

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2020 – 035

DATE: MAY 28, 2020

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

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

Please be advised that the April 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 loss ratios being used under our current assumptions do NOT include any incurred impacts or adjustments related to COVID-19; any associated impacts and changes will be initially reflected in our March 31, 2020 valuation which we anticipate will be implemented in the May 2020 Operational Reports;
- (b) The *2020 year-to-date net operating deficit was \$5.4 million*, with a COR of 149.1% on earned premium of \$11.0 million; and
- (c) The *projected 2020 year-end net operating deficit is now \$18.2 million*, with a COR at 151.1% on earned premium of \$35.7 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). **April's reported claims projections for the next two months (May 2020 and June 2020) have been adjusted to reflect COVID-19 pandemic impacts: a 30% decrease in Current Accident Year physical damage claim activity**, as per discussion with FA's Appointed Actuary. No adjustment has been made to this month's premium projections.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$5.4 million and the incurred loss ratio to the end of 4 months is 112.6%, as summarized in the following table.

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

Amounts in \$000s	April 2020	April 2019	Year to date Apr 2020	Year to Date Apr 2019
Premium Written	2,443	2,738	9,554	9,095
Premium Earned	2,763	2,467	10,991	9,730
Incurring Losses	2,965	2,412	12,372	9,216
Underwriting & Admin Expense	838	931	4,012	3,130
Operating Result	(1,040)	(876)	(5,393)	(2,616)
Ratios:				
Loss ratio				
- Prior Accident Years	(2.2%)	(2.2%)	2.1%	(6.3%)
- Current Accident Year	109.6%	100.0%	110.5%	101.0%
<i>Total</i>	107.4%	97.8%	112.6%	94.7%
Underwriting & Admin Expense	30.3%	37.7%	36.5%	32.2%
Combined Operating Ratio	137.7%	135.5%	149.1%	126.9%

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: April’s reported claims projections for the next two months (May 2020 and June 2020) have been adjusted to reflect COVID-19 pandemic impacts; this includes a 30% decrease in Current Accident Year physical damage claim activity, as per discussion with FA’s Appointed Actuary. No adjustment has been made to this month’s premium projections.

The projected calendar year Operating Result to December 2020 is -\$18.2 million and the estimated combined operating ratio to December 2020 is 151.1%, as summarized in the following table. This updated projection to the end of the year has improved by \$0.4 million from the projection provided last month (see the second and third columns in the table). The improvement is driven by the \$0.9 million decrease in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections, as well as the adjustments made on the claims projections due to COVID-19 pandemic (as indicated at the beginning of this section).

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	Current	Prior Mth	Change	Final 2020
Amounts in \$000s	(Apr 2020)	(Mar 2020)		Outlook*
Premium Written	38,866	39,729	(863)	38,176
Premium Earned	35,679	36,353	(674)	35,830
Incurred Losses	38,505	39,214	(709)	36,407
Underwriting & Admin Expense	15,406	15,733	(327)	13,949
Net Result from Operations	(18,232)	(18,594)	362	(14,526)
Ratios:				
Loss ratio - Prior Accident Years	(0.9%)	(0.8%)	(0.1%)	(2.1%)
- Current Accident Year	108.8%	108.7%	0.1%	103.7%
<i>Total</i>	107.9%	107.9%	-	101.6%
Underwriting & Admin Expense	43.2%	43.3%	(0.1%)	38.9%
Combined Operating Ratio	151.1%	151.2%	(0.1%)	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 April 2020, a \$0.2 million deterioration from the same month last year. This deterioration is composed of a \$0.1 million unfavourable impact associated with the \$0.3 million increase in earned premium (at a combined ratio of 135.5%), and the additional \$0.1 million unfavourable impact driven by the overall increase in the combined ratio (from 135.5% to 137.7% applied to \$2.8 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 152.9% at the end of 3 months to 149.1% at the end of 4 months. The 3.8 percentage point decrease is composed of a 1.4 percentage point decrease in the Prior Accident Years loss ratio, a 0.3 percentage point decrease in the Current Accident Year loss ratio, and a 2.1 percentage point decrease in the expense ratio.

Variances from Projections

The following table provides a summary of key components of the operating results as compared to the estimates projected last month.

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NS RSP Summary of Actual vs Projected variances

April 2020	Actual	Projection	Difference	Difference %
Written Premium	2,443	3,293	(850)	(25.8%)
Earned Premium	2,763	2,908	(145)	(5.0%)
Reported Losses				
Paid Losses	1,155	1,492	(337)	(22.6%)
Paid Expenses	(18)	85	(103)	(121.2%)
Change in Outstanding Losses	(282)	420	(702)	(167.1%)
Total Reported Losses	855	1,997	(1,142)	(57.2%)
Change in IBNR Provision *	2,110	1,092	1,018	
Change in Premium Deficiency (DPAC) *	(7)	79	(86)	

(Amounts in \$000's)

rounding differences may occur

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 April 2020, reported losses were \$1.1 million lower than projected. The Current Accident Year had a \$0.9 million favourable variance in reported losses, and the Prior Accident Years had a \$0.2 million favourable variance. No single 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.

With respect to the Current Accident Year, we attribute the lower than projected reported losses to a reduction in written premium and physical damage claims experience in relation to the COVID-19 pandemic impact, consistent with discussion with FA's Appointed Actuary and leading to the adjustment made on projected physical damage claims activity over the next two projection months.

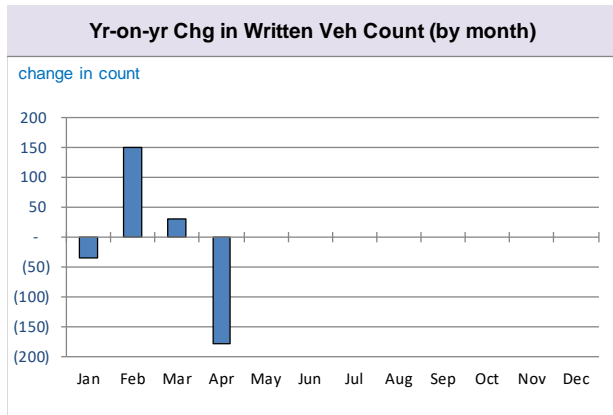
Booking IBNR

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.

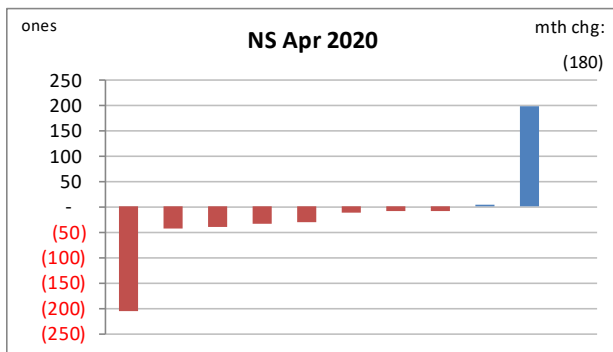
Effect of Quarterly Valuation

The April 2020 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at December 31, 2019). The actuarial valuation will be updated next as at March 31, 2020 and we anticipate that the results will be reflected in the May 2020 Operational Report.

Management Comments

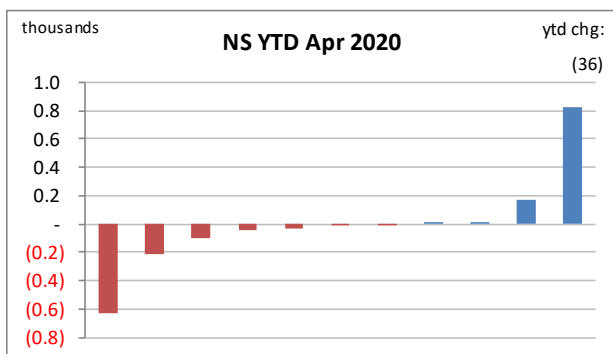


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with April showing a decrease of 180 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 193 vehicles, indicating a variance of 373 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the RSP in April than projected.



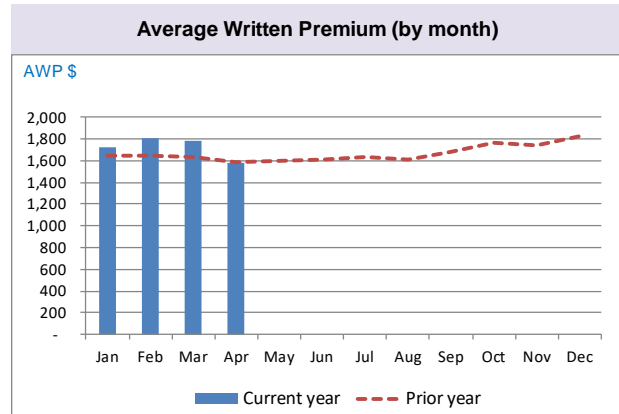
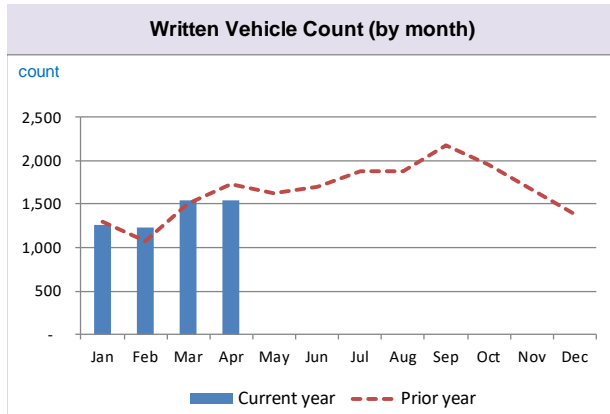
The chart on the left shows the overall change in the month, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while two transferred more. Of the 8 member company groups transferring fewer vehicles, 1 member company group accounted for 54% of the total transfer decrease for these “decliner” members.

Of the 2 member company groups transferring more vehicles, 1 member company group accounted for 99% of the total transfer increase for these “grower” members.



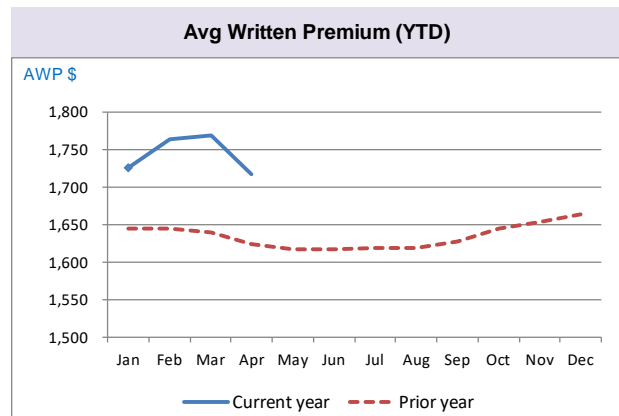
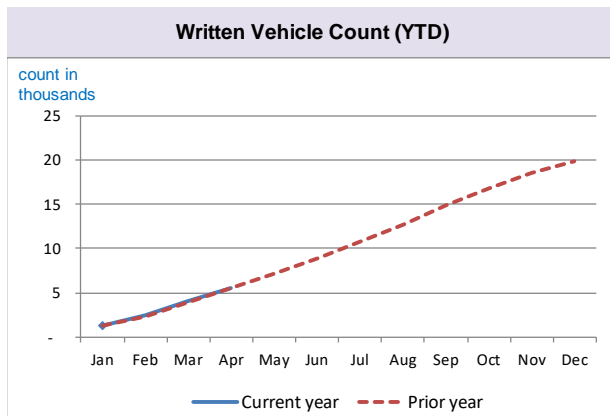
The chart on the left presents the same information as the previous chart, but on a year-to-date basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted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

April’s vehicle count transfers to the RSP represent a 10.4% decrease from April 2019, and counts were down 0.6% year-to-date. Average written premium was down 0.4% in April 2020, but up 5.8% year-to date (see the following charts).



	Apr-20	Apr-19	Amt Chg	% Chg
W. Veh curr mth	1,543	1,723	(180)	-10.4%

	Apr-20	Apr-19	Amt Chg	% Chg
AWP curr mth	1,583	1,589	(6)	-0.4%



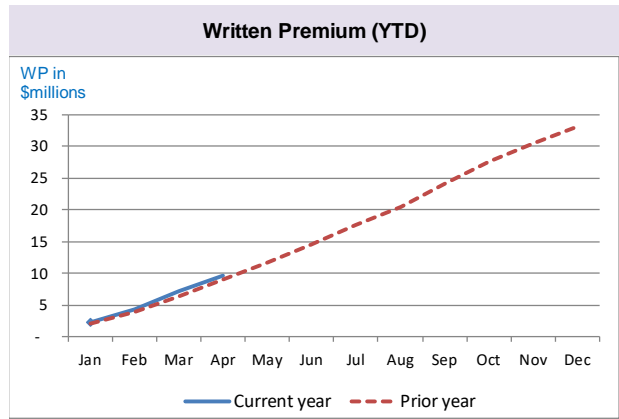
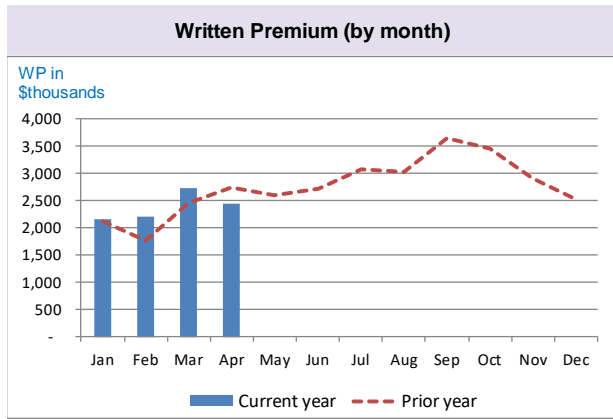
	Apr-20	Apr-19	Amt Chg	% Chg
W. Vehicles YTD	5,563	5,599	(36)	-0.6%

	Apr-20	Apr-19	Amt Chg	% Chg
Avg W. Prem YTD	1,718	1,624	94	5.8%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 10.8% for the month compared with the 20.3% increase we projected last month, but was still up 5.1% year-to-date (see the following charts).

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	Apr-20	Apr-19	Amt Chg	% Chg
WP (\$000s) curr mth	2,443	2,738	(295)	-10.8%

	Apr-20	Apr-19	Amt Chg	% Chg
WP (\$000s) YTD	9,555	9,094	460	5.1%

Should you require any further information, please call Aidan Chen, AVP Data & Analytics at (416) 863-1750 x4804.

Saskia Matheson
President & CEO

Related links:

[Nova Scotia RSP April 2020 Operational Report – Actuarial Highlights](#)

*For additional details on Actual vs Projected variances, IBNR, and valuation (if applicable)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2020

Risk Sharing Pool - Nova Scotia

EXHIBIT 1

Operating Results for the 4 Months Ended April 30, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

	January	February	March	April	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:							
Net Premiums Written	\$2,168	\$2,212	\$2,731	\$2,443	\$9,554	\$38,866	\$33,046
Decrease (Increase) in Unearned Premiums	657	464	(4)	320	1,437	(3,187)	(2,781)
Net Premiums Earned	\$2,825	\$2,676	\$2,727	\$2,763	\$10,991	\$35,679	\$30,265
Claims Incurred:							
Prior Accident Years:							
Undiscounted	(\$17)	(\$11)	\$567	(\$24)	\$515	\$515	\$107
Effect of Discounting	92	(50)	(292)	(38)	(288)	(820)	249
Discounted	\$75	(\$61)	\$275	(\$62)	\$227	(\$305)	\$356
Current Accident Year:							
Undiscounted	\$2,802	\$2,651	\$3,195	\$2,873	\$11,521	\$36,974	\$29,858
Effect of Discounting	200	176	94	154	624	1,836	1,505
Discounted	\$3,002	\$2,827	\$3,289	\$3,027	\$12,145	\$38,810	\$31,363
Claims Incurred	\$3,077	\$2,766	\$3,564	\$2,965	\$12,372	\$38,505	\$31,719
Underwriting Expenses:							
Expense Allowance	\$689	\$701	\$867	\$775	\$3,032	\$12,323	\$10,247
Change in UPDR/DPAC:							
Undiscounted	3	11	792	14	820	1,753	279
Effect of Discounting	(42)	(33)	(20)	(21)	(116)	232	504
Discounted	(39)	(22)	772	(7)	704	1,985	783
Underwriting Expenses	\$650	\$679	\$1,639	\$768	\$3,736	\$14,308	\$11,030
Net Underwriting Gain (Loss)	(\$902)	(\$769)	(\$2,476)	(\$970)	(\$5,117)	(\$17,134)	(\$12,484)
Administrative Expenses	\$60	\$85	\$61	\$70	\$276	\$1,098	\$753
Operating Result	(\$962)	(\$854)	(\$2,537)	(\$1,040)	(\$5,393)	(\$18,232)	(\$13,237)
Ratios:							
Claims & Expenses Incurred (Earned)							
Prior Accident Years	2.7%	-2.3%	10.1%	-2.2%	2.1%	-0.9%	1.2%
Current Accident Year	106.3%	105.6%	120.6%	109.6%	110.5%	108.8%	103.6%
All Accident Years Combined	109.0%	103.3%	130.7%	107.4%	112.6%	107.9%	104.8%
Underwriting & Administrative Expenses (Earned)	25.1%	28.6%	62.3%	30.3%	36.5%	43.2%	38.9%
Combined Operating Ratio	134.1%	131.9%	193.0%	137.7%	149.1%	151.1%	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