

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2020 – 060

DATE: AUGUST 28, 2020

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

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

Please be advised that the July 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 currently being used include an initial assessment of the incurred impacts associated with the COVID-19 pandemic, with a further review and assessment to be included with the RSP 2020 Q2 actuarial valuation update (as at June 2020);
- (b) The *2020 year-to-date net operating deficit was \$11.7 million*, with a COR of 159.5% on earned premium of \$19.7 million; and
- (c) The *projected 2020 year-end net operating deficit is now \$20.8 million*, with a COR at 157.4% on earned premium of \$36.2 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 -\$11.7 million and the incurred loss ratio to the end of seven months is 115.8%, 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	July 2020	July 2019	Year to date Jul 2020	Year to Date Jul 2019
Premium Written	4,755	3,074	21,323	17,491
Premium Earned	3,103	2,573	19,713	17,002
Incurred Losses	3,265	2,604	22,841	18,440
Underwriting & Admin Expense	1,944	1,075	8,620	6,421
Operating Result	(2,106)	(1,106)	(11,748)	(7,859)
Ratios:				
Loss ratio - <i>Prior Accident Years</i>	(2.7%)	(1.5%)	6.8%	4.1%
- <i>Current Accident Year</i>	107.9%	102.7%	109.0%	104.4%
<i>Total</i>	105.2%	101.2%	115.8%	108.5%
Underwriting & Admin Expense	62.6%	41.8%	43.7%	37.8%
Combined Operating Ratio	167.8%	143.0%	159.5%	146.3%

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

The projected calendar year Operating Result to December 2020 is -\$20.8 million and the estimated combined operating ratio to December 2020 is 157.4%, as summarized in the following table. This updated projection to the end of the year has deteriorated by \$0.5 million from the projection provided last month (see the second and third columns in the table). The deterioration is driven by the \$1.2 million increase in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections.

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 (Jul 2020)	Prior Mth (Jun 2020)	Change	Final 2020 Outlook*
Premium Written	41,304	40,113	1,191	38,176
Premium Earned	36,161	35,568	593	35,830
Incurred Losses	39,856	39,198	658	36,407
Underwriting & Admin Expense	17,062	16,587	475	13,949
Net Result from Operations	(20,757)	(20,217)	(540)	(14,526)
Ratios:				
Loss ratio - Prior Accident Years	2.5%	2.5%	-	(2.1%)
- Current Accident Year	107.7%	107.7%	-	103.7%
<i>Total</i>	110.2%	110.2%	-	101.6%
Underwriting & Admin Expense	47.2%	46.6%	0.6%	38.9%
Combined Operating Ratio	157.4%	156.8%	0.6%	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 -\$2.1 million Operating Result in the month of July 2020, a \$1.0 million deterioration from the same month last year. This deterioration is composed of an approximately \$0.2 million unfavourable impact associated with the \$0.5 million increase in earned premium (at a prior combined ratio of 143.0%), and a \$0.8 million unfavourable impact driven by the overall increase in the combined ratio (from 143.0% to 167.8% applied to \$3.1 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 158.1% at the end of six months to 159.5% at the end of seven months. The 1.4 percentage point increase is composed of a 3.5 percentage point increase in the expense ratio, offset by a 1.8 percentage point decrease in Prior Accident Years Loss Ratio and a 0.3 percentage point decrease in the Current Accident Year loss 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

July 2020	Actual	Projection	Difference	Difference %
Written Premium	4,755	3,564	1,191	33.4%
Earned Premium	3,103	3,089	14	0.5%
Reported Losses				
Paid Losses	1,299	1,644	(345)	(21.0%)
Paid Expenses	83	99	(16)	(16.2%)
Change in Outstanding Losses	(64)	460	(524)	(113.9%)
Total Reported Losses	1,318	2,203	(885)	(40.2%)
Change in IBNR Provision *	1,947	1,011	936	
Change in Premium Deficiency (DPAC) *	361	196	165	

(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.

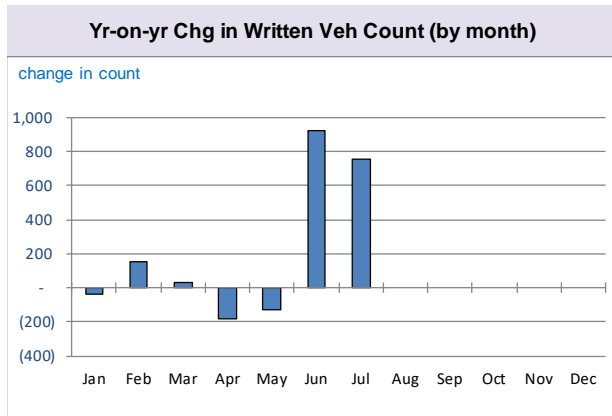
For the month of July 2020, total reported losses were \$0.9 million lower than projected. The Current Accident Year had a \$0.4 million favourable variance in reported losses and the Prior Accident Years had a \$0.5 million favourable variance. No single Accident Year had a reported loss variance in 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 the 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.

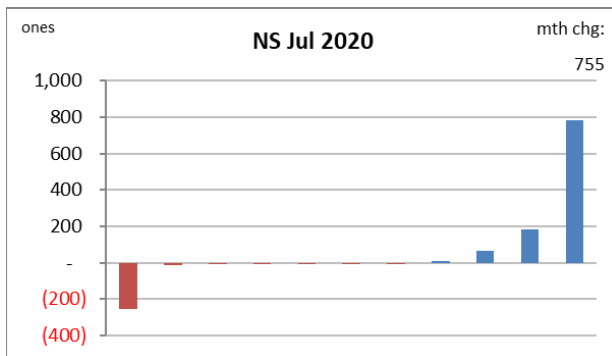
Booking IBNR

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.

Management Comments

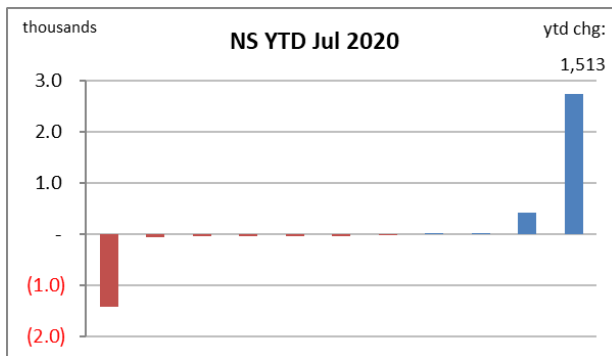


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with July showing an increase of 755 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 104 vehicles, indicating a variance of 651 from the actual transfers. This variance was mainly due to one member company group transferring a higher number of vehicles to the RSP in July 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. Seven member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while four transferred more. Of the 7 member company groups transferring fewer vehicles, 1 member company group accounted

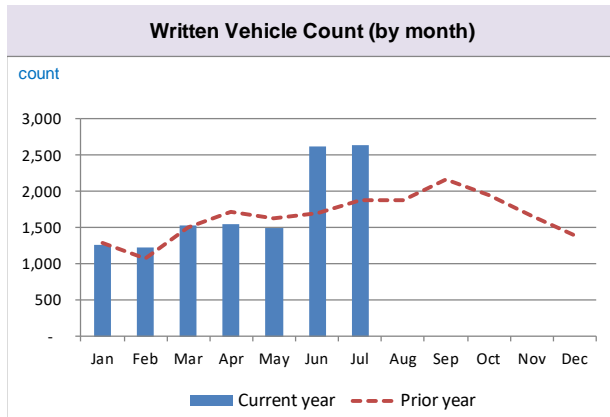
for 91% of the total transfer decrease for these “decliner” members. Of the 4 member company groups transferring more vehicles, 1 member company group accounted for 76% of the total transfer increase for these “grower” members.



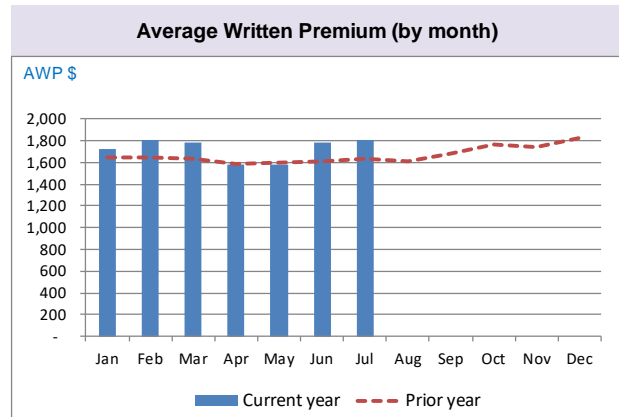
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

July’s vehicle count transfers to the RSP represent a 40.1% increase from July 2019, and counts were up 14.0% year-to-date. Average written premium was up 10.5% in July 2020, and up 7.0% year-to date (see the following charts).

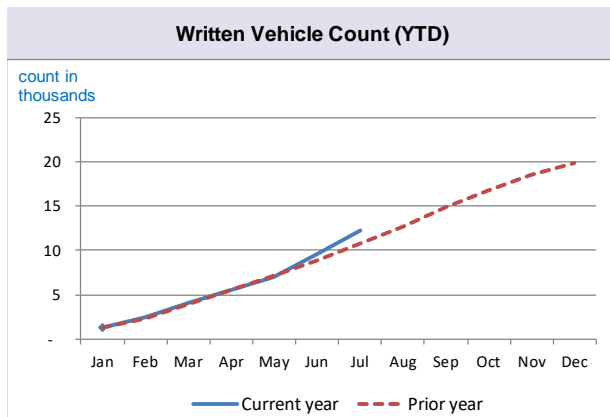
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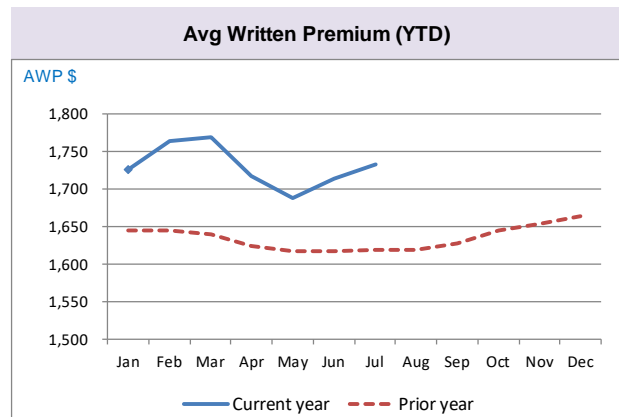
	Jul-20	Jul-19	Amt Chg	% Chg
W. Veh curr mth	2,640	1,885	755	40.1%



	Jul-20	Jul-19	Amt Chg	% Chg
AWP curr mth	1,801	1,630	171	10.5%

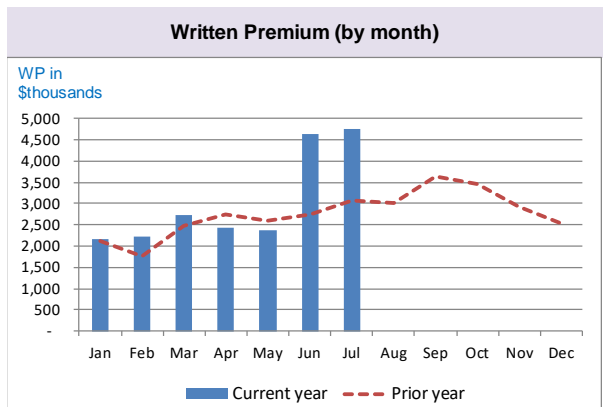


	Jul-20	Jul-19	Amt Chg	% Chg
W. Vehicles YTD	12,315	10,801	1,513	14.0%

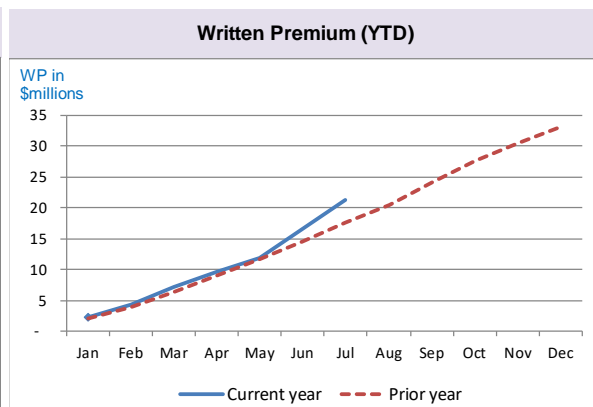


	Jul-20	Jul-19	Amt Chg	% Chg
Avg W. Prem YTD	1,732	1,619	113	7.0%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 54.7% for the month compared with the 16.0% increase we projected last month, and was up 21.9% year-to-date (see the following charts).



	Jul-20	Jul-19	Amt Chg	% Chg
WP (\$000s) curr mth	4,755	3,074	1,682	54.7%



	Jul-20	Jul-19	Amt Chg	% Chg
WP (\$000s) YTD	21,324	17,490	3,834	21.9%

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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 July 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

Operating Results for the 7 Months Ended July 31, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:										
Net Premiums Written	\$2,168	\$2,212	\$2,731	\$2,443	\$2,367	\$4,647	\$4,755	\$21,323	\$41,304	\$33,046
Decrease (Increase) in Unearned Premiums	657	464	(4)	320	492	(1,887)	(1,652)	(1,610)	(5,143)	(2,781)
Net Premiums Earned	\$2,825	\$2,676	\$2,727	\$2,763	\$2,859	\$2,760	\$3,103	\$19,713	\$36,161	\$30,265
Claims Incurred:										
Prior Accident Years:										
Undiscounted	(\$17)	(\$11)	\$567	(\$24)	\$139	(\$32)	(\$13)	\$609	\$609	\$107
Effect of Discounting	92	(50)	(292)	(38)	1,154	(60)	(71)	735	300	249
Discounted	\$75	(\$61)	\$275	(\$62)	\$1,293	(\$92)	(\$84)	\$1,344	\$909	\$356
Current Accident Year:										
Undiscounted	\$2,802	\$2,651	\$3,195	\$2,873	\$2,465	\$2,783	\$3,103	\$19,872	\$36,254	\$29,858
Effect of Discounting	200	176	94	154	525	230	246	1,625	2,693	1,505
Discounted	\$3,002	\$2,827	\$3,289	\$3,027	\$2,990	\$3,013	\$3,349	\$21,497	\$38,947	\$31,363
Claims Incurred	\$3,077	\$2,766	\$3,564	\$2,965	\$4,283	\$2,921	\$3,265	\$22,841	\$39,856	\$31,719
Underwriting Expenses:										
Expense Allowance	\$689	\$701	\$867	\$775	\$751	\$1,474	\$1,508	\$6,765	\$13,097	\$10,247
Change in UPDR/DPAC:										
Undiscounted	3	11	792	14	(473)	167	192	706	1,843	279
Effect of Discounting	(42)	(33)	(20)	(21)	416	187	169	656	1,082	504
Discounted	(39)	(22)	772	(7)	(57)	354	361	1,362	2,925	783
Underwriting Expenses	\$650	\$679	\$1,639	\$768	\$694	\$1,828	\$1,869	\$8,127	\$16,022	\$11,030
Net Underwriting Gain (Loss)	(\$902)	(\$769)	(\$2,476)	(\$970)	(\$2,118)	(\$1,989)	(\$2,031)	(\$11,255)	(\$19,717)	(\$12,484)
Administrative Expenses	\$60	\$85	\$61	\$70	\$67	\$75	\$75	\$493	\$1,040	\$753
Operating Result	(\$962)	(\$854)	(\$2,537)	(\$1,040)	(\$2,185)	(\$2,064)	(\$2,106)	(\$11,748)	(\$20,757)	(\$13,237)
Ratios:										
Claims & Expenses Incurred (Earned)										
Prior Accident Years	2.7%	-2.3%	10.1%	-2.2%	45.2%	-3.3%	-2.7%	6.8%	2.5%	1.2%
Current Accident Year	106.3%	105.6%	120.6%	109.6%	104.6%	109.2%	107.9%	109.0%	107.7%	103.6%
All Accident Years Combined	109.0%	103.3%	130.7%	107.4%	149.8%	105.9%	105.2%	115.8%	110.2%	104.8%
Underwriting & Administrative Expenses (Earned)	25.1%	28.6%	62.3%	30.3%	26.6%	68.9%	62.6%	43.7%	47.2%	38.9%
Combined Operating Ratio	134.1%	131.9%	193.0%	137.7%	176.4%	174.8%	167.8%	159.5%	157.4%	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