

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 092

DATE: NOVEMBER 28, 2019

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

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

Please be advised that the October 2019 New Brunswick Risk Sharing Pool Operational Report was available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com> on November 21, 2019.

Key Points

- (a) The **2019 year-to-date net operating deficit is \$2.5 million** with the addition of \$1.3 million in deficit generated in October, resulting in a year-to-date COR of 119.3% on earned premium of \$13.2 million;
- (b) this month's results include the implementation of the 2019 Q3 valuation, resulting in an estimated \$1.1 million unfavourable impact; and
- (c) the **projected 2019 year-end net operating deficit is \$2.7 million**, with a COR at 116.7% on earned premium of \$16.0 million (our Outlook for 2019 was \$2.0 million of net operating deficit with a COR of 112.4% on earned premium of \$16.4 million).

New This Month

Valuation

A valuation of the New Brunswick Risk Sharing Pool ("RSP") as at September 30, 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 **\$1.1 million unfavourable** impact on the month's net result from operations, adding an estimated 8.3 points to the year-to-date Combined Operating Ratio (ending at 119.3%). The impact is summarized in the

Bulletin F19-092
New Brunswick Risk Sharing Pool – October 2019 Operational Report

tables below¹.

NB	unfav / (fav) for the month and ytd						ytd EP 13,190 (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	935	81	1,016	(15)	-	1,001	7.1%	0.6%	7.7%	(0.1%)	-	7.6%
CAY	80	5	85	(6)	-	79	0.6%	-	0.6%	-	-	0.6%
Prem Def	15	-	15	-	-	15	0.1%	-	0.1%	-	-	0.1%
TOTAL	1,030	86	1,116	(21)	-	1,095	7.8%	0.7%	8.5%	(0.2%)	-	8.3%

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

Summary of Financial Results

The calendar year-to-date Operating Result is -\$2.5 million and the incurred loss ratio to the end of 10 months is 83.6%, as summarized in the table below.

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

Amounts in \$000s	October 2019	October 2018	Year to date Oct 2019	Year to Date Oct 2018
Premium Written	1,789	1,697	14,369	13,113
Premium Earned	1,581	1,250	13,189	10,858
Incurred Losses	2,265	499	11,021	8,581
Underwriting & Admin Expense	574	436	4,708	3,923
Operating Result	(1,258)	315	(2,540)	(1,646)
Ratios:				
Loss ratio - Prior Accident Years	64.5%	(35.5%)	5.5%	1.9%
- Current Accident Year	78.7%	75.4%	78.1%	77.1%
<i>Total</i>	143.2%	39.9%	83.6%	79.0%
Underwriting & Admin Expense	36.3%	34.9%	35.7%	36.1%
Combined Operating Ratio	179.5%	74.8%	119.3%	115.1%

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 -\$2.7 million and the estimated combined operating ratio to December 2019 is 116.7%, as summarized in the table at the top of

¹In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cash flows of claims payments; “dsct rate” refers to the impact of changes in the selected discount rate applied to projected cash flows; and “apv adj.” refers to “actuarial present value adjustments”.

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 (Oct 2019)	Prior Mth (Sep 2019)	Change	Final 2019 Outlook*
Premium Written	16,444	15,933	511	17,463
Premium Earned	15,961	15,709	252	16,429
Incurred Losses	13,058	11,788	1,270	12,457
Underwriting & Admin Expense	5,574	5,471	103	6,010
Net Result from Operations	(2,671)	(1,550)	(1,121)	(2,038)
Ratios:				
Loss ratio - Prior Accident Years	4.2%	(2.3%)	6.5%	(1.2%)
- Current Accident Year	77.6%	77.3%	0.3%	77.0%
<i>Total</i>	81.8%	75.0%	6.8%	75.8%
Underwriting & Admin Expense	34.9%	34.8%	0.1%	36.6%
Combined Operating Ratio	116.7%	109.8%	6.9%	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 deteriorated by \$1.1 million from the projection provided last month (see the second and third columns in the table). The update includes the overall \$1.1 million unfavourable impact of the valuation as at September 30, 2019, as summarized in the table 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 15,961 (projected this month)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % full year 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	935	74	1,009	(12)	-	997	5.9%	0.5%	6.3%	(0.1%)	-	6.2%
CAY	97	3	100	(6)	-	94	0.6%	-	0.6%	-	-	0.6%
Prem Def	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	1,032	77	1,109	(18)	-	1,091	6.5%	0.5%	6.9%	(0.1%)	-	6.8%

Current Month Results

The New Brunswick Risk Sharing Pool produced a -\$1.3 million Operating Result in the month of October 2019, a \$1.6 million deterioration compared with the same month last year. This deterioration mainly stems from the overall increase in the combined ratio (from 74.8% to 179.5% applied to \$1.6 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 111.0% at the end of 9 months to 119.3% at the end of 10 months. The 8.3 percentage point increase is composed of an 8.1 percentage point increase in the Prior Accident Years loss ratio, coupled with a 0.1 percentage point increase in the Current Accident Year loss ratio, and a 0.1 percentage point

Bulletin F19-092
New Brunswick Risk Sharing Pool – October 2019 Operational Report

increase in the expense ratio.

Variances 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

October 2019	Actual	Projection	Difference	Difference %
Written Premium	1,789	1,278	511	40.0%
Earned Premium	1,581	1,413	168	11.9%
Reported Losses				
Paid Losses	762	746	16	2.1%
Paid Expenses	49	58	(9)	(15.5%)
Change in Outstanding Losses	409	140	269	192.1%
Total Reported Losses	1,220	944	276	29.2%
Change in IBNR Provision*	1,045	108	937	
Change in Premium Deficiency (DPAC)*	(32)	19	(51)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [New Brunswick RSP October 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 October 2019, reported losses were \$0.3 million higher than projected. The Current Accident Year had a \$0.1 million unfavourable variance in reported losses, and the Prior Accident Years had a \$0.2 million unfavourable 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 October 2019 New Brunswick Risk Sharing Pool Operational Report reflects the results of an updated valuation as at September 30, 2019 with the associated impacts in relation to the results for October 2019 summarized in the table at the top of the next page.

Bulletin F19-092

New Brunswick Risk Sharing Pool – October 2019 Operational Report

NB	unfav / (fav) for the month and ytd						mth EP 1,581 (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	935	81	1,016	(15)	-	1,001	59.1%	5.1%	64.3%	(0.9%)	-	63.3%
CAY	80	5	85	(6)	-	79	5.1%	0.3%	5.4%	(0.4%)	-	5.0%
Prem Def	15	-	15	-	-	15	0.9%	-	0.9%	-	-	0.9%
TOTAL	1,030	86	1,116	(21)	-	1,095	65.1%	5.4%	70.6%	(1.3%)	-	69.3%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$1.1 million unfavourable impact – see column [3] in the left table above). This was partially offset by the impact due to a 3 basis point increase in the selected discount rate (from 1.41% to 1.43% generating a \$21 thousand favourable impact – see column [4] in the left table above).

There was no change in the margin for adverse deviation in investment yield (25 basis points). As well, the margins for adverse deviation for claims development as selected at the coverage / accident year level were left unchanged with this valuation. (Our usual practice is to review / update margins for claims development at the June 30 valuations.) As a result, column [5] in the left table above shows \$0 impact for margin changes with this valuation.

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 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]	[6]	[7]	[8]	
						= sum([1] to [4])		= [5] / [6]	= [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%	
2019 Q2	Aug 2019	(1,644)	(133)	9	(34)	(1,802)	29,088	(6.2%)	(5.7%)	
2019 Q3	Oct 2019	1,030	86	(21)	-	1,095	30,985	3.5%	3.3%	
12-qtrs	-	741	(61)	(506)	(111)	63				
% of total		1,176.2%	(96.8%)	(803.2%)	(176.2%)	100.0%				
		6 unfavourable (nominal) valuations						7 impacts were outside of 2.5%		
Averages										
12-qtrs		62	(5)	(42)	(9)	5	26,141	-	0.2%	
2016 Q4 to 2018 Q3		52	(6)	(139)	(10)	(102)	24,391	(0.4%)	0.2%	
2018 Q4 to 2019 Q3		81	(3)	152	(9)	221	29,640	0.7%	0.3%	

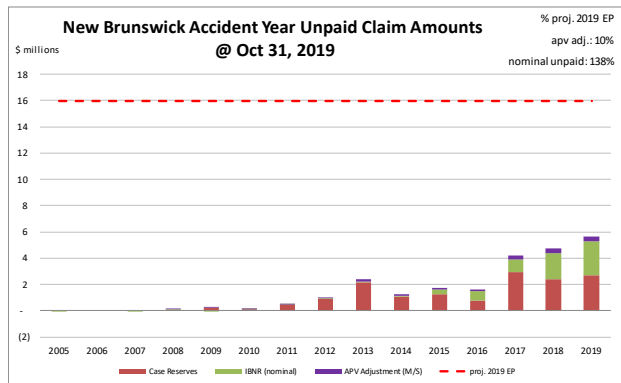
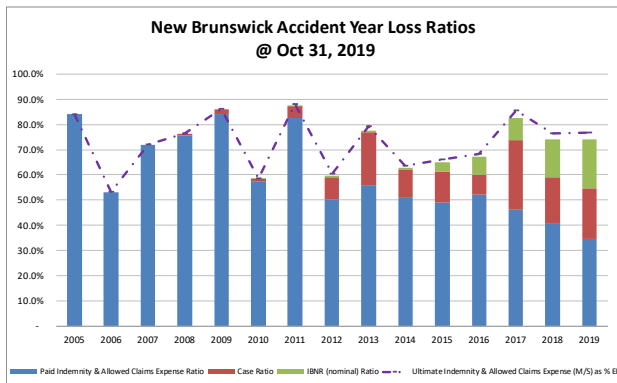
The FA valuation approach is focused on providing (i) best estimates on a nominal basis (i.e. the longer term average of nominal changes in column [1] should be close-to-zero); (ii) the nominal changes of any one valuation in relation to policy liabilities², should be “small” (less than 2.5%); and (iii)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

- (i) **Best estimate measurement: This objective has been met**, as the 12-quarter nominal change in column [1] is \$741 thousand unfavourable. The average unfavourable impact over the 12 quarters at \$62 thousand (nominal only) represents 0.2% of ending policy liabilities per column [8]. We do note that the latest 4 valuations have been on average (slightly) more unfavourable than the earlier 8 valuations were unfavourable.
- (ii) **Nominal size measurement: This objective has not been met**, with 7 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). We have initiated a review our valuation process, but have not found evidence of bias (the results of this valuation are more related to specific issues like data quality issues being resolved, and experience simply performing better than expected). The review (including how assumptions are struck, the accuracy of various valuation methodologies, and our default selections) is expected to conclude over the next 2-5 months.
- (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). However, the latest valuation suggests some reflection on our processes is warranted, so we are taking action in response.

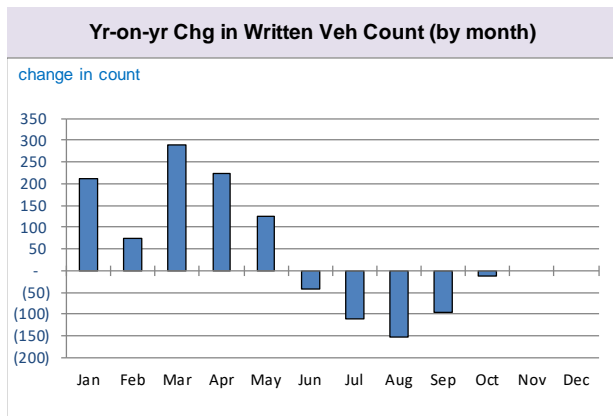
The charts below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.

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.

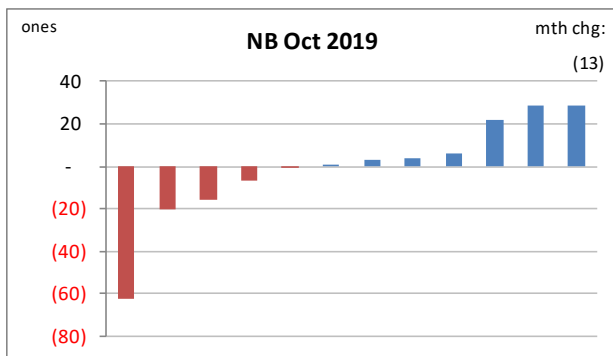


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [New Brunswick RSP October 2019 Operational Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at September 30, 2019 is expected to be posted in January 2020. The actuarial valuation will be updated next as at December 31, 2019 and we anticipate the results will be reflected in the March 2020 Operational Report.

Management Comments

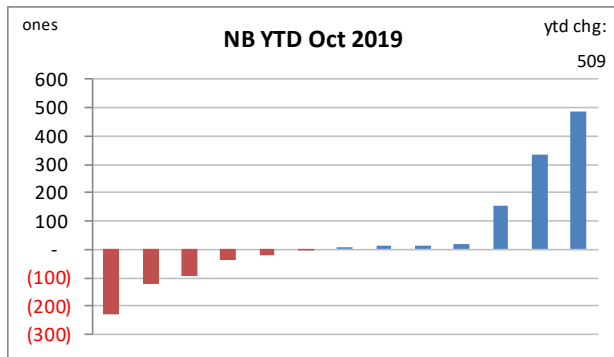


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with October showing a decrease of 13 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 350 vehicles, indicating a variance of 337 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the RSP in October than projected.



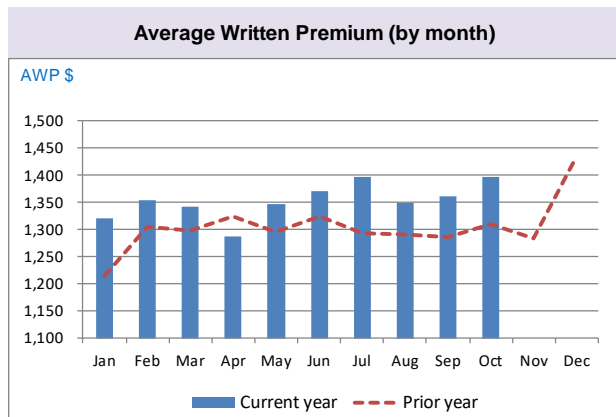
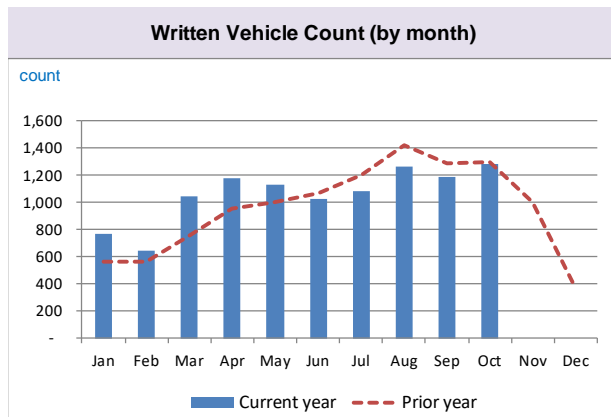
The chart on the left shows the overall change in the month, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while seven transferred more. Of the 5 member company groups transferring fewer vehicles, 1 member company group accounted for 59% of the total transfer decrease for the “decliner” members.

Of the 7 member company groups transferring more vehicles, 3 member company groups accounted for 85% of the total transfer increase for the “grower” members.



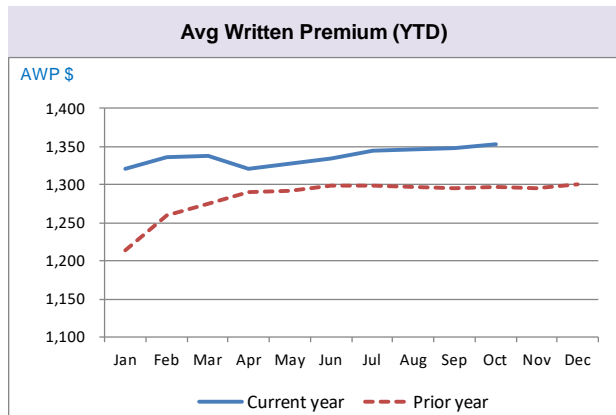
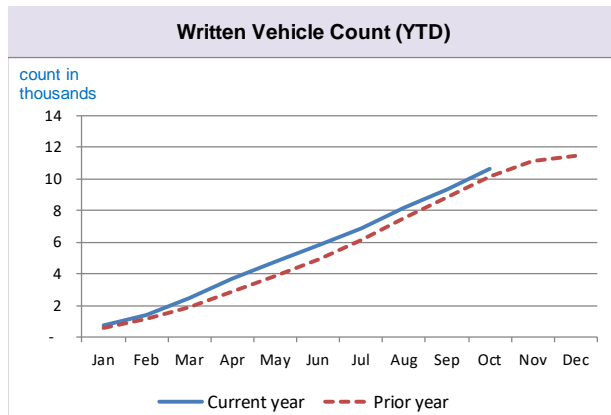
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

October's vehicle count transfers to the RSP represent a 1.0% decrease from October 2018, but counts were up 5.0% year-to-date. Average written premium was up 6.5% in October 2019, and up 4.3% year-to-date (see charts below).



	Oct-19	Oct-18	Amt Chg	% Chg
W. Veh curr mth	1,282	1,295	(13)	-1.0%

	Oct-19	Oct-18	Amt Chg	% Chg
AWP curr mth	1,396	1,311	85	6.5%



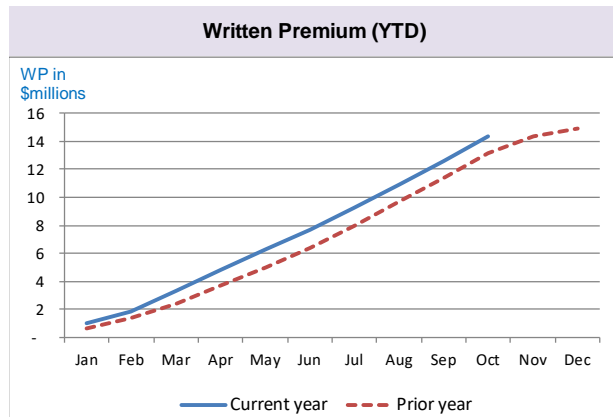
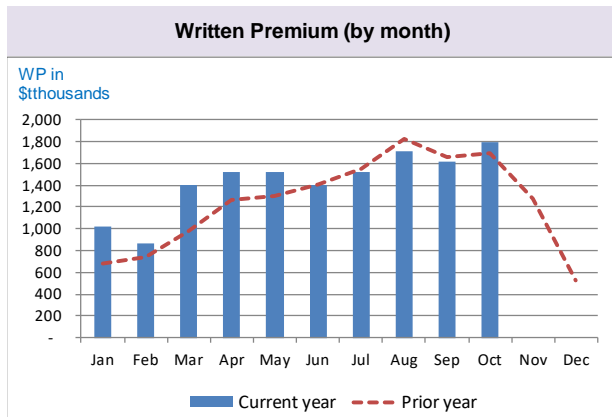
	Oct-19	Oct-18	Amt Chg	% Chg
W. Vehicles YTD	10,617	10,108	509	5.0%

	Oct-19	Oct-18	Amt Chg	% Chg
Avg W. Prem YTD	1,353	1,297	56	4.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 5.4% for the month compared with the 24.7% decrease we projected last month, and was up 9.6% year-to-date (see charts at the top of the next page).

Bulletin F19-092

New Brunswick Risk Sharing Pool – October 2019 Operational Report



	Oct-19	Oct-18	Amt Chg	% Chg
WP (\$000s) curr mth	1,789	1,697	92	5.4%

	Oct-19	Oct-18	Amt Chg	% Chg
WP (\$000s) YTD	14,370	13,114	1,256	9.6%

Should you require any further information, please call Shawn Doherty, Senior Vice President Actuarial & CFO at (416) 644-4968.

Saskia Matheson
President & CEO

Related links:

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - New Brunswick
 Operating Results for the 10 Months Ended October 31, 2019 (Discounted basis)
 Source: Monthly Operational Report
 (thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	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	\$1,400	\$1,517	\$1,707	\$1,619	\$1,789	\$14,369	\$16,444	\$14,925
Decrease (Increase) in Unearned Premiums	248	220	(80)	(222)	(240)	(150)	(131)	(344)	(273)	(208)	(1,180)	(483)	(1,658)
Net Premiums Earned	\$1,268	\$1,086	\$1,327	\$1,298	\$1,284	\$1,250	\$1,386	\$1,363	\$1,346	\$1,581	\$13,189	\$15,961	\$13,267
Claims Incurred:													
Prior Accident Years:													
Undiscounted	(\$14)	(\$74)	\$703	(\$6)	(\$67)	(\$26)	(\$2)	(\$1,024)	\$6	\$964	\$460	\$460	\$618
Effect of Discounting	56	(9)	191	7	219	(12)	(62)	(162)	(21)	56	263	205	(410)
Discounted	\$42	(\$83)	\$894	\$1	\$152	(\$38)	(\$64)	(\$1,186)	(\$15)	\$1,020	\$723	\$665	\$208
Current Accident Year:													
Undiscounted	\$960	\$879	\$1,028	\$988	\$1,091	\$983	\$1,063	\$745	\$986	\$1,213	\$9,936	\$11,991	\$9,987
Effect of Discounting	30	21	44	25	84	43	31	28	24	32	362	402	216
Discounted	\$990	\$900	\$1,072	\$1,013	\$1,175	\$1,026	\$1,094	\$773	\$1,010	\$1,245	\$10,298	\$12,393	\$10,203
Claims Incurred	\$1,032	\$817	\$1,966	\$1,014	\$1,327	\$988	\$1,030	(\$413)	\$995	\$2,265	\$11,021	\$13,058	\$10,411
Underwriting Expenses:													
Expense Allowance	\$308	\$259	\$424	\$458	\$458	\$423	\$457	\$514	\$488	\$535	\$4,324	\$4,949	\$4,260
Change in UPDR/DPAC:													
Undiscounted	57	51	58	(38)	25	(25)	(18)	(382)	(72)	(41)	(385)	(245)	(214)
Effect of Discounting	(8)	(7)	57	9	86	8	7	(8)	13	9	166	133	(2)
Discounted	49	44	115	(29)	111	(17)	(11)	(390)	(59)	(32)	(219)	(112)	(\$216)
Underwriting Expenses	\$357	\$303	\$539	\$429	\$569	\$406	\$446	\$124	\$429	\$503	\$4,105	\$4,837	\$4,044
Net Underwriting Gain (Loss)	(\$121)	(\$34)	(\$1,178)	(\$145)	(\$612)	(\$144)	(\$90)	\$1,652	(\$78)	(\$1,187)	(\$1,937)	(\$1,934)	(\$1,188)
Administrative Expenses	\$57	\$66	\$49	\$58	\$59	\$58	\$73	\$56	\$56	\$71	\$603	\$737	\$628
Operating Result	(\$178)	(\$100)	(\$1,227)	(\$203)	(\$671)	(\$202)	(\$163)	\$1,596	(\$134)	(\$1,258)	(\$2,540)	(\$2,671)	(\$1,816)
Ratios:													
Claims & Expenses Incurred (Earned)													
Prior Accident Years	3.3%	-7.6%	67.4%	0.1%	11.8%	-3.0%	-4.6%	-87.0%	-1.1%	64.5%	5.5%	4.2%	1.6%
Current Accident Year	78.1%	82.9%	80.8%	78.0%	91.5%	82.1%	78.9%	56.7%	75.0%	78.7%	78.1%	77.6%	76.9%
All Accident Years Combined	81.4%	75.3%	148.2%	78.1%	103.3%	79.1%	74.3%	-30.3%	73.9%	143.2%	83.6%	81.8%	78.5%
Underwriting & Administrative Expenses (Earned)	32.6%	34.0%	44.3%	37.5%	48.9%	37.1%	37.4%	13.2%	36.0%	36.3%	35.7%	34.9%	35.2%
Combined Operating Ratio	114.0%	109.3%	192.5%	115.6%	152.2%	116.2%	111.7%	-17.1%	109.9%	179.5%	119.3%	116.7%	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