



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2020 – 008

DATE: JANUARY 30, 2020

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

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

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

Key Points

- (a) the **2019 year-end net operating deficit was \$2.8 million** with the addition of \$0.1 million in deficit generated in December, resulting in a year-to-date COR of 117.5% on earned premium of \$15.8 million;
- (b) in **comparison with the final Outlook for 2019**, the **New Brunswick RSP** finished the year with a **net operating deficit \$0.7 million (35.4%) higher (i.e. worse) than expected** and the combined ratio was 5.2 points higher than expected; and
- (c) the **projected 2020 year-end net operating deficit is now \$1.7 million**, with a COR at 110.0% on earned premium of \$16.9 million, which is in consistent with our Outlook for 2020.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$2.8 million and the incurred loss ratio to the end of 12 months is 81.7%, as summarized in the table at the top of the next page.

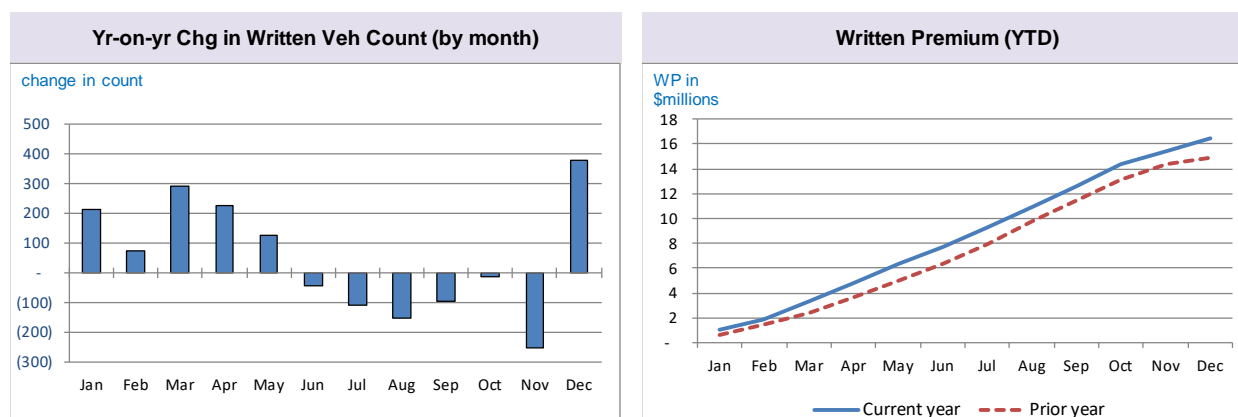
NB RSP Summary of Financial Results (for month and year-to-date)

| Amounts in \$000s | December 2019 | December 2018 | Year to date Dec 2019 | Year to Date Dec 2018 |
|--|---------------|---------------|-----------------------|-----------------------|
| Premium Written | 1,072 | 530 | 16,518 | 14,925 |
| Premium Earned | 1,412 | 1,183 | 15,783 | 13,267 |
| Incurred Losses | 1,044 | 906 | 12,886 | 10,411 |
| Underwriting & Admin Expense | 459 | 351 | 5,658 | 4,672 |
| Operating Result | (91) | (74) | (2,761) | (1,816) |
| Ratios: | | | | |
| Loss ratio - Prior Accident Years | (1.5%) | 0.4% | 3.9% | 1.6% |
| - Current Accident Year | 75.4% | 76.2% | 77.8% | 76.9% |
| <i>Total</i> | 73.9% | 76.6% | 81.7% | 78.5% |
| Underwriting & Admin Expense | 32.5% | 29.7% | 35.8% | 35.2% |
| Combined Operating Ratio | 106.4% | 106.3% | 117.5% | 113.7% |

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.

2019 finished with written premium up \$2 million (11%) but earned premium was up \$3 million (19%), driven by prior growth. Transfer count growth occurred in the first part of the year, and again in December. As a result, written premium on a year-to-date basis was above 2018 throughout the year (see by month changes in written annualized vehicle counts in the left chart below, and the year-to-date written premium by month in the right chart below). As a result of the increase in written premium, unearned premium also increased.



Because the New Brunswick RSP operates at a deficit, increases in unearned premium result in increases in premium deficiency, which will increase the underwriting & administrative expense ratio relative to earned premium (as evident in the financial results table above).

All 3 major expense categories (prior accident year claims, current accident year claims, and underwriting & administrative expenses) deteriorated in amount and relative to earned premium during the year, contributing to the \$1.7 million deterioration in the net operating deficit.

Compared with the New Brunswick RSP projections found in the Risk Sharing Pools' Final Outlook for 2019 ([F18-077](#) posted October 18, 2018), 2019 finished with written premium \$0.9 million (5.4%) lower than expected, and earned premium \$0.6 million (3.9%) lower than expected. The net operating deficit of \$2.8 million was \$0.7 million (35.4%) higher than expected and the combined ratio was 5.2 points higher than expected as shown in the table below. (We don't explicitly show in the table the differences between the current/final result for 2019 and the Outlook, but they can be derived by comparing the first column and the last column). The prior accident years performed worse-than-expected both in amount and relative to earned premium, whereas the current accident year performed better-than-expected in amount, but worse-than-expected relative to earned premium. Lower-than-expected written premium resulted in a favourable relative impact of the premium deficiency on the underwriting & administrative expense.

| NB RSP 2019 Yr-end Projection Amounts in \$000s | Current (Dec 2019) | Prior Mth (Nov 2019) | Change | Final 2019 Outlook* |
|---|------------------------------|-------------------------|---------------|------------------------|
| Premium Written | 16,518 | 16,424 | 94 | 17,463 |
| Premium Earned | 15,784 | 15,789 | (5) | 16,429 |
| Incurred Losses | 12,884 | 12,883 | 1 | 12,457 |
| Underwriting & Admin Expense | 5,660 | 5,530 | 130 | 6,010 |
| Net Result from Operations | (2,760) | (2,624) | (136) | (2,038) |
| Ratios: | | | | |
| Loss ratio - Prior Accident Years | 3.9% | 3.7% | 0.2% | (1.2%) |
| - Current Accident Year | 77.8% | 77.9% | (0.1%) | 77.0% |
| <i>Total</i> | 81.7% | 81.6% | 0.1% | 75.8% |
| Underwriting & Admin Expense | 35.9% | 35.0% | 0.9% | 36.6% |
| Combined Operating Ratio | 117.6% | 116.6% | 1.0% | 112.4% |

rounding differences may occur

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

Updated Projection to Year-end 2020

An Outlook had been prepared to provide Members with an estimate of New Brunswick RSP operating results for calendar year 2020 based on the actuarial valuation at June 30, 2019, and reflecting actual experience to date as detailed in the August 2019 Operational Report. This Outlook was posted on November 5, 2019 (please refer to Bulletin [F19-082](#)), and projected a Net Result from Operations for 2020 of -\$1.7 million, and a combined operating ratio of 110.4%. Projections for 2020 have been updated each month since, as per our usual practice (although until this month, the bulletins have focused on projections to the end of 2019 compared with the previous Outlook).

With another actuarial valuation at September 30, 2019 completed and actual experience for months after August 2019 added, the projected calendar year Operating Result and the estimated combined operating ratio to December 2020 for New Brunswick RSP are still in consistent with the Outlook.

Current Month Results

The New Brunswick Risk Sharing Pool produced a -\$0.1 million Operating Result in the month of December 2019, a fairly small deterioration compared with the same month last year. This deterioration mainly stems from the \$0.2 million increase in earned premium (at a combined ratio of 106.3%),

This month's results moved the year-to-date combined operating ratio from 118.6% at the end of 11 months to 117.5% at the end of 12 months. The 1.1 percentage point decrease is composed of a 0.5 percentage point decrease in the Prior Accident Years loss ratio, a 0.2 percentage point decrease in the Current Accident Year loss ratio, and a 0.4 percentage point decrease in the expense ratio.

Variances from Projections

The table below page 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

| December 2019 | Actual | Projection | Difference | Difference % |
|--------------------------------------|---------------|-------------------|-------------------|---------------------|
| Written Premium | 1,072 | 978 | 94 | 9.6% |
| Earned Premium | 1,412 | 1,417 | (5) | (0.4%) |
| Reported Losses | | | | |
| Paid Losses | 971 | 966 | 5 | 0.5% |
| Paid Expenses | 61 | 86 | (25) | (29.1%) |
| Change in Outstanding Losses | (63) | (21) | (42) | 200.0% |
| Total Reported Losses | 969 | 1,031 | (62) | (6.0%) |
| Change in IBNR Provision* | 75 | 12 | 63 | |
| Change in Premium Deficiency (DPAC)* | 51 | 74 | (23) | |

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [New Brunswick RSP December 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 December 2019, reported losses were \$0.1 million lower than projected and it is mainly from Prior Accident Years. 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.

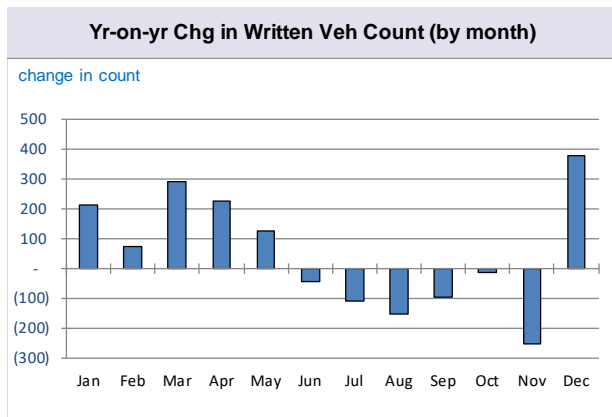
Booking IBNR

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

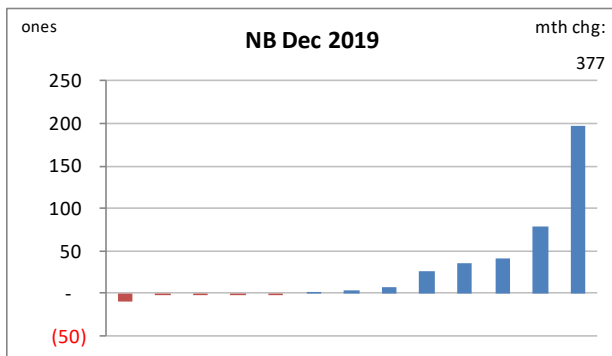
Effect of Quarterly Valuation

The December New Brunswick Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2019). The actuarial valuation will be updated next as at December 31, 2019 and we anticipate that 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 December showing an increase of 377 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a increase of 317 vehicles, indicating a variance of 60 from the actual transfers. This variance was mainly due to one member company group transferring a higher number of vehicles to the RSP in December than projected.

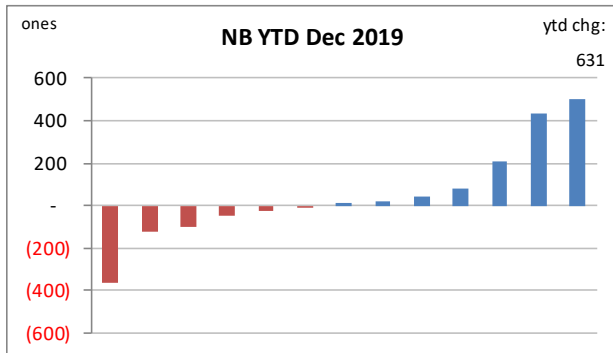


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while eight transferred more. Of the 5 member company groups transferring fewer vehicles, 1 member company group accounted for 85% of the total transfer decrease for the “decliner” members. Of

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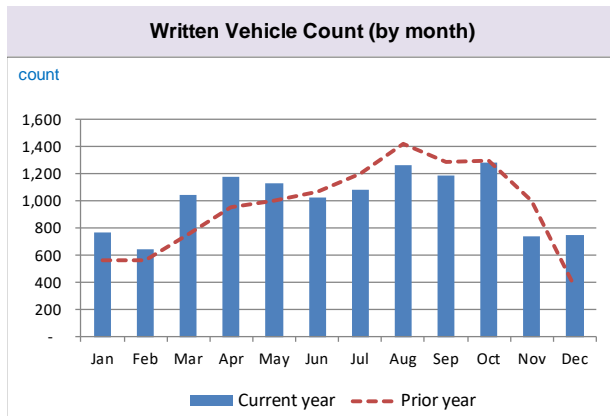
New Brunswick Risk Sharing Pool – December 2019 Operational Report

the 8 member company groups transferring more vehicles, 1 member company groups accounted for 51% of the total transfer increase for the “grower” members.

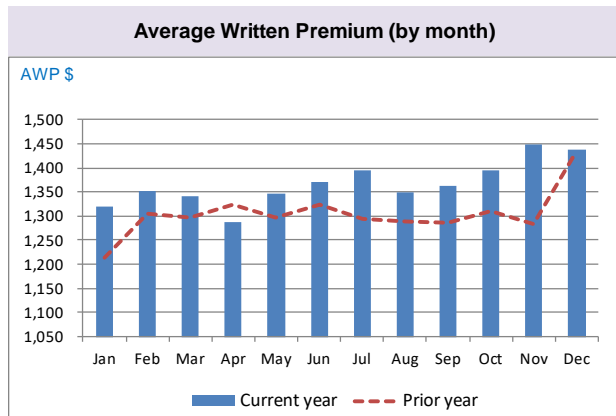


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

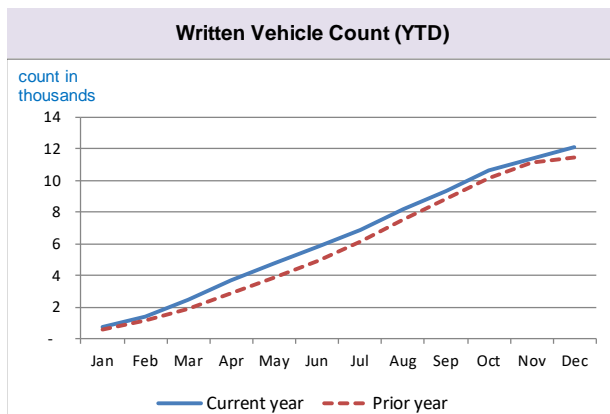
December’s vehicle count transfers to the RSP represent a 102.0% increase from December 2018, and counts were up 5.5% year-to-date. Average written premium was up 0.2% in December 2019, and up 4.8% year-to-date (see charts below).



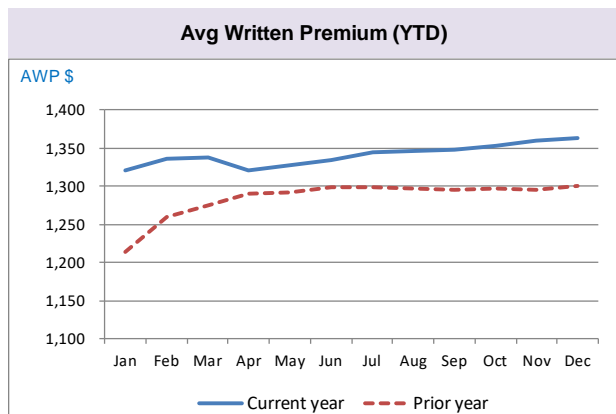
| | Dec-19 | Dec-18 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|--------|
| W. Veh curr mth | 746 | 369 | 377 | 102.0% |



| | Dec-19 | Dec-18 | Amt Chg | % Chg |
|--------------|--------|--------|---------|-------|
| AWP curr mth | 1,437 | 1,434 | 3 | 0.2% |



| | Dec-19 | Dec-18 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Vehicles YTD | 12,107 | 11,476 | 631 | 5.5% |



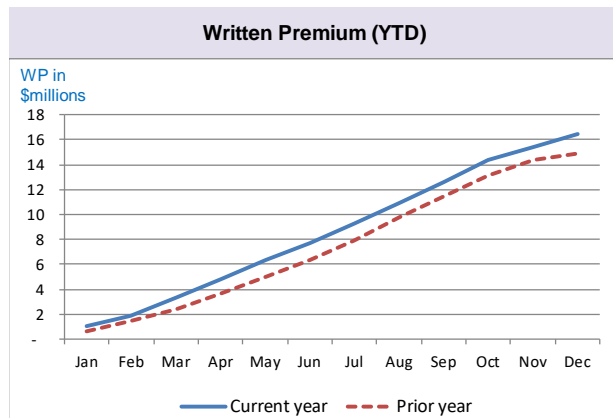
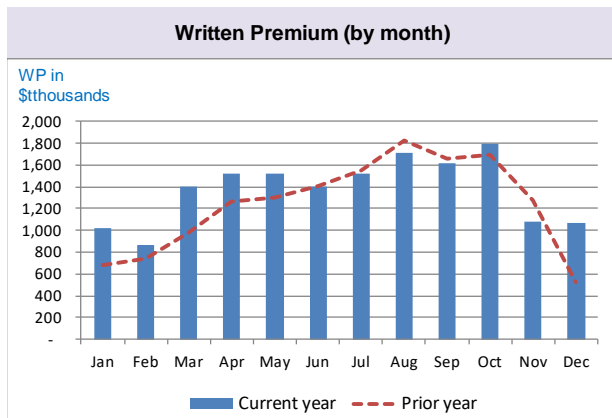
| | Dec-19 | Dec-18 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| Avg W. Prem YTD | 1,364 | 1,301 | 63 | 4.8% |

As a result of the movements in transfer vehicle counts and average written premium, the

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transferred premium was up 102.4% for the month compared with the 84.6% increase we projected last month, and was up 7.3% year-to-date (see charts below).



| | Dec-19 | Dec-18 | Amt Chg | % Chg |
|----------------------|--------|--------|---------|--------|
| WP (\$000s) curr mth | 1,072 | 530 | 543 | 102.4% |

| | Dec-19 | Dec-18 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| WP (\$000s) YTD | 16,519 | 14,925 | 1,593 | 10.7% |

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 December 2019 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - New Brunswick

Operating Results for the 12 Months Ended December 31, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

| | January | February | March | April | May | June | July | August | September | October | November | December | CY2019 YTD | CY2020 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 | \$1,077 | \$1,072 | \$16,518 | \$16,464 | \$14,925 |
| Decrease (Increase) in Unearned Premiums | 248 | 220 | (80) | (222) | (240) | (150) | (131) | (344) | (273) | (208) | 105 | 340 | (735) | 434 | (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 | \$1,182 | \$1,412 | \$15,783 | \$16,898 | \$13,267 |
| Claims Incurred: | | | | | | | | | | | | | | | |
| Prior Accident Years: | | | | | | | | | | | | | | | |
| Undiscounted | (\$14) | (\$74) | \$703 | (\$6) | (\$67) | (\$26) | (\$2) | (\$1,024) | \$6 | \$964 | (\$23) | (\$2) | \$435 | \$0 | \$618 |
| Effect of Discounting | 56 | (9) | 191 | 7 | 219 | (12) | (62) | (162) | (21) | 56 | (71) | (19) | 173 | (283) | (410) |
| Discounted | \$42 | (\$83) | \$894 | \$1 | \$152 | (\$38) | (\$64) | (\$1,186) | (\$15) | \$1,020 | (\$94) | (\$21) | \$608 | (\$283) | \$208 |
| Current Accident Year: | | | | | | | | | | | | | | | |
| Undiscounted | \$960 | \$879 | \$1,028 | \$988 | \$1,091 | \$983 | \$1,063 | \$745 | \$986 | \$1,213 | \$898 | \$1,052 | \$11,886 | \$12,336 | \$9,987 |
| Effect of Discounting | 30 | 21 | 44 | 25 | 84 | 43 | 31 | 28 | 24 | 32 | 17 | 13 | 392 | 455 | 216 |
| Discounted | \$990 | \$900 | \$1,072 | \$1,013 | \$1,175 | \$1,026 | \$1,094 | \$773 | \$1,010 | \$1,245 | \$915 | \$1,065 | \$12,278 | \$12,791 | \$10,203 |
| Claims Incurred | \$1,032 | \$817 | \$1,966 | \$1,014 | \$1,327 | \$988 | \$1,030 | (\$413) | \$995 | \$2,265 | \$821 | \$1,044 | \$12,886 | \$12,508 | \$10,411 |
| Underwriting Expenses: | | | | | | | | | | | | | | | |
| Expense Allowance | \$308 | \$259 | \$424 | \$458 | \$458 | \$423 | \$457 | \$514 | \$488 | \$535 | \$327 | \$323 | \$4,974 | \$4,973 | \$4,260 |
| Change in UPDR/DPAC: | | | | | | | | | | | | | | | |
| Undiscounted | 57 | 51 | 58 | (38) | 25 | (25) | (18) | (382) | (72) | (41) | 10 | 66 | (309) | 273 | (214) |
| Effect of Discounting | (8) | (7) | 57 | 9 | 86 | 8 | 7 | (8) | 13 | 9 | (7) | (15) | 144 | (9) | (2) |
| Discounted | 49 | 44 | 115 | (29) | 111 | (17) | (11) | (390) | (59) | (32) | 3 | 51 | (165) | 264 | (\$216) |
| Underwriting Expenses | \$357 | \$303 | \$539 | \$429 | \$569 | \$406 | \$446 | \$124 | \$429 | \$503 | \$330 | \$374 | \$4,809 | \$5,237 | \$4,044 |
| Net Underwriting Gain (Loss) | (\$121) | (\$34) | (\$1,178) | (\$145) | (\$612) | (\$144) | (\$90) | \$1,652 | (\$78) | (\$1,187) | \$31 | (\$6) | (\$1,912) | (\$847) | (\$1,188) |
| Administrative Expenses | \$57 | \$66 | \$49 | \$58 | \$59 | \$58 | \$73 | \$56 | \$56 | \$71 | \$161 | \$85 | \$849 | \$850 | \$628 |
| Operating Result | (\$178) | (\$100) | (\$1,227) | (\$203) | (\$671) | (\$202) | (\$163) | \$1,596 | (\$134) | (\$1,258) | (\$130) | (\$91) | (\$2,761) | (\$1,697) | (\$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% | -8.0% | -1.5% | 3.9% | -1.7% | 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% | 77.4% | 75.4% | 77.8% | 75.7% | 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% | 69.4% | 73.9% | 81.7% | 74.0% | 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% | 41.5% | 32.5% | 35.8% | 36.0% | 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% | 110.9% | 106.4% | 117.5% | 110.0% | 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