

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 046

DATE: JUNE 27, 2019

**SUBJECT: NEW BRUNSWICK RISK SHARING POOL
– MAY 2019 OPERATIONAL REPORT**

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

Please be advised that the May 2019 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 March 31, 2019 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 unfavourable** impact on the month’s net result from operations, adding an estimated 7.9 points to the year-to-date Combined Operating Ratio (ending at 138.0%). The impact is summarized in the tables below¹.

NB	unfav / (fav) for the month and ytd						ytd EP 6,263 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:					
	ults & payout patterns			dsct rate		argins	ults & payout patterns			dsct rate		argins
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	(9)	(5)	(14)	243	-	229	(0.1%)	(0.1%)	(0.2%)	3.9%	-	3.7%
CAY	65	3	68	52	-	120	1.0%	-	1.1%	0.8%	-	1.9%
Prem Def	66	4	70	74	-	144	1.1%	0.1%	1.1%	1.2%	-	2.3%
TOTAL	122	2	124	369	-	493	1.9%	-	2.0%	5.9%	-	7.9%

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 -\$2.4 million and the incurred loss ratio to the end of 5 months is 98.3%, as summarized in the table below.

NB RSP Summary of Financial Results (for month and year-to-date)

Amounts in \$000s	May 2019	May 2018	Year to date May 2019	Year to Date May 2018
Premium Written	1,524	1,304	6,337	4,976
Premium Earned	1,284	1,078	6,263	5,084
Incurred Losses	1,327	350	6,156	3,240
Underwriting & Admin Expense	628	349	2,486	1,752
Operating Result	(671)	379	(2,379)	92
Ratios:				
Loss ratio - Prior Accident Years	11.8%	(42.0%)	16.1%	(12.6%)
- Current Accident Year	91.5%	74.5%	82.2%	76.4%
<i>Total</i>	103.3%	32.5%	98.3%	63.8%
<i>Underwriting & Admin Expense</i>	48.9%	32.4%	39.7%	34.5%
<i>Combined Operating Ratio</i>	152.2%	64.9%	138.0%	98.3%

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 2019” attached to this bulletin.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$3.7 million and the estimated combined operating ratio to December 2019 is 123.3%, as summarized in the table at the top of the next page.

NB RSP Summary of **Projected Year-end Financial Results** (current month's projection, prior month's projection, and Outlook posted last fall)

NB RSP 2019 Yr-end Projection Amounts in \$000s	Current (May 2019)	Prior Mth (Apr 2019)	Change	Final 2019 Outlook*
Premium Written	15,562	19,096	(3,534)	17,463
Premium Earned	15,761	17,000	(1,239)	16,429
Incurred Losses	13,557	14,029	(472)	12,457
Underwriting & Admin Expense	5,873	6,707	(834)	6,010
Net Result from Operations	(3,669)	(3,736)	67	(2,038)
Ratios:				
Loss ratio - Prior Accident Years	5.4%	4.1%	1.3%	(1.2%)
- Current Accident Year	80.6%	78.4%	2.2%	77.0%
<i>Total</i>	86.0%	82.5%	3.5%	75.8%
Underwriting & Admin Expense	37.3%	39.5%	(2.2%)	36.6%
Combined Operating Ratio	123.3%	122.0%	1.3%	112.4%

rounding differences may occur

*as posted to FA's website Oct. 18, 2018

This updated projection to the end of the year has improved by \$67 thousand from the projection provided last month (see the second and third columns in the table), this improvement is driven by a \$3.5 million decrease in the projected written premium for the year, based on updated projections provided by members, and the associated impacts on claims and expense projections, partially offset by the \$560 thousand overall unfavourable impact of the valuation implementation as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 4).

NB	unfav / (fav) projected for full year						year EP 15,761 (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	(9)	(5)	(14)	218	-	204	(0.1%)	-	(0.1%)	1.4%	-	1.3%
CAY	160	(2)	158	125	-	283	1.0%	-	1.0%	0.8%	-	1.8%
Prem Def	-	-	-	73	-	73	-	-	-	0.5%	-	0.5%
TOTAL	151	(7)	144	416	-	560	1.0%	-	0.9%	2.6%	-	3.6%

Current Month Results

The New Brunswick Risk Sharing Pool produced a -\$0.7 million Operating Result in the month of May 2019, a deterioration of \$1.1 million compared with the same month last year. This deterioration mainly stems from the overall increase in the combined ratio (from 64.9% to 152.2% applied to \$1.3 million in earned premium). 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 134.3% at the end of 4 months to 138.0% at the end of 5 months. The 3.7 percentage point increase is composed of a 2.4 percentage point increase in the Current Accident Year loss ratio, and a 2.4 percentage point increase in the expense ratio, offset by a 1.1 percentage point decrease in the Prior Accident Years

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loss 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.

NB RSP Summary of Actual vs Projected variances

May 2019	Actual	Projection	Difference	Difference %
Written Premium	1,524	1,902	(378)	(19.9%)
Earned Premium	1,284	1,404	(120)	(8.5%)
Reported Losses				
Paid Losses	619	680	(61)	(9.0%)
Paid Expenses	67	101	(34)	(33.7%)
Change in Outstanding Losses	33	63	(30)	(47.6%)
Total Reported Losses	719	844	(125)	(14.8%)
Change in IBNR Provision*	608	225	383	
Change in Premium Deficiency (DPAC)*	111	(79)	190	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [New Brunswick RSP May 2019 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 May 2019, reported losses were \$0.1 million lower than projected. The Current Accident Year had a \$0.2 million unfavourable variance in reported losses, while the Prior Accident Years had a \$0.3 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 some specific individual 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.

Effect of Quarterly Valuation

The May 2019 New Brunswick Risk Sharing Pool Operational Report reflects the results of an updated valuation as at March 31, 2019 with the associated impacts in relation to the results for May 2019 summarized in the table at the top of the next page.

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NB	unfav / (fav) for the month and ytd						mth EP 1,284 (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	(9)	(5)	(14)	243	-	229	(0.7%)	(0.4%)	(1.1%)	18.9%	-	17.8%
CAY	65	3	68	52	-	120	5.1%	0.2%	5.3%	4.0%	-	9.3%
Prem Def	66	4	70	74	-	144	5.1%	0.3%	5.5%	5.8%	-	11.2%
TOTAL	122	2	124	369	-	493	9.5%	0.2%	9.7%	28.7%	-	38.4%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.1 million unfavourable impact – see column [3] in the left table above), augmented by the impact due to a 49 basis point decrease in the selected discount rate (from 1.93% to 1.44% generating a \$0.4 million unfavourable impact – see column [4] in the left table above). There was no change in the margin for adverse deviation in investment yield (remains at 25 basis points) and no changes to margins for adverse deviation for claims development² (hence \$0 in column [5] in the left table above).

Management has observed unfavourable total valuation impacts over the last 12 valuation implementations as shown in column [5] of the table below (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: 2019 Q1		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s			
Valuation	period implemented	updated LR & 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]	[6]	[7]	[8]	
						= sum([1] to [4])		= [5] / [6]	= [1] / [6]	
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%)	
2018 Q4	Mar 2019	814	32	250	-	1,096	28,364	3.9%	2.9%	
2019 Q1	May 2019	122	2	369	-	493	30,123	1.6%	0.4%	
12-qtrs	-	1,316	(85)	(410)	(548)	273				
% of total		482.1%	(31.1%)	(150.2%)	(200.7%)	100.0%				
		6 unfavourable (nominal) valuations						5 impacts were outside of 2.5%		
Averages										
12-qtrs		110	(7)	(34)	(46)	23	25,118	0.1%	0.4%	
2016 Q2 to 2018 Q1		(110)	(26)	(97)	(65)	(297)	23,568	(1.3%)	(0.5%)	
2018 Q2 to 2019 Q1		549	30	91	(8)	662	28,218	2.3%	1.9%	

The FA valuation approach is focused on providing (i) best estimates on a nominal basis (i.e. the

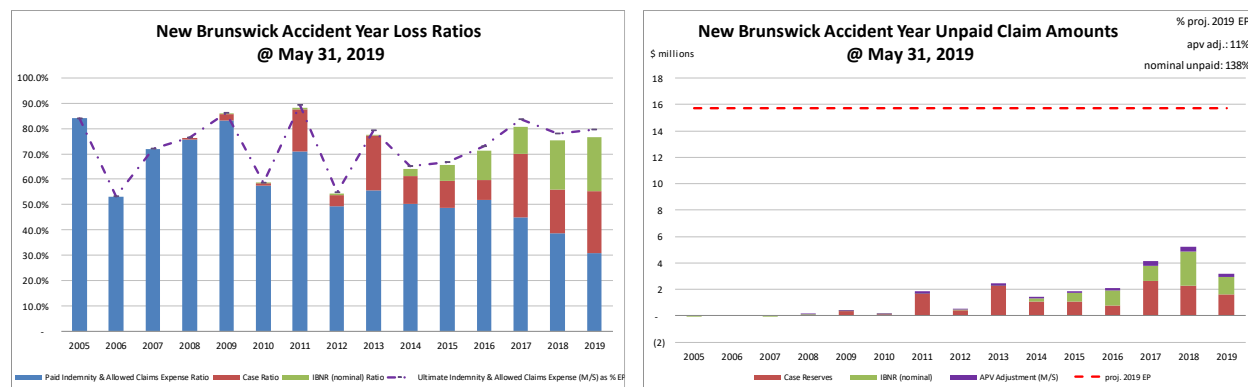
²Our usual practice is to only update margins for adverse deviation for claims development (selected at the coverage / accident year level) at the June 30 valuation.

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 liabilities³, 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 \$1.3 million unfavourable. That said, the average unfavourable impact over the 12 quarters at \$0.1 million (nominal only) represents 0.4% of ending policy liabilities per column [8], which we would view as not significant. We do note that the latest 4 valuations have been on average more unfavourable than the earlier 8 valuations were favourable.
- (ii) **Nominal size measurement: This objective has not been met**, with 5 individual valuations showing nominal changes in excess of 2.5% of ending policy liabilities per column [8] in the table above, being higher than our expectation (0).
- (iii) **Bias evidence measurement: This objective has not been met**, as 6 of 12 valuations show unfavourable changes (column [1] of the table above), being higher than our expectation (3 to 5 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 more than 2.5% of policy liabilities; no bias evident).

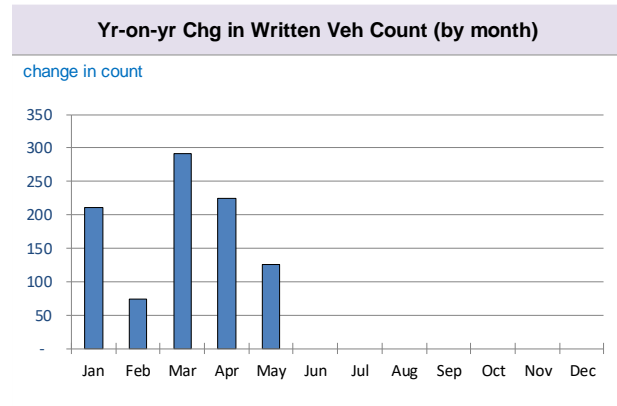
The charts below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.



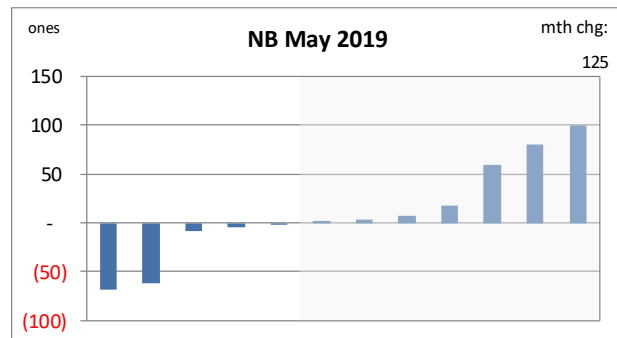
The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [New Brunswick RSP May 2019 Operational Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at March 31, 2019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

³We 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.

Management Comments

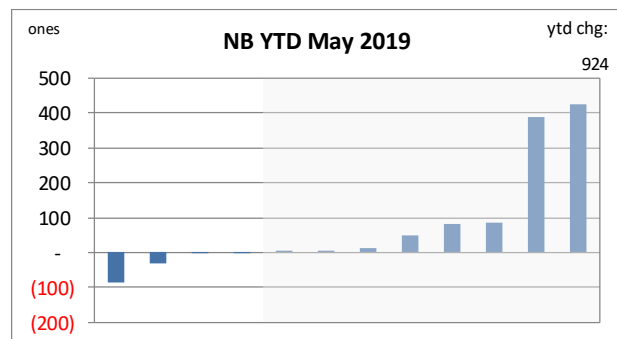


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with May showing an increase of 125 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 402 vehicles, indicating a variance of 277 from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the pool in May than projected.



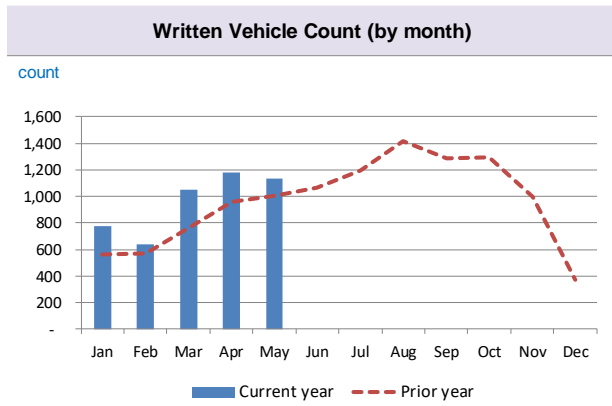
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while seven transferred more. Of the 5 member company groups transferring fewer vehicles, 2 member company group accounted for 90% of

the total transfer decrease for the “decliner” members. Of the 7 member company groups transferring more vehicles, 3 member company groups accounted for 89% of the total transfer increase for the “grower” members.

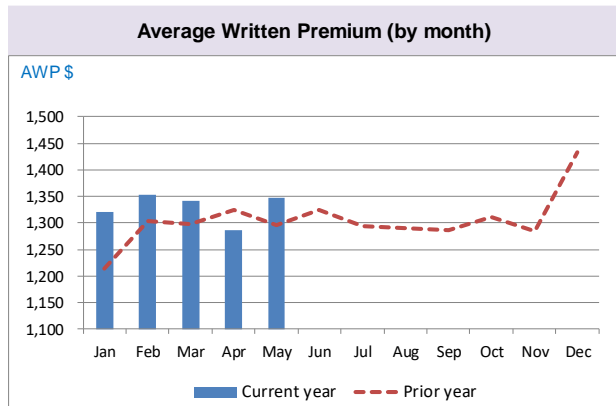


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

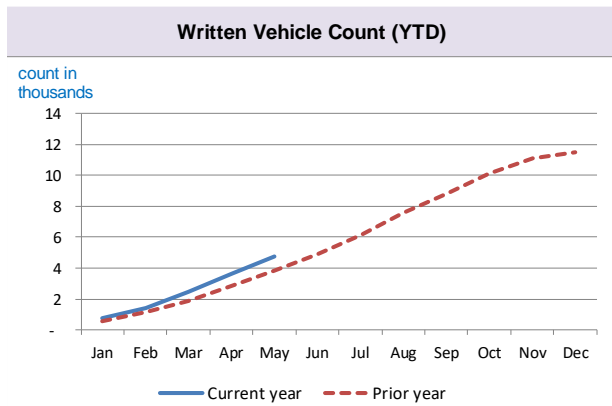
May’s vehicle count transfers to the RSP represent a 12.4% increase from May 2018, and counts were up 24.0% year-to-date. Average written premium was up 3.9% in May 2019, and up 2.7% year-to-date (see charts at the top of the next page).



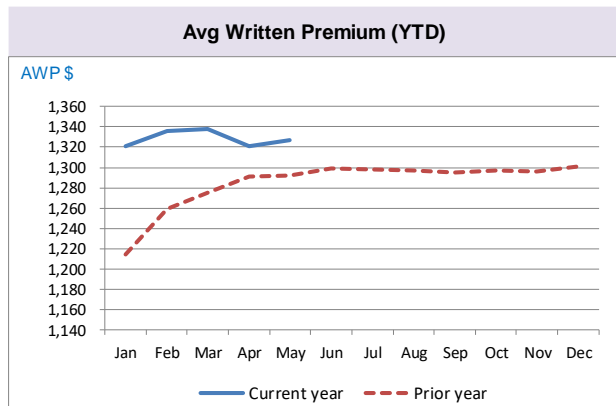
	May-19	May-18	Amt Chg	% Chg
W. Veh curr mth	1,131	1,006	125	12.4%



	May-19	May-18	Amt Chg	% Chg
AWP curr mth	1,347	1,296	51	3.9%

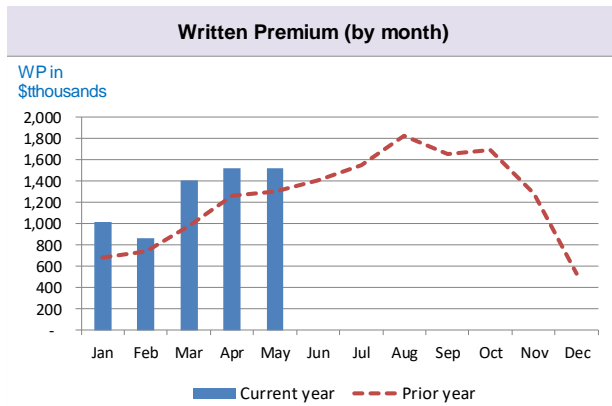


	May-19	May-18	Amt Chg	% Chg
W. Vehicles YTD	4,774	3,850	924	24.0%

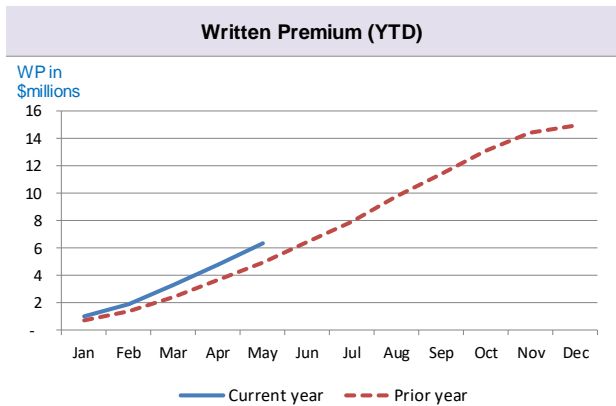


	May-19	May-18	Amt Chg	% Chg
Avg W. Prem YTD	1,327	1,292	35	2.7%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 16.9% for the month compared with the 45.9% increase we projected last month, and was up 27.4% year-to-date (see charts below).



	May-19	May-18	Amt Chg	% Chg
WP (\$000s) curr mth	1,524	1,304	220	16.9%



	May-19	May-18	Amt Chg	% Chg
WP (\$000s) YTD	6,337	4,976	1,362	27.4%

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Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

Saskia Matheson
President & CEO

Related links:

[New Brunswick RSP May 2019 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - New Brunswick

Operating Results for the 5 Months Ended May 31, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Underwriting Revenue:								
Net Premiums Written	\$1,020	\$866	\$1,407	\$1,520	\$1,524	\$6,337	\$15,562	\$14,925
Decrease (Increase) in Unearned Premiums	248	220	(80)	(222)	(240)	(74)	199	(1,658)
Net Premiums Earned	\$1,268	\$1,086	\$1,327	\$1,298	\$1,284	\$6,263	\$15,761	\$13,267
Claims Incurred:								
Prior Accident Years:								
Undiscounted	(\$14)	(\$74)	\$703	(\$6)	(\$67)	\$542	\$542	\$618
Effect of Discounting	56	(9)	191	7	219	464	314	(410)
Discounted	\$42	(\$83)	\$894	\$1	\$152	\$1,006	\$856	\$208
Current Accident Year:								
Undiscounted	\$960	\$879	\$1,028	\$988	\$1,091	\$4,946	\$12,210	\$9,987
Effect of Discounting	30	21	44	25	84	204	491	216
Discounted	\$990	\$900	\$1,072	\$1,013	\$1,175	\$5,150	\$12,701	\$10,203
Claims Incurred	\$1,032	\$817	\$1,966	\$1,014	\$1,327	\$6,156	\$13,557	\$10,411
Underwriting Expenses:								
Expense Allowance	\$308	\$259	\$424	\$458	\$458	\$1,907	\$4,683	\$4,260
Change in UPDR/DPAC:								
Undiscounted	57	51	58	(38)	25	153	274	(214)
Effect of Discounting	(8)	(7)	57	9	86	137	128	(2)
Discounted	49	44	115	(29)	111	290	402	(\$216)
Underwriting Expenses	\$357	\$303	\$539	\$429	\$569	\$2,197	\$5,085	\$4,044
Net Underwriting Gain (Loss)	(\$121)	(\$34)	(\$1,178)	(\$145)	(\$612)	(\$2,090)	(\$2,881)	(\$1,188)
Administrative Expenses	\$57	\$66	\$49	\$58	\$59	\$289	\$788	\$628
Operating Result	(\$178)	(\$100)	(\$1,227)	(\$203)	(\$671)	(\$2,379)	(\$3,669)	(\$1,816)
Ratios:								
Claims & Expenses Incurred (Earned)								
Prior Accident Years	3.3%	-7.6%	67.4%	0.1%	11.8%	16.1%	5.4%	1.6%
Current Accident Year	78.1%	82.9%	80.8%	78.0%	91.5%	82.2%	80.6%	76.9%
All Accident Years Combined	81.4%	75.3%	148.2%	78.1%	103.3%	98.3%	86.0%	78.5%
Underwriting & Administrative Expenses (Earned)	32.6%	34.0%	44.3%	37.5%	48.9%	39.7%	37.3%	35.2%
Combined Operating Ratio	114.0%	109.3%	192.5%	115.6%	152.2%	138.0%	123.3%	113.7%

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