



**TO:** MEMBERS OF THE FACILITY ASSOCIATION

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

**BULLETIN NO.:** F2020 – 079

**DATE:** OCTOBER 29, 2020

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

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

Please be advised that the September 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 a review and assessment of the incurred impacts associated with the COVID-19 pandemic;
- (b) The *2020 year-to-date net operating deficit was \$7.4 million*, with a COR of 128.0% on earned premium of \$26.3 million; and
- (c) The *projected 2020 year-end net operating deficit is now \$11.9 million*, with a COR at 132.0% on earned premium of \$37.1 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 -\$7.4 million and the incurred loss ratio to the end of nine months is 86.1%, as summarized in the following table.

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

| <b>Amounts in \$000s</b>                | <b>September<br/>2020</b> | September<br>2019 | <b>Year to date<br/>Sep 2020</b> | Year to Date<br>Sep 2019 |
|---|---------------------------|-------------------|----------------------------------|--------------------------|
| Premium Written                         | 5,864                     | 3,643             | 32,223                           | 24,158                   |
| Premium Earned                          | 3,353                     | 2,546             | 26,327                           | 22,144                   |
| Incurred Losses                         | 3,009                     | 2,544             | 22,664                           | 22,809                   |
| Underwriting & Admin Expense            | 2,419                     | 1,280             | 11,043                           | 8,608                    |
| <b>Operating Result</b>                 | <b>(2,075)</b>            | <b>(1,278)</b>    | <b>(7,380)</b>                   | <b>(9,273)</b>           |
| <b>Ratios:</b>                          |                           |                   |                                  |                          |
| <b>Loss ratio</b>                       |                           |                   |                                  |                          |
| - Prior Accident Years                  | (3.8%)                    | (1.1%)            | (9.9%)                           | -                        |
| - Current Accident Year                 | 93.5%                     | 101.1%            | 96.0%                            | 103.0%                   |
| <i>Total</i>                            | <b>89.7%</b>              | <b>100.0%</b>     | <b>86.1%</b>                     | <b>103.0%</b>            |
| <b>Underwriting &amp; Admin Expense</b> | <b>72.1%</b>              | <b>50.3%</b>      | <b>41.9%</b>                     | <b>38.9%</b>             |
| <b>Combined Operating Ratio</b>         | <b>161.8%</b>             | <b>150.3%</b>     | <b>128.0%</b>                    | <b>141.9%</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 2020” attached to this bulletin.

Updated Projection to Year-end 2020

The projected calendar year Operating Result to December 2020 is -\$11.9 million and the estimated combined operating ratio to December 2020 is 132.0%, 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 \$1.6 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)*

| <b>NS RSP 2020 Yr-end Projection</b>     | <b>Current</b>    | Prior Mth         | <b>Change</b> | Final 2020      |
|--|-------------------|-------------------|---------------|-----------------|
| <b>Amounts in \$000s</b>                 | <b>(Sep 2020)</b> | <b>(Aug 2020)</b> |               | <b>Outlook*</b> |
| Premium Written                          | 43,948            | 42,376            | 1,572         | 38,176          |
| Premium Earned                           | 37,074            | 36,561            | 513           | 35,830          |
| Incurred Losses                          | 32,517            | 32,071            | 446           | 36,407          |
| Underwriting & Admin Expense             | 16,442            | 15,875            | 567           | 13,949          |
| <b>Net Result from Operations</b>        | <b>(11,885)</b>   | <b>(11,385)</b>   | <b>(500)</b>  | <b>(14,526)</b> |
| <b>Ratios:</b>                           |                   |                   |               |                 |
| <b>Loss ratio</b> - Prior Accident Years | <b>(7.7%)</b>     | <b>(7.7%)</b>     | -             | <b>(2.1%)</b>   |
| - Current Accident Year                  | 95.4%             | 95.4%             | -             | 103.7%          |
| <i>Total</i>                             | <b>87.7%</b>      | <b>87.7%</b>      | -             | <b>101.6%</b>   |
| <b>Underwriting &amp; Admin Expense</b>  | <b>44.3%</b>      | <b>43.4%</b>      | <b>0.9%</b>   | <b>38.9%</b>    |
| <b>Combined Operating Ratio</b>          | <b>132.0%</b>     | <b>131.1%</b>     | <b>0.9%</b>   | <b>140.5%</b>   |

*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 September 2020, a \$0.8 million deterioration compared with the same month last year. This deterioration is composed of a \$0.4 million unfavourable impact associated with the \$0.8 million increase in earned premium (at a prior combined ratio of 150.3%), coupled with a \$0.4 million unfavourable impact stemming from the overall increase in the combined ratio (from 150.3% to 161.8% applied to \$3.4 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 123.0% at the end of eight months to 128.0% at the end of nine months. The 5.0 percentage point increase is composed of a 0.9 percentage point increase in Prior Accident Years Loss Ratio, a 4.4 percentage point increase in the expense ratio, offset by 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.

*NS RSP Summary of Actual vs Projected variances*

| September 2020                        | Actual       | Projection   | Difference   | Difference % |
|---------------------------------------|--------------|--------------|--------------|--------------|
| Written Premium                       | 5,864        | 4,292        | 1,572        | 36.6%        |
| Earned Premium                        | 3,353        | 3,287        | 66           | 2.0%         |
| Reported Losses                       |              |              |              |              |
| Paid Losses                           | 2,347        | 1,574        | 773          | 49.1%        |
| Paid Expenses                         | 68           | 80           | (12)         | (15.0%)      |
| Change in Outstanding Losses          | 1,798        | 645          | 1,153        | 178.8%       |
| <b>Total Reported Losses</b>          | <b>4,213</b> | <b>2,299</b> | <b>1,914</b> | <b>83.3%</b> |
| Change in IBNR Provision *            | (1,204)      | 717          | (1,921)      |              |
| Change in Premium Deficiency (DPAC) * | 495          | 381          | 114          |              |

*(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 September 2020, total reported losses were \$1.9 million higher than projected. The Current Accident Year had a \$1.5 million unfavourable variance in reported losses, and the Prior Accident Years had a \$0.4 million unfavourable 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.

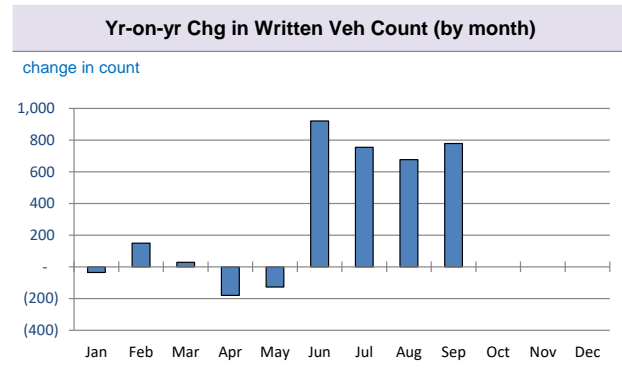
*Booking IBNR*

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.

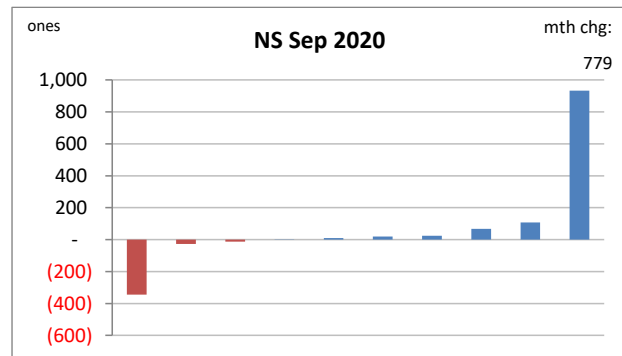
**Effect of Quarterly Valuation**

The September 2020 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at June 30, 2020). The actuarial valuation will be updated next as at September 30, 2020 and we anticipate that the results will be reflected in the October 2020 Operational Report.

Management Comments

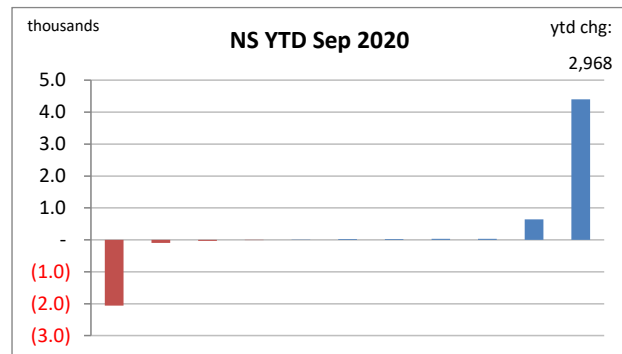


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with September showing an increase of 779 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 169 vehicles, indicating a variance of 948 from the actual transfers. This variance was mainly due to one member company group transferring a higher number of vehicles to the RSP in September than projected.



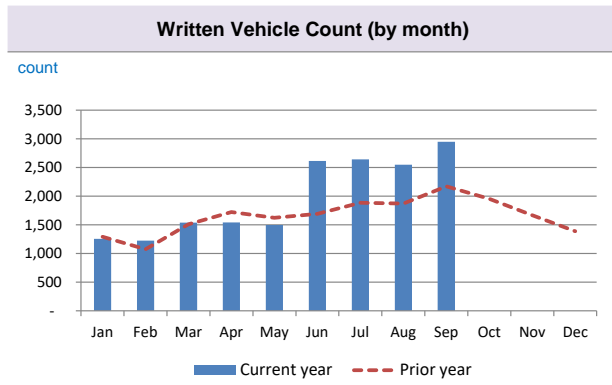
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Four member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while seven transferred more. Of the 4 member company groups transferring fewer vehicles, 1 member company group accounted for 94% of the total transfer decrease for these “decliner” members. Of the 7 member company groups transferring more vehicles, 1 member company group accounted for 85% of the total transfer increase for these “grower” members.

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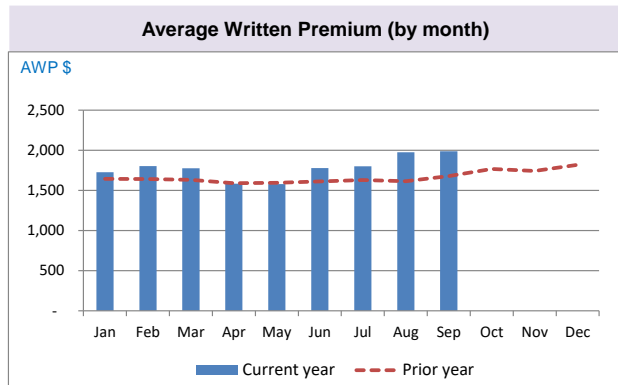


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

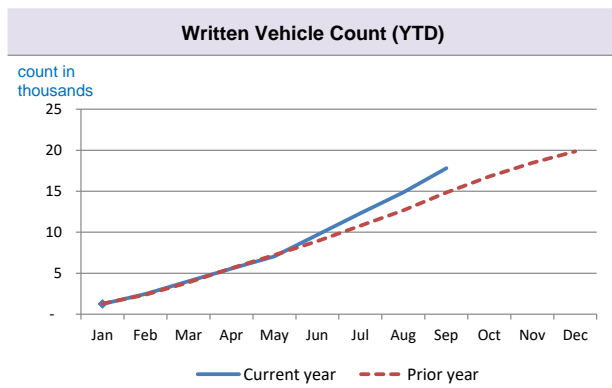
September’s vehicle count transfers to the RSP represent a 35.9% increase from September 2019, and counts were up 20.0% year-to-date. Average written premium was up 18.4% in September 2020, and up 11.2% year-to date (see the following charts).



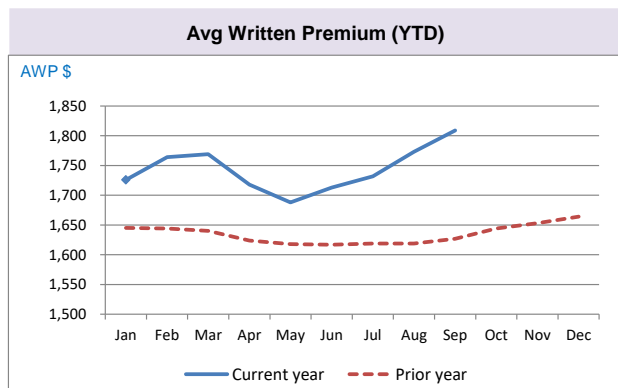
|                 | Sep-20 | Sep-19 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Veh curr mth | 2,949  | 2,170  | 779     | 35.9% |



|              | Sep-20 | Sep-19 | Amt Chg | % Chg |
|--------------|--------|--------|---------|-------|
| AWP curr mth | 1,988  | 1,679  | 309     | 18.4% |

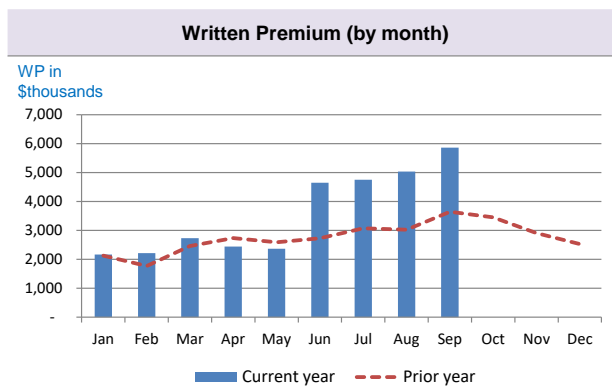


|                 | Sep-20 | Sep-19 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Vehicles YTD | 17,812 | 14,844 | 2,968   | 20.0% |

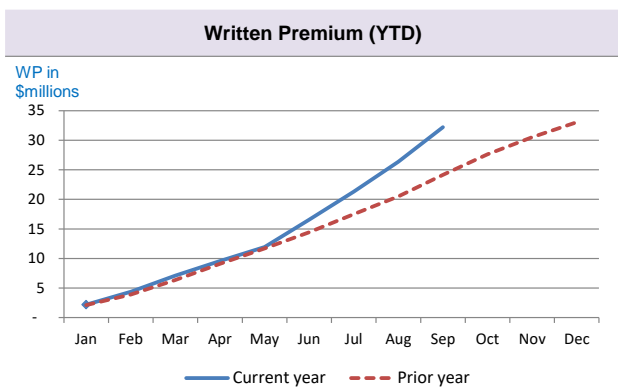


|                 | Sep-20 | Sep-19 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| Avg W. Prem YTD | 1,809  | 1,627  | 182     | 11.2% |

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 61.0% for the month compared with the 17.8% increase we projected last month, and was up 33.4% year-to-date (see the following charts).



|                      | Sep-20 | Sep-19 | Amt Chg | % Chg |
|----------------------|--------|--------|---------|-------|
| WP (\$000s) curr mth | 5,864  | 3,643  | 2,221   | 61.0% |



|                 | Sep-20 | Sep-19 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| WP (\$000s) YTD | 32,224 | 24,157 | 8,067   | 33.4% |

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 September 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 9 Months Ended September 30, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

|   | January        | February       | March            | April            | May              | June             | July             | August           | September        | CY2020<br>YTD    | CY2020<br>12 MONTHS<br>Updated<br>Projection | CY2019<br>12 MONTHS<br>Actual |
|---|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--|-------------------------------|
| <b>Underwriting Revenue:</b>                    |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| Net Premiums Written                            | \$2,168        | \$2,212        | \$2,731          | \$2,443          | \$2,367          | \$4,647          | \$4,755          | \$5,036          | \$5,864          | \$32,223         | \$43,948                                     | \$33,046                      |
| Decrease (Increase) in Unearned Premiums        | 657            | 464            | (4)              | 320              | 492              | (1,887)          | (1,652)          | (1,775)          | (2,511)          | (5,896)          | (6,874)                                      | (2,781)                       |
| <b>Net Premiums Earned</b>                      | <b>\$2,825</b> | <b>\$2,676</b> | <b>\$2,727</b>   | <b>\$2,763</b>   | <b>\$2,859</b>   | <b>\$2,760</b>   | <b>\$3,103</b>   | <b>\$3,261</b>   | <b>\$3,353</b>   | <b>\$26,327</b>  | <b>\$37,074</b>                              | <b>\$30,265</b>               |
| <b>Claims Incurred:</b>                         |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| Prior Accident Years:                           |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| Undiscounted                                    | (\$17)         | (\$11)         | \$567            | (\$24)           | \$139            | (\$32)           | (\$13)           | (\$3,673)        | \$0              | (\$3,064)        | (\$3,064)                                    | \$107                         |
| Effect of Discounting                           | 92             | (50)           | (292)            | (38)             | 1,154            | (60)             | (71)             | (150)            | (126)            | 459              | 205  | 249                           |
| Discounted                                      | \$75           | (\$61)         | \$275            | (\$62)           | \$1,293          | (\$92)           | (\$84)           | (\$3,823)        | (\$126)          | (\$2,605)        | (\$2,859)                                    | \$356                         |
| Current Accident Year:                          |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| Undiscounted                                    | \$2,802        | \$2,651        | \$3,195          | \$2,873          | \$2,465          | \$2,783          | \$3,103          | \$449            | \$2,934          | \$23,255         | \$32,659                                     | \$29,858                      |
| Effect of Discounting                           | 200            | 176            | 94               | 154              | 525              | 230              | 246              | 188              | 201              | 2,014            | 2,717  | 1,505                         |
| Discounted                                      | \$3,002        | \$2,827        | \$3,289          | \$3,027          | \$2,990          | \$3,013          | \$3,349          | \$637            | \$3,135          | \$25,269         | \$35,376                                     | \$31,363                      |
| <b>Claims Incurred</b>                          | <b>\$3,077</b> | <b>\$2,766</b> | <b>\$3,564</b>   | <b>\$2,965</b>   | <b>\$4,283</b>   | <b>\$2,921</b>   | <b>\$3,265</b>   | <b>(\$3,186)</b> | <b>\$3,009</b>   | <b>\$22,664</b>  | <b>\$32,517</b>                              | <b>\$31,719</b>               |
| <b>Underwriting Expenses:</b>                   |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| Expense Allowance                               | \$689          | \$701          | \$867            | \$775            | \$751            | \$1,474          | \$1,508          | \$1,597          | \$1,859          | \$10,221         | \$13,937                                     | \$10,247                      |
| Change in UPDR/DPAC:                            |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| Undiscounted                                    | 3              | 11             | 792              | 14               | (473)            | 167              | 192              | (1,850)          | 219              | (925)            | 197  | 279                           |
| Effect of Discounting                           | (42)           | (33)           | (20)             | (21)             | 416              | 187              | 169              | 195              | 276              | 1,127            | 1,342  | 504                           |
| Discounted                                      | (39)           | (22)           | 772              | (7)              | (57)             | 354              | 361              | (1,655)          | 495              | 202              | 1,539  | 783                           |
| <b>Underwriting Expenses</b>                    | <b>\$650</b>   | <b>\$679</b>   | <b>\$1,639</b>   | <b>\$768</b>     | <b>\$694</b>     | <b>\$1,828</b>   | <b>\$1,869</b>   | <b>(\$58)</b>    | <b>\$2,354</b>   | <b>\$10,423</b>  | <b>\$15,476</b>                              | <b>\$11,030</b>               |
| <b>Net Underwriting Gain (Loss)</b>             | <b>(\$902)</b> | <b>(\$769)</b> | <b>(\$2,476)</b> | <b>(\$970)</b>   | <b>(\$2,118)</b> | <b>(\$1,989)</b> | <b>(\$2,031)</b> | <b>\$6,505</b>   | <b>(\$2,010)</b> | <b>(\$6,760)</b> | <b>(\$10,919)</b>                            | <b>(\$12,484)</b>             |
| <b>Administrative Expenses</b>                  | <b>\$60</b>    | <b>\$85</b>    | <b>\$61</b>      | <b>\$70</b>      | <b>\$67</b>      | <b>\$75</b>      | <b>\$75</b>      | <b>\$62</b>      | <b>\$65</b>      | <b>\$620</b>     | <b>\$966</b>                                 | <b>\$753</b>                  |
| <b>Operating Result</b>                         | <b>(\$962)</b> | <b>(\$854)</b> | <b>(\$2,537)</b> | <b>(\$1,040)</b> | <b>(\$2,185)</b> | <b>(\$2,064)</b> | <b>(\$2,106)</b> | <b>\$6,443</b>   | <b>(\$2,075)</b> | <b>(\$7,380)</b> | <b>(\$11,885)</b>                            | <b>(\$13,237)</b>             |
| <b>Ratios:</b>                                  |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| <b>Claims &amp; Expenses Incurred (Earned)</b>  |                |                |                  |                  |                  |                  |                  |                  |                  |                  |  |                               |
| Prior Accident Years                            | 2.7%           | -2.3%          | 10.1%            | -2.2%            | 45.2%            | -3.3%            | -2.7%            | -117.2%          | -3.8%            | -9.9%            | -7.7%  | 1.2%                          |
| Current Accident Year                           | 106.3%         | 105.6%         | 120.6%           | 109.6%           | 104.6%           | 109.2%           | 107.9%           | 19.5%            | 93.5%            | 96.0%            | 95.4%  | 103.6%                        |
| All Accident Years Combined                     | 109.0%         | 103.3%         | 130.7%           | 107.4%           | 149.8%           | 105.9%           | 105.2%           | -97.7%           | 89.7%            | 86.1%            | 87.7%  | 104.8%                        |
| Underwriting & Administrative Expenses (Earned) | 25.1%          | 28.6%          | 62.3%            | 30.3%            | 26.6%            | 68.9%            | 62.6%            | 0.1%             | 72.1%            | 41.9%            | 44.3%  | 38.9%                         |
| <b>Combined Operating Ratio</b>                 | <b>134.1%</b>  | <b>131.9%</b>  | <b>193.0%</b>    | <b>137.7%</b>    | <b>176.4%</b>    | <b>174.8%</b>    | <b>167.8%</b>    | <b>-97.6%</b>    | <b>161.8%</b>    | <b>128.0%</b>    | <b>132.0%</b>                                | <b>143.7%</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