

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2020 – 023

DATE: MARCH 30, 2020

**SUBJECT: NOVA SCOTIA RISK SHARING POOL
– FEBRUARY 2020 OPERATIONAL REPORT**

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

Please be advised that the February 2020 Nova Scotia Risk Sharing Pool Operational Report is available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Key Points

- (a) The **2020 year-to-date net operating deficit was \$1.8 million**, with a COR of 133.1% on earned premium of \$5.5 million;
- (b) The **projected 2020 year-end net operating deficit is now \$15.6 million**, with a COR at 142.4% on earned premium of \$36.8 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). However, our projections do NOT taken into account any specific impacts that might arise due to the COVID-19 pandemic (FA is still in the process of considering impacts);
- (c) The written vehicle count and written premium transferred in February were significantly higher than projected; updated estimates were received from key member companies and included in this month's projections; and
- (d) With the current situation of COVID-19, we were still able to release our member statements on time as a result of our continuous effort in ensuring the timeliness of member reporting.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$1.8 million and the incurred loss ratio to the end of 2 months is 106.3%, 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	February 2020	February 2019	Year to date Feb 2020	Year to Date Feb 2019
Premium Written	2,212	1,769	4,380	3,895
Premium Earned	2,676	2,248	5,501	4,742
Incurring Losses	2,766	2,179	5,843	4,855
Underwriting & Admin Expense	764	601	1,474	1,303
Operating Result	(854)	(532)	(1,816)	(1,416)
Ratios:				
Loss ratio - Prior Accident Years	(2.3%)	(3.9%)	0.3%	1.1%
- Current Accident Year	105.6%	100.8%	106.0%	101.3%
<i>Total</i>	103.3%	96.9%	106.3%	102.4%
Underwriting & Admin Expense	28.6%	26.7%	26.8%	27.5%
Combined Operating Ratio	131.9%	123.6%	133.1%	129.9%

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 2020” attached to this bulletin.

Updated Projection to Year-end 2020

PLEASE NOTE: our projections have NOT been adjusted in any way to reflect COVID-19 pandemic impacts. Such impacts are under investigation and will be reflected in future projections as deemed appropriate.

The projected calendar year Operating Result to December 2020 is -\$15.6 million and the estimated combined operating ratio to December 2020 is 142.4%, as summarized in the table at the top of the next page. This updated projection to the end of the year has deteriorated by \$3.1 million from the projection provided last month (see the second and third columns in the table). The deterioration is driven by the \$2.9 million increase in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections. The updated written premium projection reflects information provided by certain members.

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

NS RSP 2020 Yr-end Projection Amounts in \$000s	Current (Feb 2020)	Prior Mth (Jan 2020)	Change	Final 2020 Outlook*
Premium Written	40,051	32,693	7,358	38,176
Premium Earned	36,848	33,957	2,891	35,830
Incurred Losses	37,658	34,620	3,038	36,407
Underwriting & Admin Expense	14,829	11,842	2,988	13,949
Net Result from Operations	(15,639)	(12,505)	(3,135)	(14,526)
Ratios:				
Loss ratio - Prior Accident Years	(1.9%)	(2.1%)	0.2%	(2.1%)
- Current Accident Year	104.1%	104.0%	0.1%	103.7%
<i>Total</i>	102.2%	101.9%	0.3%	101.6%
Underwriting & Admin Expense	40.2%	34.9%	5.3%	38.9%
Combined Operating Ratio	142.4%	136.8%	5.6%	140.5%

rounding differences may occur

*as posted to FA's website Nov. 5, 2019

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$1.0 million Operating Result in the month of February 2020, a \$0.3 million deterioration from the same month last year. This deterioration is composed of an approximately \$0.1 million unfavourable impact associated with the \$0.4 million increase in earned premium (at a combined ratio of 123.6%), with the remaining \$0.2 million unfavourable impact stemming from the overall increase in the combined ratio (from 123.6% to 131.9% applied to \$2.7 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 134.1% at the end of 1 month to 133.1% at the end of 2 months. The 1.0 percentage point decrease is composed of a 2.4 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 0.3 percentage point decrease in the Current Accident Year loss ratio, offset by a 1.7 percentage point increase in the expense ratio.

Variances from Projections

The table at the top of the next page 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

February 2020	Actual	Projection	Difference	Difference %
Written Premium	2,212	792	1,420	179.3%
Earned Premium	2,676	2,575	101	3.9%
Reported Losses				
Paid Losses	938	1,498	(560)	(37.4%)
Paid Expenses	32	113	(81)	(71.7%)
Change in Outstanding Losses	769	1,037	(268)	(25.8%)
Total Reported Losses	1,739	2,648	(909)	(34.3%)
Change in IBNR Provision *	1,027	(46)	1,073	
Change in Premium Deficiency (DPAC) *	(22)	(116)	94	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP February 2020 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 February 2020, reported losses were \$0.9 million lower than projected. The Current Accident Year had a \$0.7 million favourable variance in reported losses, while the Prior Accident Years had a \$0.2 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 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

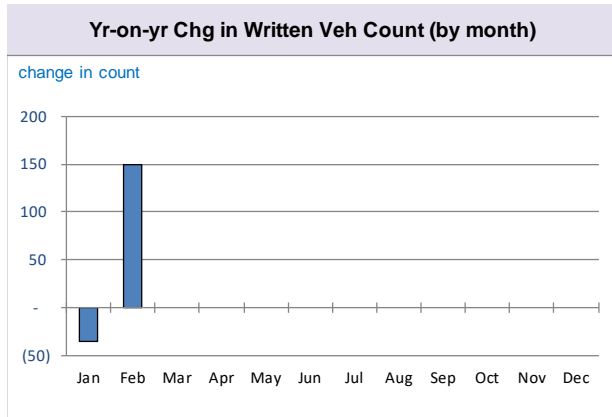
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 February 2020 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

The February 2020 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

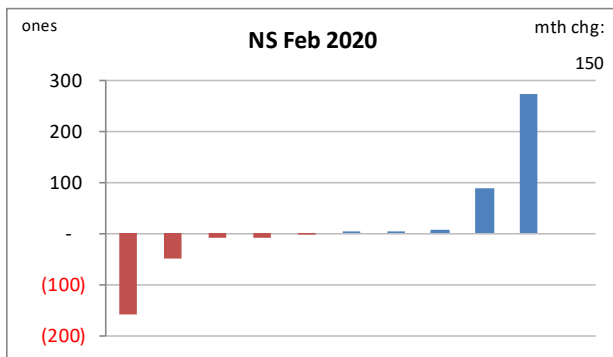
valuation will be updated next as at December 31, 2019 and we anticipate that the results will be reflected in the March 2020 Operational Report.

Management Comments



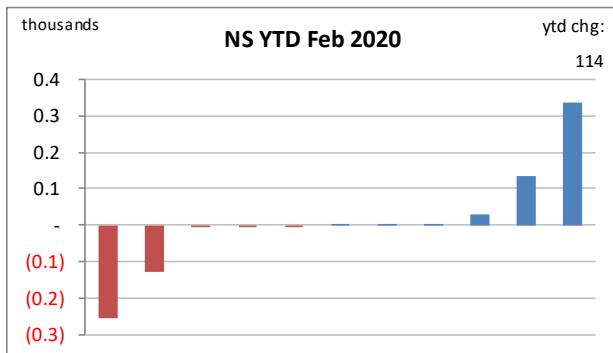
The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with February showing an increase of 150 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 537 vehicles, indicating a variance of 687 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the RSP in February than projected. This member company group has provided their updated written counts estimates, which we have already included in this month’s projection.

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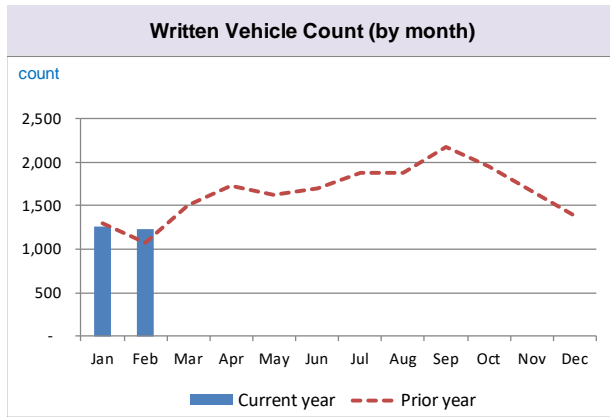
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while five transferred more. Of the 5 member company groups transferring fewer vehicles, 1 member company group accounted for 70% of the total transfer decrease for these “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 73% of the total transfer increase for these “grower” members.

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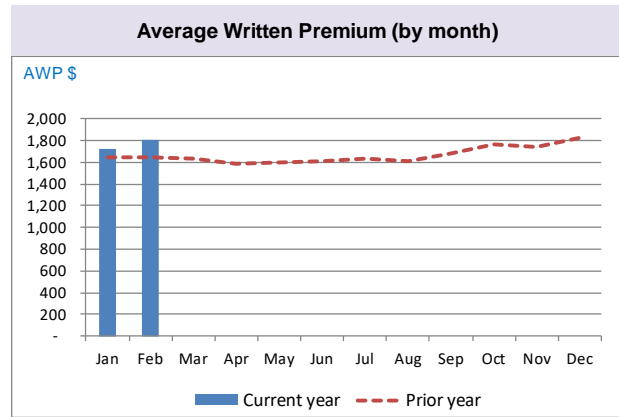


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

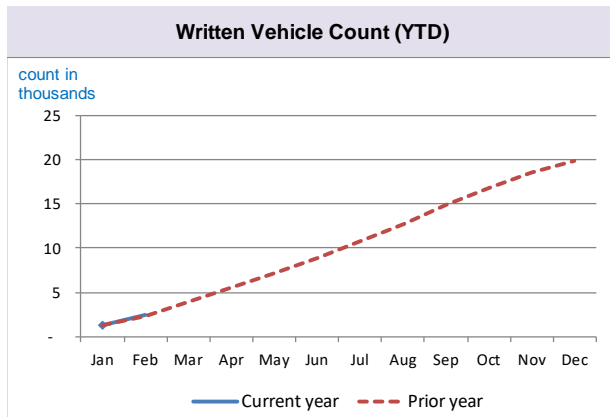
February’s vehicle count transfers to the RSP represent an increase from February 2019 at 13.9%, and counts were up 4.8% year-to-date. Average written premium was up 9.8% in February 2020, and up 7.3% year-to date (see charts at the top of the next page).



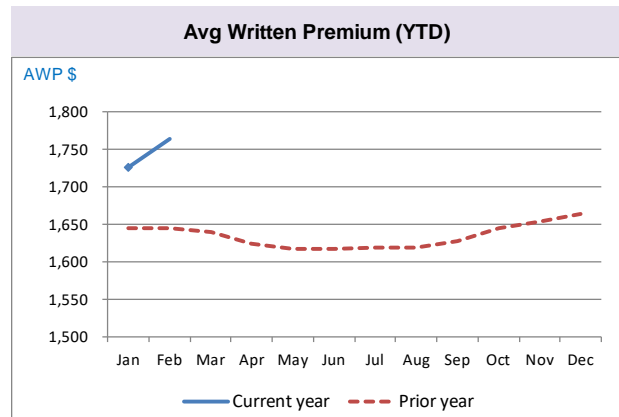
	Feb-20	Feb-19	Amt Chg	% Chg
W. Veh curr mth	1,226	1,076	150	13.9%



	Feb-20	Feb-19	Amt Chg	% Chg
AWP curr mth	1,804	1,643	161	9.8%

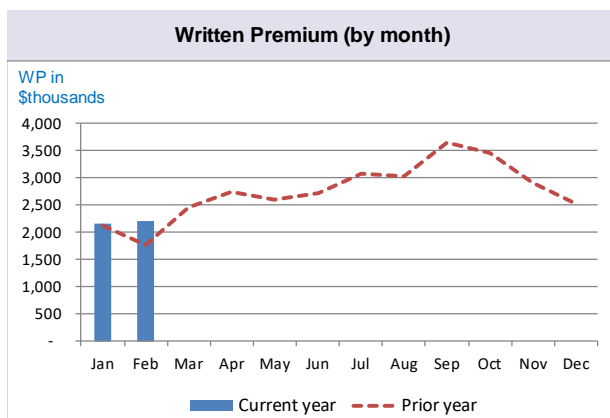


	Feb-20	Feb-19	Amt Chg	% Chg
W. Vehicles YTD	2,483	2,368	114	4.8%

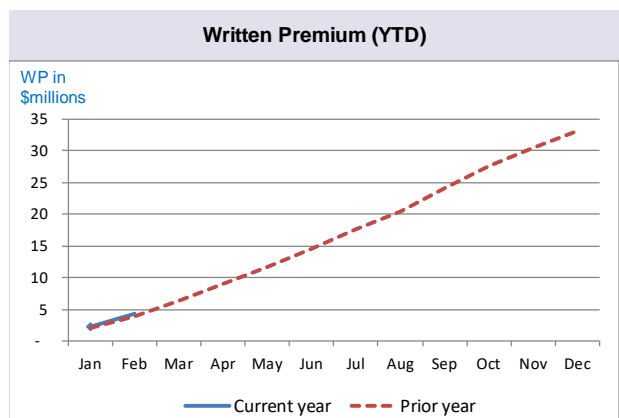


	Feb-20	Feb-19	Amt Chg	% Chg
Avg W. Prem YTD	1,764	1,644	120	7.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 25.1% for the month compared with the 55.2% decrease we projected last month, and was up 12.5% year-to-date (see chart below).



	Feb-20	Feb-19	Amt Chg	% Chg
WP (\$000s) curr mth	2,212	1,768	444	25.1%



	Feb-20	Feb-19	Amt Chg	% Chg
WP (\$000s) YTD	4,380	3,894	486	12.5%

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Nova Scotia Risk Sharing Pool – February 2020 Operational Report

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 February 2020 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2020
Risk Sharing Pool - Nova Scotia
Operating Results for the 2 Months Ended February 29, 2020 (Discounted basis)
Source: Monthly Operational Report
(thousands of dollars)

EXHIBIT 1

	January	February	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:					
Net Premiums Written	\$2,168	\$2,212	\$4,380	\$40,051	\$33,046
Decrease (Increase) in Unearned Premiums	657	464	1,121	(3,203)	(2,781)
Net Premiums Earned	\$2,825	\$2,676	\$5,501	\$36,848	\$30,265
Claims Incurred:					
Prior Accident Years:					
Undiscounted	(\$17)	(\$11)	(\$28)	(\$28)	\$107
Effect of Discounting	92	(50)	42	(655)	249
Discounted	\$75	(\$61)	\$14	(\$683)	\$356
Current Accident Year:					
Undiscounted	\$2,802	\$2,651	\$5,453	\$36,362	\$29,858
Effect of Discounting	200	176	376	1,979	1,505
Discounted	\$3,002	\$2,827	\$5,829	\$38,341	\$31,363
Claims Incurred	\$3,077	\$2,766	\$5,843	\$37,658	\$31,719
Underwriting Expenses:					
Expense Allowance	\$689	\$701	\$1,390	\$12,698	\$10,247
Change in UPDR/DPAC:					
Undiscounted	3	11	14	747	279
Effect of Discounting	(42)	(33)	(75)	264	504
Discounted	(39)	(22)	(61)	1,011	783
Underwriting Expenses	\$650	\$679	\$1,329	\$13,709	\$11,030
Net Underwriting Gain (Loss)	(\$902)	(\$769)	(\$1,671)	(\$14,519)	(\$12,484)
Administrative Expenses	\$60	\$85	\$145	\$1,120	\$753
Operating Result	(\$962)	(\$854)	(\$1,816)	(\$15,639)	(\$13,237)
Ratios:					
Claims & Expenses Incurred (Earned)					
Prior Accident Years	2.7%	-2.3%	0.3%	-1.9%	1.2%
Current Accident Year	106.3%	105.6%	106.0%	104.1%	103.6%
All Accident Years Combined	109.0%	103.3%	106.3%	102.2%	104.8%
Underwriting & Administrative Expenses (Earned)	25.1%	28.6%	26.8%	40.2%	38.9%
Combined Operating Ratio	134.1%	131.9%	133.1%	142.4%	143.7%

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