

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F2020 – 009**

**DATE: JANUARY 30, 2020**

**SUBJECT: NOVA SCOTIA 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 Nova Scotia 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 \$13.2 million** with the addition of \$0.1 million in deficit generated in December, resulting in a year-to-date COR of 143.7% on earned premium of \$30.3 million;
- (b) in **comparison with the final Outlook for 2019**, the **Nova Scotia RSP** finished the year with a **net operating deficit \$2.4 million (21.8%) higher (i.e. worse) than expected** and the combined ratio was 7.8 points higher than expected; and
- (c) the **projected 2020 year-end net operating deficit is now \$12.5 million**, with a COR at 136.5% on earned premium of \$34.3 million (our Outlook for 2020 was \$14.5 million of net operating deficit with a COR of 140.5% on earned premium of \$35.8 million).

### **Summary of Financial Results**

The calendar year-to-date Operating Result is -\$13.2 million and the incurred loss ratio to the end of 12 months is 104.8%, as summarized in the table at the top of the next page.

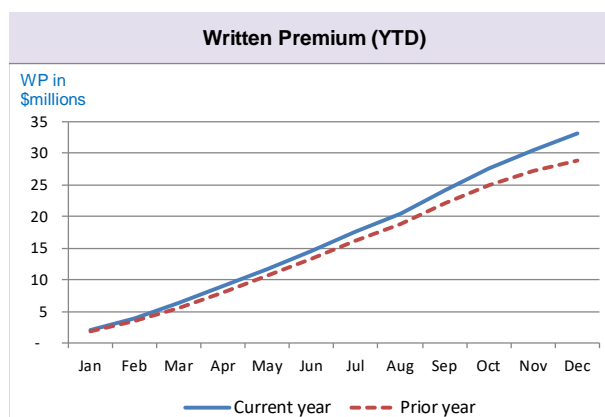
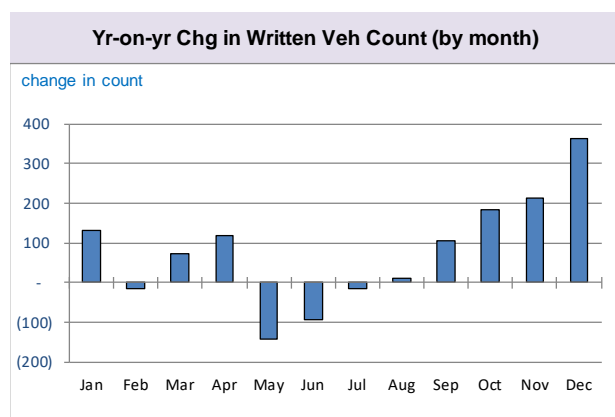
*NS RSP Summary of Financial Results (for month and year-to-date)*

Amounts in \$000s	December 2019	December 2018	Year to date Dec 2019	Year to Date Dec 2018
Premium Written	2,527	1,673	33,046	28,869
Premium Earned	2,805	2,442	30,265	27,656
Incurring Losses	2,819	2,301	31,719	26,203
Underwriting & Admin Expense	864	631	11,783	9,773
<b>Operating Result</b>	<b>(878)</b>	<b>(490)</b>	<b>(13,237)</b>	<b>(8,320)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(2.2%)	(2.0%)	1.2%	(1.8%)
- Current Accident Year	102.7%	96.2%	103.6%	96.5%
<i>Total</i>	<b>100.5%</b>	<b>94.2%</b>	<b>104.8%</b>	<b>94.7%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>30.8%</b>	<b>25.8%</b>	<b>38.9%</b>	<b>35.3%</b>
<b>Combined Operating Ratio</b>	<b>131.3%</b>	<b>120.0%</b>	<b>143.7%</b>	<b>130.0%</b>

*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 2019” attached to this bulletin.

2019 finished with written premium up \$4 million (15%) and earned premium was up \$3 million (9%). Transfers grew more in the latter part of the year, resulting in written premium growth accelerating September and beyond (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 Nova Scotia 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 on the previous page).

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 \$5 million deterioration in the net operating deficit.

Compared with the Nova Scotia RSP projections as found in the Risk Sharing Pools' Final Outlook for 2019 ([F18-077](#) posted October 18, 2018), 2019 finished with written premium \$2.0 million (6.3%) higher than expected whereas the earned premium was the same as what we expected. The net operating deficit of \$13.3 million was \$2.4 million (21.8%) higher than expected and the combined ratio was 7.8 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). Both the prior accident years and current accident year performed worse-than-expected (in both amount and points of earned premium), and the late increase in written premium also generated higher than expected unearned premium (by \$2 million), resulting in an adverse relative impact of the premium deficiency on the underwriting & administrative expense.

<b>NS RSP 2019 Yr-end Projection</b> <b>Amounts in \$000s</b>	<b>Current</b> <b>(Dec 2019)</b>	Prior Mth (Nov 2019)	<b>Change</b>	Final 2019 Outlook*
Premium Written	33,046	32,543	503	31,089
Premium Earned	30,264	30,271	(7)	30,272
Incurred Losses	31,717	31,692	25	30,014
Underwriting & Admin Expense	11,813	11,587	226	11,148
<b>Net Result from Operations</b>	<b>(13,266)</b>	<b>(13,008)</b>	<b>(258)</b>	<b>(10,890)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	1.2%	1.1%	0.1%	(1.5%)
- Current Accident Year	103.6%	103.6%	-	100.7%
<i>Total</i>	<b>104.8%</b>	<b>104.7%</b>	<b>0.1%</b>	<b>99.2%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>39.0%</b>	<b>38.3%</b>	<b>0.7%</b>	<b>36.8%</b>
<b>Combined Operating Ratio</b>	<b>143.8%</b>	<b>143.0%</b>	<b>0.8%</b>	<b>136.0%</b>

*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 Nova Scotia 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 -\$14.5 million, and a combined operating ratio of 140.5%. 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).

The projected calendar year Operating Result to December 2020 is now -\$12.5 million (an approximately \$2.0 million improvement relative to the Outlook) and the estimated combined operating ratio to December 2020 is 136.5% (a 4.0 point improvement relative to the Outlook).

The improvement is composed of an estimated \$0.6 million favourable impact associated with the \$1.6 million decrease in projected earned premium (at a combined ratio of 140.5%), coupled with a \$1.4 million favourable impact stemming from the overall decrease in the combined ratio (from 140.5% to 136.5% applied to \$34.3 million in projected earned premium). There was minimal impact on other assumption updates.

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$0.9 million Operating Result in the month of December 2019, a \$0.4 million deterioration from the same month last year. This deterioration is composed of a \$0.1 million unfavourable impact associated with the \$0.4 million increase in earned premium (at a combined ratio of 120.0%), with the remaining \$0.3 million stemming from the overall increase in the combined ratio (from 120.0% to 131.3% applied to \$2.8 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 145.0% at the end of 11 months to 143.7% at the end of 12 months. The 1.3 percentage point decrease is composed of a 0.3 percentage point decrease in the Prior Accident Years loss ratio, a 0.1 percentage point decrease in the Current Accident Year loss ratio, and a 0.9 percentage point decrease 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.

*NS RSP Summary of Actual vs Projected variances*

<b>December 2019</b>	<b>Actual</b>	<b>Projection</b>	<b>Difference</b>	<b>Difference %</b>
Written Premium	2,527	2,024	503	24.9%
Earned Premium	2,805	2,812	(7)	(0.2%)
Reported Losses				
Paid Losses	1,636	1,946	(310)	(15.9%)
Paid Expenses	46	115	(69)	(60.0%)
Change in Outstanding Losses	(256)	548	(804)	(146.7%)
<b>Total Reported Losses</b>	<b>1,426</b>	<b>2,609</b>	<b>(1,183)</b>	<b>(45.3%)</b>
Change in IBNR Provision *	1,393	184	1,209	
Change in Premium Deficiency (DPAC) *	(2)	13	(15)	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included at [Nova Scotia 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 \$1.2 million lower than projected. The Current Accident Year had an approximately \$0.6 million favourable variance in reported losses, and the Prior Accident Years had a \$0.6 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 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.

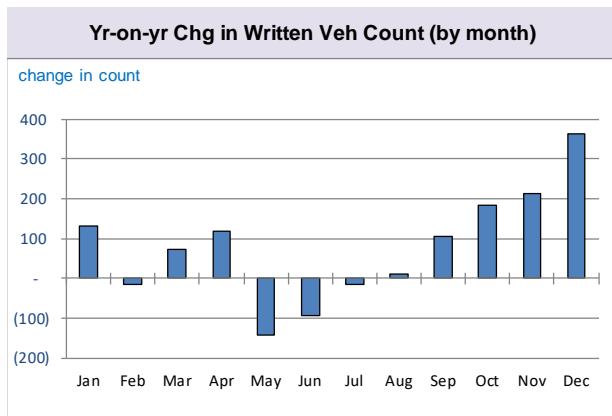
*Booking IBNR*

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 December 2019 Operational Report – Actuarial Highlights](#).

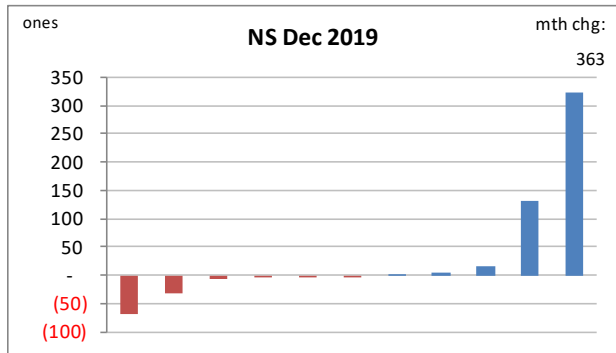
**Effect of Quarterly Valuation**

The December 2019 Nova Scotia 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**

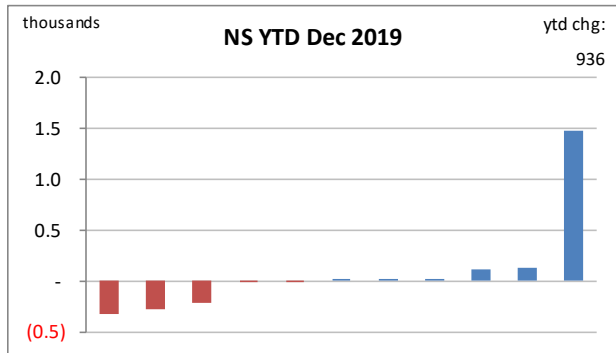


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with December showing an increase of 363 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 156 vehicles, indicating a variance of 207 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the RSP in December than projected.



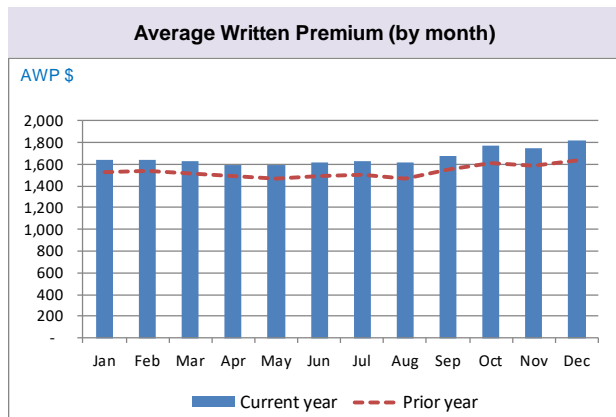
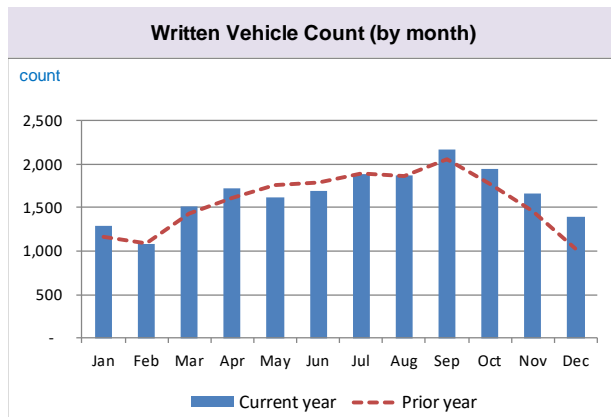
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Six member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while five transferred more. Of the 6 member company groups transferring fewer vehicles, 1 member company

group accounted for 60% of the total transfer decrease for these “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 68% of the total transfer increase for these “grower” members.



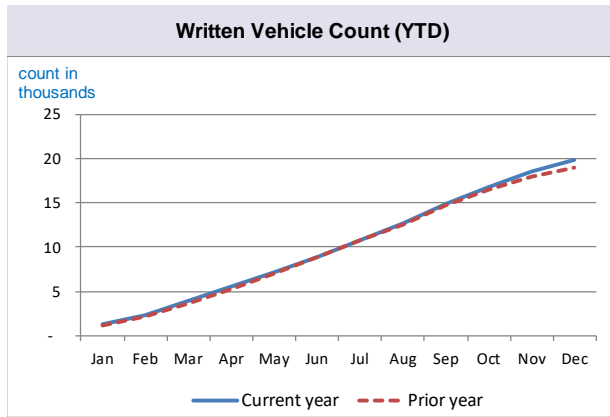
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

December’s vehicle count transfers to the RSP represent a 35.3% increase from December 2018, and vehicle counts were up 4.9% year-to-date. Average written premium was up 11.7% in December 2019, and was up 9.0% year-to-date (see charts below and at the top of the next page).

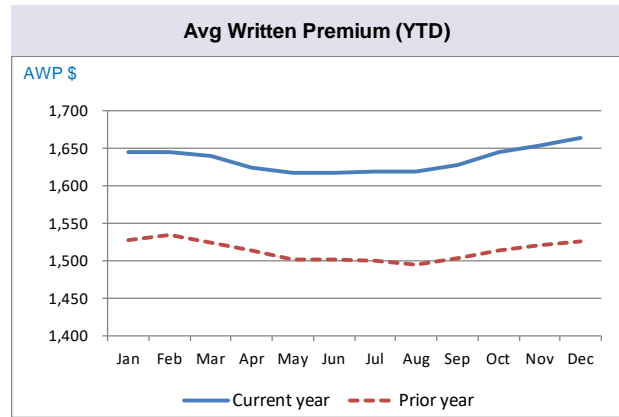


	Dec-19	Dec-18	Amt Chg	% Chg
W. Veh curr mth	1,389	1,026	363	35.3%

	Dec-19	Dec-18	Amt Chg	% Chg
AWP curr mth	1,820	1,630	190	11.7%

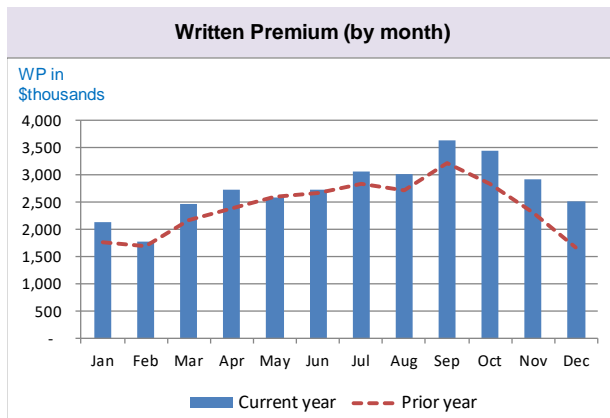


	Dec-19	Dec-18	Amt Chg	% Chg
W. Vehicles YTD	19,854	18,918	936	4.9%

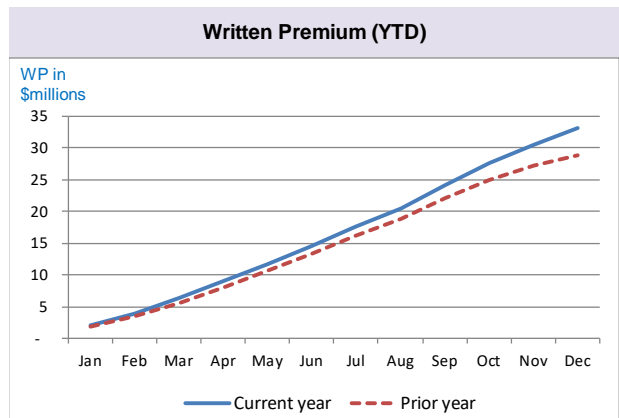


	Dec-19	Dec-18	Amt Chg	% Chg
Avg W. Prem YTD	1,664	1,526	138	9.0%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 51.1% for the month compared with the 21.0% increase we projected last month, and was up 14.5% year-to-date (see charts below).



	Dec-19	Dec-18	Amt Chg	% Chg
WP (\$000s) curr mth	2,527	1,673	854	51.1%



	Dec-19	Dec-18	Amt Chg	% Chg
WP (\$000s) YTD	33,045	28,871	4,174	14.5%

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:**

[Nova Scotia RSP December 2019 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2019**

Risk Sharing Pool - Nova Scotia

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
<b>Underwriting Revenue:</b>															
Net Premiums Written	\$2,126	\$1,769	\$2,462	\$2,738	\$2,593	\$2,729	\$3,074	\$3,024	\$3,643	\$3,451	\$2,910	\$2,527	\$33,046	\$33,147	\$28,869
Decrease (Increase) in Unearned Premiums	368	479	59	(271)	(246)	(377)	(501)	(428)	(1,097)	(781)	(264)	278	(2,781)	1,115	(1,213)
<b>Net Premiums Earned</b>	<b>\$2,494</b>	<b>\$2,248</b>	<b>\$2,521</b>	<b>\$2,467</b>	<b>\$2,347</b>	<b>\$2,352</b>	<b>\$2,573</b>	<b>\$2,596</b>	<b>\$2,546</b>	<b>\$2,670</b>	<b>\$2,646</b>	<b>\$2,805</b>	<b>\$30,265</b>	<b>\$34,262</b>	<b>\$27,656</b>
<b>Claims Incurred:</b>															
Prior Accident Years:															
Undiscounted	(\$14)	(\$17)	(\$834)	(\$5)	\$1,030	(\$48)	(\$3)	(\$512)	\$7	\$512	(\$5)	(\$4)	\$107	\$0	\$195
Effect of Discounting	153	(70)	228	(50)	452	(92)	(35)	(157)	(36)	(54)	(32)	(58)	249	(695)	(683)
Discounted	\$139	(\$87)	(\$606)	(\$55)	\$1,482	(\$140)	(\$38)	(\$669)	(\$29)	\$458	(\$37)	(\$62)	\$356	(\$695)	(\$488)
Current Accident Year:															
Undiscounted	\$2,422	\$2,185	\$2,429	\$2,381	\$2,586	\$2,344	\$2,517	\$2,356	\$2,458	\$2,838	\$2,594	\$2,748	\$29,858	\$33,782	\$25,819
Effect of Discounting	115	81	126	86	225	123	125	138	115	115	123	133	1,505	1,709	872
Discounted	\$2,537	\$2,266	\$2,555	\$2,467	\$2,811	\$2,467	\$2,642	\$2,494	\$2,573	\$2,953	\$2,717	\$2,881	\$31,363	\$35,491	\$26,691
<b>Claims Incurred</b>	<b>\$2,676</b>	<b>\$2,179</b>	<b>\$1,949</b>	<b>\$2,412</b>	<b>\$4,293</b>	<b>\$2,327</b>	<b>\$2,604</b>	<b>\$1,825</b>	<b>\$2,544</b>	<b>\$3,411</b>	<b>\$2,680</b>	<b>\$2,819</b>	<b>\$31,719</b>	<b>\$34,796</b>	<b>\$26,203</b>
<b>Underwriting Expenses:</b>															
Expense Allowance	\$659	\$549	\$763	\$849	\$805	\$847	\$953	\$938	\$1,129	\$1,070	\$902	\$783	\$10,247	\$10,506	\$8,714
Change in UPDR/DPAC:															
Undiscounted	10	15	(13)	17	200	18	22	(118)	23	79	11	15	279	599	537
Effect of Discounting	(16)	(22)	105	15	214	28	35	39	78	27	18	(17)	504	(33)	(86)
Discounted	(6)	(7)	92	32	414	46	57	(79)	101	106	29	(2)	783	566	451
<b>Underwriting Expenses</b>	<b>\$653</b>	<b>\$542</b>	<b>\$855</b>	<b>\$881</b>	<b>\$1,219</b>	<b>\$893</b>	<b>\$1,010</b>	<b>\$859</b>	<b>\$1,230</b>	<b>\$1,176</b>	<b>\$931</b>	<b>\$781</b>	<b>\$11,030</b>	<b>\$11,072</b>	<b>\$9,165</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$835)</b>	<b>(\$473)</b>	<b>(\$283)</b>	<b>(\$826)</b>	<b>(\$3,165)</b>	<b>(\$868)</b>	<b>(\$1,041)</b>	<b>(\$88)</b>	<b>(\$1,228)</b>	<b>(\$1,917)</b>	<b>(\$965)</b>	<b>(\$795)</b>	<b>(\$12,484)</b>	<b>(\$11,606)</b>	<b>(\$7,712)</b>
<b>Administrative Expenses</b>	<b>\$49</b>	<b>\$59</b>	<b>\$41</b>	<b>\$50</b>	<b>\$51</b>	<b>\$53</b>	<b>\$65</b>	<b>\$48</b>	<b>\$50</b>	<b>\$60</b>	<b>\$144</b>	<b>\$83</b>	<b>\$753</b>	<b>\$880</b>	<b>\$608</b>
<b>Operating Result</b>	<b>(\$884)</b>	<b>(\$532)</b>	<b>(\$324)</b>	<b>(\$876)</b>	<b>(\$3,216)</b>	<b>(\$921)</b>	<b>(\$1,106)</b>	<b>(\$136)</b>	<b>(\$1,278)</b>	<b>(\$1,977)</b>	<b>(\$1,109)</b>	<b>(\$878)</b>	<b>(\$13,237)</b>	<b>(\$12,486)</b>	<b>(\$8,320)</b>
<b>Ratios:</b>															
<b>Claims &amp; Expenses Incurred (Earned)</b>															
Prior Accident Years	5.6%	-3.9%	-24.0%	-2.2%	63.1%	-6.0%	-1.5%	-25.8%	-1.1%	17.2%	-1.4%	-2.2%	1.2%	-2.0%	-1.8%
Current Accident Year	101.7%	100.8%	101.3%	100.0%	119.8%	104.9%	102.7%	96.1%	101.1%	110.6%	102.7%	102.7%	103.6%	103.6%	96.5%
All Accident Years Combined	107.3%	96.9%	77.3%	97.8%	182.9%	98.9%	101.2%	70.3%	100.0%	127.8%	101.3%	100.5%	104.8%	101.6%	94.7%
Underwriting & Administrative Expenses (Earned)	28.1%	26.7%	35.5%	37.7%	54.1%	40.2%	41.8%	34.9%	50.3%	46.3%	40.6%	30.8%	38.9%	34.9%	35.3%
<b>Combined Operating Ratio</b>	<b>135.4%</b>	<b>123.6%</b>	<b>112.8%</b>	<b>135.5%</b>	<b>237.0%</b>	<b>139.1%</b>	<b>143.0%</b>	<b>105.2%</b>	<b>150.3%</b>	<b>174.1%</b>	<b>141.9%</b>	<b>131.3%</b>	<b>143.7%</b>	<b>136.5%</b>	<b>130.0%</b>

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