted	87	49	77	(53)	(52)	(74)	(89)	(100)	(108)	(85)	(348)	(327)	(556)
Effect of Discounting	(13)	(6)	-	11	(26)	12	15	28	18	(23)	16	13	(109)
Discounted	74	43	77	(42)	(78)	(62)	(74)	(72)	(90)	(108)	(332)	(314)	(\$665)
Underwriting Expenses	\$267	\$254	\$357	\$320	\$294	\$340	\$369	\$449	\$383	\$377	\$3,410	\$4,127	\$3,079
Net Underwriting Gain (Loss)	(\$64)	\$76	(\$52)	(\$42)	\$434	(\$56)	(\$67)	(\$1,636)	(\$100)	\$374	(\$1,133)	(\$1,222)	\$576
Administrative Expenses	\$41	\$57	\$59	\$48	\$55	\$45	\$48	\$56	\$45	\$59	\$513	\$653	\$603
Operating Result	(\$105)	\$19	(\$111)	(\$90)	\$379	(\$101)	(\$115)	(\$1,692)	(\$145)	\$315	(\$1,646)	(\$1,875)	(\$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%	-1.0%	-35.5%	1.9%	1.4%	-11.8%
Current Accident Year	76.1%	74.3%	80.3%	76.7%	74.5%	75.8%	75.4%	85.4%	76.7%	75.4%	77.1%	77.0%	77.4%
All Accident Years Combined	80.1%	64.5%	70.2%	73.1%	32.5%	73.6%	73.3%	202.8%	75.7%	39.9%	79.0%	78.4%	65.6%
Underwriting & Administrative Expenses (Earned)	30.2%	33.5%	40.7%	35.6%	32.4%	35.8%	36.9%	43.8%	36.8%	34.9%	36.1%	35.6%	34.7%
Combined Operating Ratio	110.3%	98.0%	110.9%	108.7%	64.9%	109.4%	110.2%	246.6%	112.5%	74.8%	115.1%	114.0%	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