



NEW BRUNSWICK RISK SHARING POOL

MAY 2018 OPERATIONAL REPORT

ACTUARIAL HIGHLIGHTS

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ACTUARIAL HIGHLIGHTS
RSP NEW BRUNSWICK
OPERATIONAL REPORT
MAY 2018

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1 Summary

1.1 Valuation Schedule (Fiscal Year 2018)

The May 2018 Operational Report incorporates the results of an updated valuation (as at March 31, 2018) – the impact of the implementation of the valuation is discussed in section 1.2. The table immediately below summarizes the implemented valuations and future scheduled valuations for fiscal year 2018.

NEW BRUNSWICK RISK SHARING POOL FISCAL YEAR 2018 – SCHEDULE OF VALUATIONS			
Valuation Date	Discount Rate (per annum)	Operational Report	Description of Changes
Sep. 30, 2017 (completed)	1.74% mfad: 25 bp	Oct. 2017	updated valuation (roll forward): accident year 2017 loss ratio increased 1.1 points to 73.5%; discount rate increased by 57 basis points; no change to selected margins for adverse deviations
Dec. 31, 2017 (completed)	1.75% mfad: 25 bp	Mar. 2018	update valuation: accident year 2018 loss ratio increased 1.1 point to 73.2%; discount rate increased by 1 basis point; no change to selected margins for adverse deviations
Mar. 31, 2018 (completed)	1.93% mfad: 25 bp	May 2018	update valuation (roll forward): accident year 2018 loss ratio decreased 0.1 point to 73.1%; discount rate increased by 18 basis points; no change to selected margins for adverse deviations
Jun. 30, 2018		Aug. 2018	update valuation:
Sep. 30, 2018		Oct. 2018	update valuation (roll forward):

Under the proposed schedule for fiscal year 2018, the “off-half” valuation quarters ending March 31, 2018 and September 30, 2018 would not reflect a full valuation update of assumptions, but would rather “roll-forward” key assumptions from the previous valuation.

1.2 New Valuation

A valuation of the New Brunswick Risk Sharing Pool (“RSP”) as at March 31, 2018 has been completed since last month’s Operational Report and the results of that valuation have been incorporated into this month’s Report. The valuation was completed by the Facility Association’s internal actuarial group in conjunction with, and approved by, the Appointed Actuary, under the hybrid model for actuarial services. Additional detail will be provided in an “Actuarial Highlights – Quarterly Valuation” report which we anticipate will be posted to the FA website in July.

The valuation implementation impact is summarized in the tables on the next page.

Summary of Impact (\$000s) of Implementing Result of Valuation as at March 31, 2018¹

NB	unfav / (fav) for the month and ytd					
	IMPACT in \$000s from changes in:					
	ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(310)	(36)	(346)	(72)	-	(418)
CAY	(5)	(4)	(9)	(13)	-	(22)
Prem Def	(5)	(10)	(15)	(25)	-	(40)
TOTAL	(320)	(50)	(370)	(110)	-	(480)

As indicated in the table above, the incorporation of the new valuation had an estimated **\$0.5 million favourable impact** on the month's net result from operations, subtracting an estimated 9.4 points (see table immediately below) to the **year-to-date Combined Operating Ratio** to end at **98.3%**.

Summary of Impact (% YTD EP) of Implementing Result of Valuation as at March 31, 2018

NB	ytd EP 5,084 (actual)					
	IMPACT unfav / (fav) as % ytd EP from changes in:					
	ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(6.1%)	(0.7%)	(6.8%)	(1.4%)	-	(8.2%)
CAY	(0.1%)	(0.1%)	(0.2%)	(0.3%)	-	(0.4%)
Prem Def	(0.1%)	(0.2%)	(0.3%)	(0.5%)	-	(0.8%)
TOTAL	(6.3%)	(1.0%)	(7.3%)	(2.2%)	-	(9.4%)

The impact of the nominal changes is shown in column [1] of the two preceding summary tables. The change in the selected nominal ultimates was favourable by \$0.3 million overall. This reflects the impact attributable to the changes in the selected ultimate loss ratios (i.e. for each accident year, it is the product of life-to-date earned premium for the accident year and the change in the selected ultimate loss ratio).

The prior accident years overall showed a \$0.3 million favourable nominal variance, which is attributed to favourable claims development. This overall favourable prior accident years change is 2.0% of the prior accident years' nominal unpaid balance of \$15.5 million determined at the end of last month (April 2018). As a smaller pool, it is subject to higher levels of process variance, driving volatility in the ultimate selection.

The current accident year and premium deficiency impacts are a result of the changes in the selected loss ratios for accident year **2018** (down 0.1 point from 73.2% to **73.1%**) while **2019** remained

¹In these tables, "PAYs" refers to prior accident years, "CAY" refers to the current accident year, and "Prem Def" refers to the provision for premium deficiency or the deferred policy acquisition asset (as applicable). "Nominal" refers to changes excluding any actuarial present value adjustments, whereas "apv adj." refers to actuarial present value adjustments.

The columns under the heading "ults & payout patterns" reflect the impact of changes in the valuation selected ultimates and claims payment patterns (i.e. based on unchanged selection of discount rates and margins for adverse deviation). The column "dsct rate" reflects the impact of the change in the selected discount rate and the column "margins" reflects the impact of any changes in selected margins for adverse deviations.

unchanged at **74.5%**.

The impacts related to actuarial present value (“apv”) adjustments are split into the impact prior to any change in the selected discount rate and selected margins for adverse deviations or “MfADs” (at the level they were selected i.e. coverage and accident half-year), the impact of then updating the discount rate, and finally the impact of any changes to the MfADs (at the level they were selected). The changes in actuarial present value adjustments are shown in the summary tables in columns [2], [4], and [5].

Column [2] recognizes that changing the nominal selections also changed the unpaid estimates (including changes to the relative mix by government line, which has an impact on the weighted-average MfADs). It also reflects the fact that we updated the projected emergence of claims payments, resulting in a change in the projected cash flows. These changes generated a favourable change of \$50 thousand in the actuarial present value adjustments, prior to any changes in the selected discount rate and/or MfADs.

Claims payment emergence patterns were updated and cash flows were reviewed against the selected risk-free yield curve, derived from Government of Canada benchmark bond yields monthly series using values for March 2018. Column [4] accounts for the change in the **discount rate** selected (increased 18 basis point to **1.93%**), indicating a favourable impact of \$0.1 million. The impact *related only to claims liabilities* (i.e. PAYs plus CAY) was \$0.1 million at May 2018 – this compares to the \$0.1 million change one would estimate as the impact by interpolation using the interest rate sensitivity table provided in last month’s Actuarial Highlights.

Column [5] accounts for any changes to selected MfADs. The selected **investment rate MfAD** was **left unchanged at 25 basis points** and the selected **claims development MfADs** at the coverage and accident year level were **left unchanged** as well.

Consideration was given to recent legal decisions and changes in legislation / regulation as outlined in section 1.4.

1.3 Appointed Actuary and Hybrid Actuarial Services Model

Liam McFarlane of Ernst & Young LLP is Facility Association’s Appointed Actuary (effective as of June 1, 2013).

Facility Association operates under a “hybrid” model in relation to the management and provision of actuarial services. Under this model, actuarial services are performed by both Facility Association’s internal staff and its external actuarial consulting firm. The hybrid model approach maximizes the efficiency of resource allocation while providing access to additional expertise and capacity as needed.

1.4 Consideration of Recent Legal Decisions and Changes in Legislation / Regulation

There have been no changes in these descriptions since last month’s Highlights.

Consideration and assessment of potential impacts of legal decisions and changes in legislation / regulation constitutes a regular part of the valuation process. Descriptions of some of the more recent changes are provided below.

The **Supreme Court of Canada** rendered its judgment on **Saadati v Moorhead (2017 SCC 28,**

rendered on Jun 2, 2017). Saadati was involved in a collision in July of 2005 in British Columbia and sued the at-fault driver for damages. According to the Supreme Court decision, “*The trial judge found that the ... accident caused S[aadati] psychological injuries, including personality change and cognitive difficulties. ...and awarded S[aadati] \$100,000 for non-pecuniary damages.*” The trial decision was appealed to the BC Court of Appeal where the trial’s \$100,000 non-pecuniary award was dismissed. The Supreme Court upheld the \$100,000 non-pecuniary award, determining:

- “*A finding of legally compensable mental injury need not rest, in whole or in part, on the claimant proving a recognized psychiatric injury.*”
- “*...a trier of fact adjudicating a claim of mental injury is not concerned with diagnosis, but with symptoms and their effects.*”
- “*Expert evidence can assist in determining whether or not a mental injury has been shown, but where psychiatric diagnosis is unavailable, it remains open to a trier of fact to find on other evidence adduced by the claimant that he or she has proven on a balance of probabilities the occurrence of mental injury.*”

At the current time, no adjustments have been made to our valuation estimates or views based on the judgment as rendered, but we continue to review and consider the implications of the judgment.

1.5 Harmonized Sales Tax

There have been no changes to this section since last month’s Highlights, other than updated references to the current valuation.

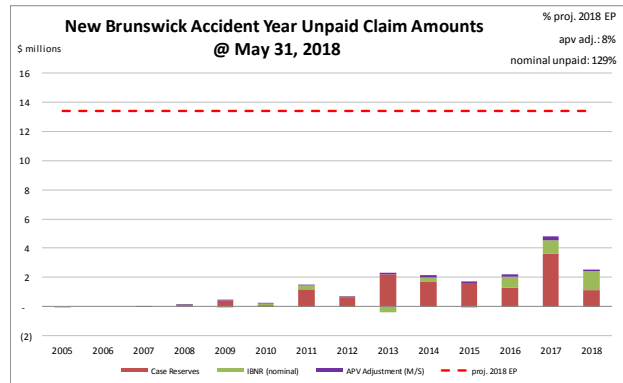
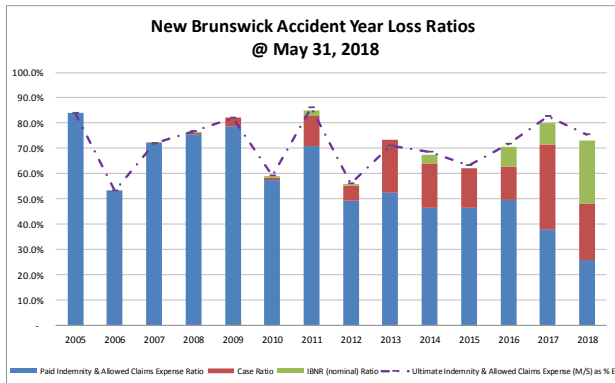
In the fiscal 2016-17 provincial budget released February 2, 2016, the New Brunswick Finance Minister announced a 2 percentage point increase in the provincial component of the harmonized sales tax (“HST”) **effective July 1st, 2016** increasing the combined HST rate in the province from 13% to 15%.

An adjustment for the HST rate increase was included in the updated loss cost trend structures selected using NB PPV Industry 2017-1 data, impacting the selected a priori loss ratios, however, no specific adjustments have been made to the valuation assumptions from the current valuation (March 31, 2018).

1.6 Current Provision Summary

The charts at the top of the next page show the current levels of claim liabilities² booked by accident year. The left chart displays life-to-date payments, case reserves, IBNR, and the total including actuarial present value adjustments against accident year earned premium. The right chart shows the associated dollar amounts for the components of the claim liabilities and the current projected amount of 2018 full year earned premium (the red hash-mark line) to provide some perspective.

²Claim liabilities refer to provision for unpaid indemnity and allowed claims expenses. Allowed claims expenses are first party legal and other expenses as listed in the RSP Claims Guide. Claims expenses paid through the member company expense allowance are NOT included in this discussion.



"M/S" refers to "Member Statement" values – that is, actuarial present value adjustments at the selected discount rate.

The current actuarial present value adjustments balance (\$1.1 million – see table immediately below) represents 8% of the earned premium projected for the full year 2018 (see the upper right corner of the right chart above). If our current estimates of the nominal unpaid amounts prove to match actual claims payments, the actuarial present value adjustments will be released into the net operating result over future periods.

claim liabilities (\$000s)

	amt	%
case	13,981	76.4%
ibnr	3,241	17.7%
M/S apv adjust.	1,068	5.8%
M/S total	18,290	100.0%

The table to the left breaks down the Member Statement (M/S) claim liabilities total into component parts, showing that the majority of the claim liabilities is in case reserves for this pool. Approximately 68% of the IBNR balance relates to accident years 2017 and 2018 (see Exhibit B). Approximately 73% of the M/S

claim liabilities are related to accident years 2014-2018 inclusive (i.e. the most recent 5 accident years), and approximately 1% is related to accident years 2008 and prior (i.e. prior to the most recent 10 accident years).

The tables immediately below summarize the premium liabilities and the total policy liabilities.

premium liabilities (\$000s)

	amt	%
unearned prem	6,274	125.9%
prem def/(dpac)	(1,511)	(30.3%)
M/S apv adjust.	221	4.4%
M/S total	4,984	100.0%

policy liabilities (\$000s)

	amt	%
claim	17,222	74.0%
premium	4,763	20.5%
M/S apv adjust.	1,289	5.5%
M/S total	23,274	100.0%

2 Activity During the Month of May 2018

2.1 Recorded Premium and Claims Activity

The table at the top of the next page summarizes the extent to which premiums and claims amounts recorded during the month differ from projections reflected in the prior month's Operational Report³.

³There may be rounding differences in values in this document compared with the associated Bulletin and/or Operational Report.

New Brunswick RSP Actual vs Projected Summary: Recorded Transaction Amounts (\$ thousands)

Table 01 Accident Year	Earned Premium		Paid Indemnity & Allowed Claims Expense		Case increase / (decrease)		Recorded increase / (decrease)	
	Actual	Actual less Projected	Actual	Actual less Projected	Actual	Actual less Projected	Actual	Actual less Projected
Prior	-	-	317	(20)	526	1,120	842	1,099
2016	(1)	(1)	24	(1)	(97)	450	(72)	450
2017	(7)	(7)	96	51	97	228	193	279
2018	1,085	(31)	272	(20)	125	(61)	397	(81)
TOTAL	1,078	(38)	709	10	651	1,737	1,361	1,747

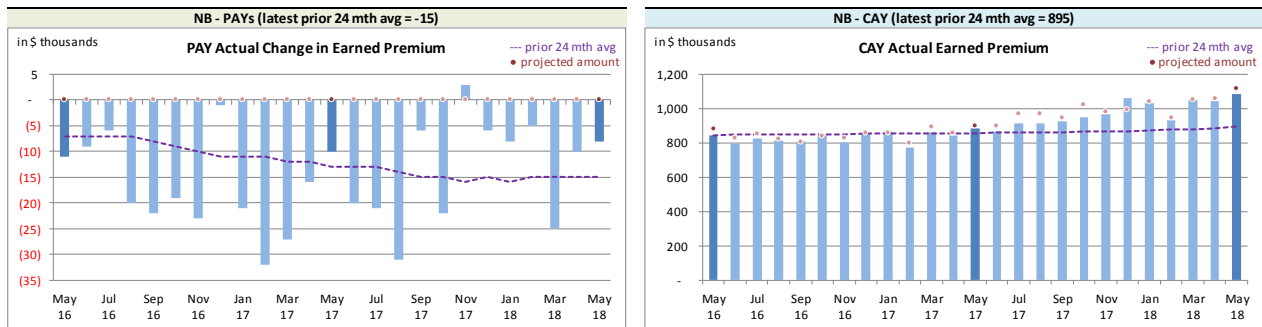
(Recorded transaction amounts exclude IBNR & other actuarial provisions)

Claims transaction activity is generally volatile and changes from one month to the next are anticipated due to this natural “process variance” (i.e. random variation), and this is particularly true where volumes are low as found in this RSP. Each month, the projection variances are reviewed for signs of projection bias and to identify potential ways to reduce the level of the variance. Commentary from our review is provided in the sub-sections that follow.

2.1.a Actual vs. Projected (AvsP): Earned Premium

The tables immediately below show actual **earned premium**⁴ activity in each of the most recent 25 calendar months, along with a “prior 24-month average” to show how each month’s actual compares with the average amount of the preceding 24 calendar months.

New Brunswick RSP Actual **Earned Premium** by Calendar Month

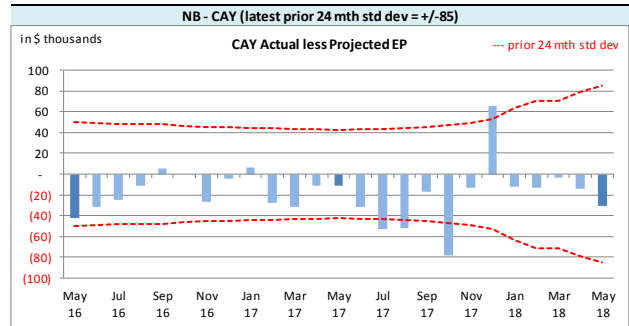
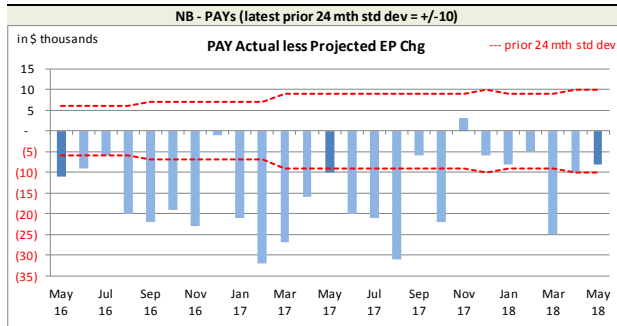


Earned premium changes during a given calendar month in relation to prior accident years tend to be at modest levels, although relatively high levels seem to occur in January each year. The heightened prior accident years’ activity for recent months is related to ineligible risks being removed from the RSP based on findings of the FA internal audit team with respect to FA audits.

The associated variance between the actual changes and the projections from the previous month are shown in the charts at the top of the next page. **Earned premium** change projections are all attributed to the current accident year as the projection upload does not accept **earned premium** changes for other accident years. We do not see this limitation as being significant for our purposes, but it does mean that the actual less projection variance will equal the actual **earned premium** change in relation to prior accident years.

⁴Premium is earned on a daily basis based on the transaction term measured in days. As a result, months with 31 days earned relatively more than those with 30 days, and February earns the least.

New Brunswick RSP Actual vs. Projected Summary: Earned Premium Variances by Calendar Month



On Latest \$ thousands		
Earned Premium	PAYS	CAY
Mthly Avg EP Chg (prior 24 mths)	(15)	895
std dev	10	85
A-P <> std dev	16	4
% <> std dev	64.0%	16.0%
norm <> std dev	31.7%	31.7%

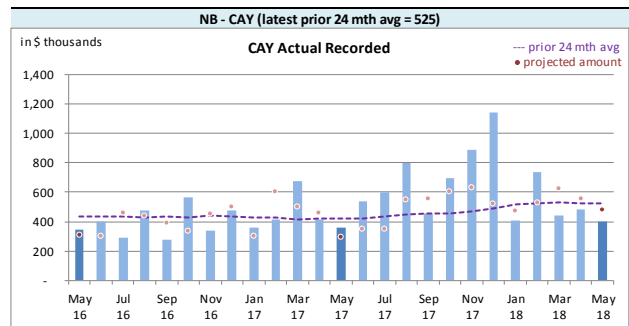
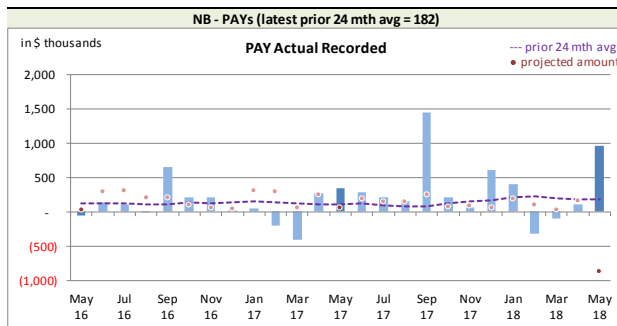
We project **earned premium** changes from known unearned premium and projected written premium levels, but upload the total projections as current accident year (CAY). This process has generated prior accident years' (PAYS) bias⁵, with actuals generally lower than our projections, although the magnitude is not high relative to

monthly premium. In addition to the PAYS' bias, the CAY has also shown bias⁶, with actuals being generally lower than projected, and we have modified our projections processes in response. Over time, we may consider other projection approaches to narrow monthly variance levels further, but it is not currently deemed a priority. Projection variances have also been exacerbated by written premium variances, where our projections, based on information provided by larger RSP users, have been proven to be too high.

2.1.b AvsP: Recorded Indemnity & Allowed Claims Expense

The charts immediately below show actual **recorded** activity (**paid** and case reserve changes), in each of the most recent 25 calendar months, along with a “prior 24-month average” to show how each month's actual compares with the average amount of the preceding 24 calendar months.

New Brunswick RSP Actual Recorded by Calendar Month



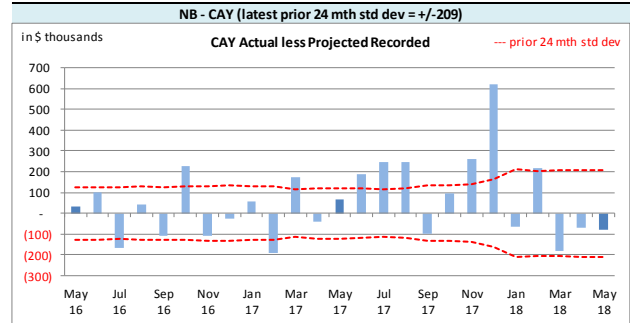
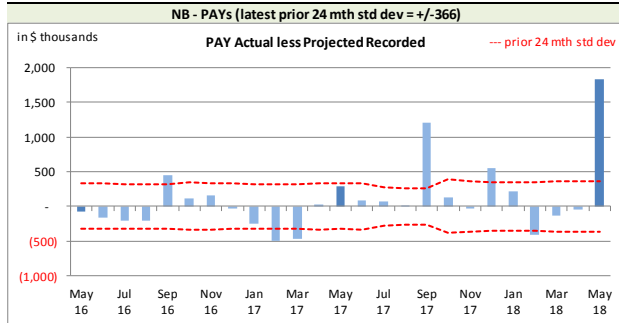
Recorded activity variances from the previous month's projections are shown in the charts

⁵The PAYS' variances will show bias as the projection upload forces all earned premium projections to be attributed to the CAY.

⁶We measure bias based on a 95% confidence range for a binominal distribution with trials based on the range being considered (24 in this case) and 50% probability of success. The 24-month variances at May 2018 has only 3 months where the projection was higher than projected, and as the 95% confidence range is 7 to 17, bias continues to be indicated.

immediately below, including the “prior 24-month standard deviation” levels to show how the variances from projection compare with historical standard deviations.

New Brunswick RSP Actual vs Projected Summary: Recorded Variances by Calendar Month



On Latest \$ thousands		
Recorded	PAYS	CAY
Mthly Avg Recorded (prior 24 mths)	182	525
std dev	366	209
A-P <> std dev	7	10
% <> std dev	28.0%	40.0%
norm <> std dev	31.7%	31.7%

With respect to **recorded** indemnity & allowed claims expense activity, caution must be exercised in reviewing the variances as this is a small pool and single claim transactions that are normal course for the business may look “unusual” and generate relatively “significant” variances that in nominal value terms are not that

significant. The prior accident years’ (PAYS) **recorded** variances (left chart above) have fallen outside one standard deviation 28% of the time, suggesting the projection process has performed no better than simply projecting from the preceding 24-month average. No bias has been indicated at a 95% confidence level on a lagging 24-month basis.

The PAY **recorded** variance was outside of one standard deviation, mainly driven by an adjustment made to the recorded projection for the month of May, as FA expected a correction in recorded case reserve overstatement, as previously advised by a member (see following sections for more details). As the correction did not go through during the month, the PAY **recorded** activity was significantly higher than the projected. Based on discussions with the member, the case reserves correction is now expected to go through next month, and as such our recorded projections for June have been adjusted.

During the month, a member company (a different member than referenced above) advised of missing claims transactions related to a claim conversion issue initially noted in the April 2017 RSP Actuarial Highlights. During discussions with the member, FA management was advised the missing claims (affecting prior accident years only), had been re-submitted and therefore included in the results for this month (May 2018). This correction was not anticipated and hence was not included in last month’s projection.

The current accident year (CAY) **recorded** variances (right chart above), with 40% outside of one standard deviation, suggest the projection process has performed worse than projecting simply on a 24-month average, and we note that CAY variances have been outside of the band in 6 of the last 12 months, and for 9 of the last 20 months. No bias has been indicated at a 95% confidence level on a lagging 24-month basis.

As noted in the last four month’s Actuarial Highlights, FA management was notified on January 31,

2018 by a member of a potential recorded case reserve overstatement. Furthermore, during the latest valuation, FA management was advised of an additional and separate recorded case reserve understatement primarily due to incorrect reporting after FA’s October 31, 2017 fiscal year end. Management investigated and estimated the overall overstatement for the New Brunswick RSP as at March 31, 2018 as indicated in the table immediately below.

Estimated case reserve overstatement as at Mar 31, 2018

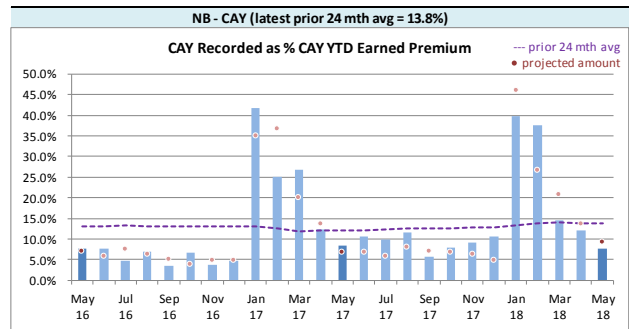
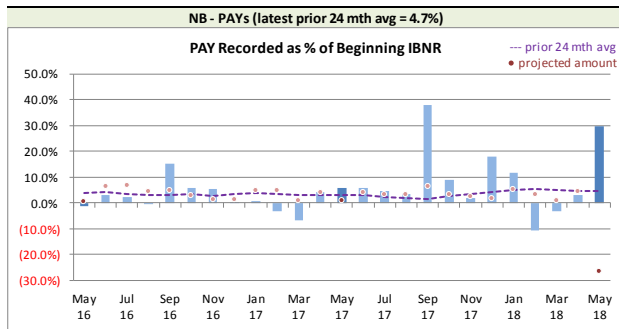
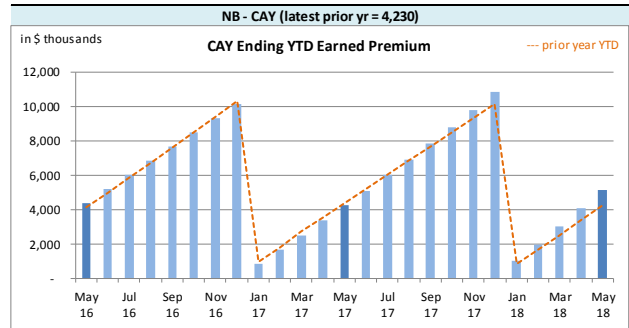
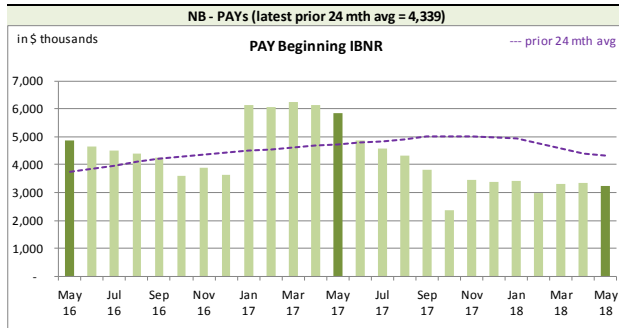
overstatement / (understatement)	
Accident Year	Total Case Reserve Adjustment (\$'000s)
2011	(121)
2012	24
2013	23
2014	9
2015	454
2016	506
2017	103
Total	998

With this valuation, prior accident years’ ultimates selections have taken into account the member’s overstatement (both the original amount as notified, and the subsequent amount, with the combination of the two being summarized in the table above). FA management is working with the member on a process to correct the reported levels, and we currently anticipate that this may be partially completed in time for the 2018 Q2 valuation.

The method for establishing IBNR adjusts automatically for changes in **earned premium** and **recorded** claims activity level (see sections 2.2 and 3).

We have included, for reference, additional charts at the top of the next page related to levels influencing **recorded** activity. Note in particular the increase in the level of PAYs beginning IBNR over the months. Part of this will be as a response to valuations and showing up as a beginning IBNR change one month after the valuation is implemented (i.e. April, June, September, and November).

New Brunswick RSP Levels that influence⁷ Recorded activity by Calendar Month



We track beginning prior accident years’ IBNR as **recorded** activity “comes out of” IBNR. Changes in the prior accident years’ beginning IBNR (see upper left chart above) occur for several possible reasons:

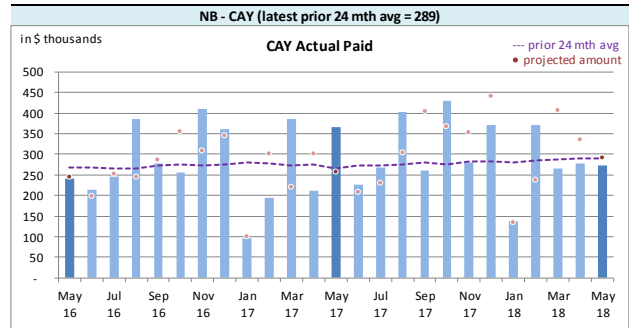
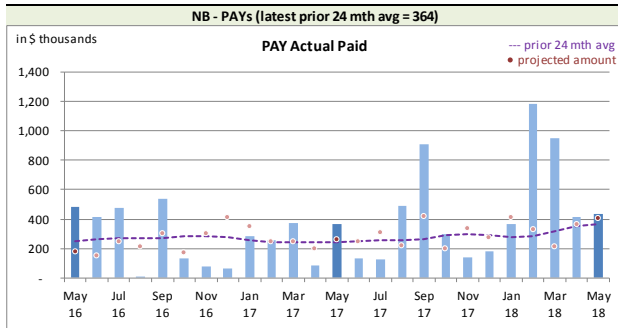
- to offset actual **recorded** activity (through loss ratio matching);
- the annual switchover as a current accident year becomes a prior accident year (occurs in January); and
- when a new valuation is implemented, where the valuation resulted in changes to the selection of prior accident years’ ultimate (will show up as a beginning IBNR change one month after the valuation is implemented, i.e. the change will generally show in April, June, September, and November).

2.1.c AvsP: Paid Indemnity & Allowed Claims Expense

The charts at the top of the next page show actual **paid** activity in each of the most recent 25 calendar months, along with a “prior 24-month average” to show how each month’s actual compares with the average amount of the preceding 24 calendar months.

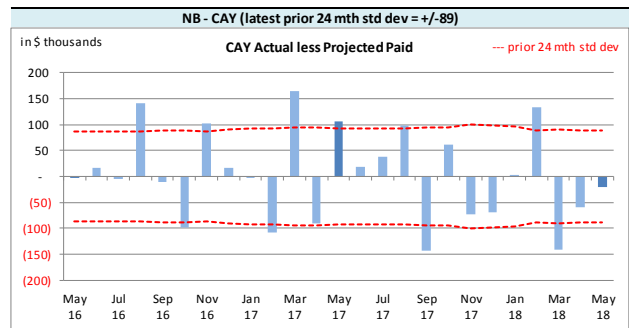
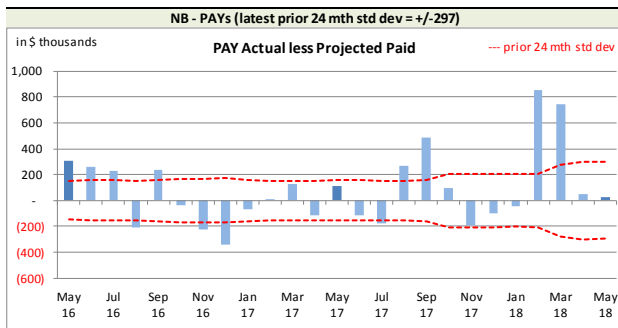
⁷Our recorded activity projections for the prior accident years are based on selected ratios of recorded activity to beginning unpaid balances, whereas the current accident year projections are based on selected ratios of year-to-date IBNR to year-to-date selected ultimate (i.e. selected LR x earned premium), deriving year-to-date recorded as selected ultimate less IBNR. In both cases, the ratio selection is based on our review of the more recent recorded activity and recent AvsP analyses.

*New Brunswick RSP Actual **Paid** activity by Calendar Month*



Paid activity variances from the previous month’s projections are shown in the charts immediately below, including the “prior 24-month standard deviation” levels to show how the variances from projection compare with historical standard deviations.

*New Brunswick RSP Actual vs Projected Summary: **Paid** Variances by Calendar Month*



On Latest \$ thousands			
	Paid	PAYs	CAY
Mthly Avg Paid (prior 24 mths)		364	289
std dev		297	89
A-P <> std dev		12	10
% <> std dev		48.0%	40.0%
norm <> std dev		31.7%	31.7%

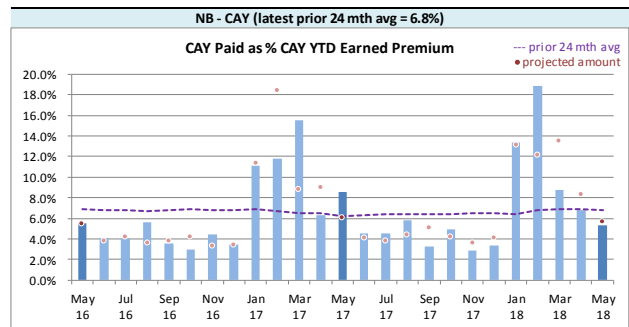
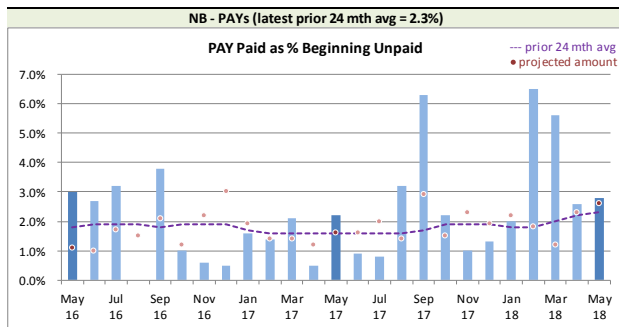
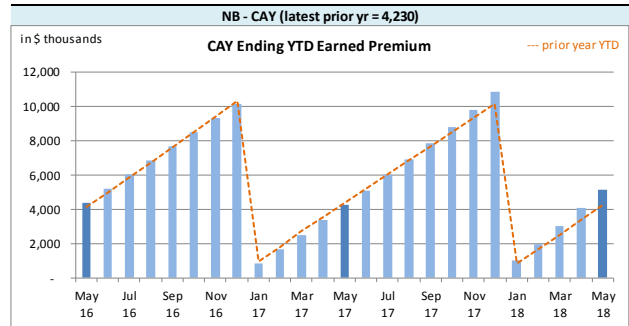
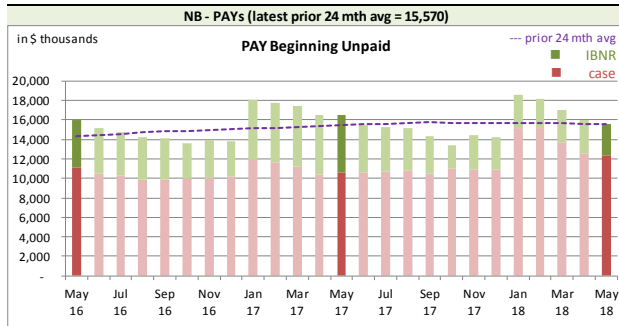
With respect to **paid** indemnity & allowed claims expense, caution must be exercised in reviewing the variances as this is a small pool, and single claim transactions that are normal course for the business may look “unusual” and generate relatively “significant” variances that in nominal value terms are not that significant. That said,

the prior accident years’ (PAYs) **paid** variances (left chart above) do not seem to indicate bias. At 48%, the percentage of months with variances outside of the experience period’s standard deviation suggests the projection process has performed worse than simply projecting a 24-month average. No bias has been indicated at a 95% confidence level on a lagging 24-month basis.

The current accident year (CAY) **paid** variances (right chart above) do not appear to show bias, but at 40%, the percentage of months with variances falling outside of the experience period’s standard deviation suggests the projection process has performed no better than simply projecting a 24-month average. No bias has been indicated at a 95% confidence level on a lagging 24-month basis.

We have included, for reference, additional charts at the top of the next page related to levels influencing **paid** activity.

New Brunswick RSP Levels that influence⁸ Paid activity by Calendar Month



We track beginning prior accident years’ unpaid balance (case and IBNR) as **paid** activity “comes out of” the unpaid balance. Changes in the prior accident years’ beginning unpaid balance (see upper left chart above) occur for several possible reasons:

- to offset actual **paid** activity (may reduce case or IBNR or both);
- the annual switchover as a current accident year becomes a prior accident year (occurs in January); and
- when a new valuation is implemented, where the valuation resulted in changes to the selection of prior accident years’ ultimate (will show up as a beginning unpaid balance change one month after the valuation is implemented, i.e. the change will generally show in April, June, September, and November).

2.2 Actuarial Provisions

An “ultimate loss ratio matching method” (described in section 3) was used to determine the month’s IBNR⁹, and factors were applied to the nominal unpaid claims liability (case plus IBNR) to determine the discount amount (shown as a negative value to indicate its impact of reducing the liability) and the Provisions for Adverse Deviations. The loss ratios and the factors used to determine the current month’s provisions and projections were based on the applicable valuation. The table at the top of the next page summarizes variances in provisions included in the May 2018

⁸Our paid projections for the prior accident years are based on selected ratios of paid to beginning unpaid balances, whereas the current accident year projections are based on selected ratios of year-to-date paid to year-to-date selected ultimate indemnity (i.e. selected LR x earned premium). In both cases, the ratio selection is based on our review of the more recent recorded activity and recent AvsP analyses.

⁹For ease of discussion, “IBNR” is used in place of “provisions for incurred but not recorded (IBNR) and development”.

Operational Report and the associated one-month projections from last month’s Report.

New Brunswick RSP Actual vs Projected Summary: IBNR and APV Amounts (\$ thousands)

Table 02

Accident Year	IBNR		actuarial present value adjustments				IBNR + actuarial present value adjustments	
	Actual	Actual less Projected	Discount Amount		Provisions for Adverse Deviations		Actual	Actual less Projected
			Actual	Actual less Projected	Actual	Actual less Projected		
Prior	254	(1,222)	(311)	(21)	854	(15)	797	(1,258)
2016	779	(809)	(110)	4	244	(49)	913	(854)
2017	924	(113)	(280)	(38)	545	10	1,189	(141)
2018	1,284	54	(153)	(14)	279	(3)	1,410	37
TOTAL	3,241	(2,090)	(854)	(69)	1,922	(57)	4,309	(2,216)

The IBNR provision is \$2.1 million lower than projected from last month, counterbalancing the recorded claims activity and adjusting for the earned premium variance impacts indicated in section 2.1, and due to the valuation implementation.

Exhibit G shows the accident year IBNR amount change from last month to this month broken down into:

- (i) the change projected last month;
- (ii) the additional change due to variances in earned premium (because we apply a loss ratio to earned premium in determining ultimate level) and/or recorded claims (as IBNR is calculated as ultimate less recorded) differences; and
- (iii) the additional change due to valuation implementation impacts (as applicable)

The variances associated with (ii) above are discussed in sections 2.1.a and 2.1.b.

The table at the top of the next page summarizes the variances in the provisions for premium deficiency liability / (deferred policy acquisition cost asset) included in the May 2018 Operational Report and the one-month projections from last month’s Report. This RSP is in a deferred policy acquisition cost asset position (shown as a negative amount) prior to and after actuarial present value adjustments. Actuarial present value adjustments decrease the asset value as the adjustments increase the expected future policy obligations (costs) associated with the unearned premium. The variances noted are mainly driven by the unearned premium variance and due to valuation implementation.

New Brunswick RSP Actual vs Projected Summary: Premium Deficiency / (DPAC) Amounts (\$ thousands)

Table 03

	Premium Deficiency / (Deferred Policy Acquisition Costs)		actuarial present value adjustments		Premium Deficiency / (DPAC) including actuarial present value adjustments	
	Actual	Actual less Projected	Actual	Actual less Projected	Actual	Actual less Projected
balance:	(1,511)	55	221	(45)	(1,290)	10
balance as % unearned premium:	(24.1%)	(0.1%)	3.5%	(0.6%)	(20.6%)	(0.7%)
actual unearned premium:	6,274					
less projected:	(250)					

3 Ultimate Loss Ratio Matching Method

An “ultimate loss ratio matching method” continues to be applied to the current month and two projected months shown in the Operational Reports, with IBNR determined by accident year as follows:

- (a) Earned premium to-date
- (b) Ultimate loss¹⁰ ratio per latest valuation
- (c) Estimated ultimate incurred = (a) x (b)
- (d) Recorded indemnity & allowed claims expense to-date
- (e) IBNR = (c) – (d)

4 Calendar Year-to-Date Results

The table at the top of the next page summarizes the calendar year-to-date results for indemnity & allowed claims expenses¹¹, including IBNR.

In calculating the amounts as percentages of earned premium, the calendar year-to-date earned premium has been used, which includes not only the earned premium associated with the current accident year, but also earned premium adjustments related to prior accident years. Specifically, the current accident year (CAY) ratio in the table is 73.9% rather than 73.1% (the valuation ultimate ratio for accident year 2018), as the calendar year-to-date earned premium includes prior accident year earned premium adjustments. (Note that the ratios in this table may differ slightly from those shown in the New Brunswick RSP Summary of Operations due to rounding.)

¹⁰“Loss” here refers to indemnity and allowed claims expenses, but does not include the claims expense allowance included in member company overall expense allowances (“Expense Allowance” in the Operational Report).

¹¹Allowed claims expenses are first party legal and other expenses as listed in the RSP Claims Guide. Claims expenses paid through the member company expense allowance are NOT included in this analysis.

New Brunswick RSP Calendar Year-to-Date Indemnity & Allowed Claims Expense Summary (\$ thousands)

Table 04	YTD Nominal Values		YTD actuarial present value adjustment		YTD Total		Change from Prior Month YTD	
	Amount	% EP	Amount	% EP	Amount	% EP	Amount	LR pts
PAYs	(395)	(7.8%)	(248)	(4.9%)	(643)	(12.7%)	(454)	(8.0%)
CAY	3,757	73.9%	126	2.5%	3,883	76.4%	803	(0.5%)
TOTAL	3,362	66.1%	(122)	(2.4%)	3,240	63.7%	350	(8.5%)

(“% EP” based on 2018 calendar year-to-date earned premium; ratios may not total due to rounding)

In general, prior accident years (PAYs) changes from last month are due to the release of the actuarial present value adjustments with claims payments, except when valuations are implemented. The loss ratio change year-to-date in Table 04 reflects not only changes in the prior accident year levels, but also the increase in the calendar year-to-date earned premium with an additional month’s earned premium and the valuation implementation.

For the current accident year (CAY), changes in the year-to-date total reflects the additional month’s exposure and regular changes to actuarial present value adjustments as the year ages and due to the valuation implementation.

5 Current Operational Report – Additional Exhibits

Section 6 provides exhibits pertaining to the actuarial provisions reflected in the current month’s Operational Report.

IBNR (including actuarial present value adjustments) presented in section 6, Exhibit A, were derived on a discounted basis, and therefore reflect the time value of money and include an explicit provision for adverse deviations in accordance with accepted actuarial practice in Canada.

IBNR presented in section 6, Exhibit B, does NOT include any actuarial present value adjustments. The “Total IBNR” from this exhibit is shown in the Operational Report as “Undiscounted IBNR”.

The ultimate loss ratios detailed in section 6, Exhibit B, refer to the estimates derived on the basis of various actuarial methodologies applied to the experience of the New Brunswick Risk Sharing Pool for the purposes of the most recent quarterly valuation. As discussed in section 3, IBNR reflected in the current month’s Operational Report was derived as the difference between the estimated ultimate for the claims amount (i.e. earned premium x ultimate loss ratio) and the associated current recorded amounts (life-to-date payments plus current case reserves).

6 EXHIBITS

The exhibits listed below are provided on the pages that follow:

- EXHIBIT A IBNR for Member Sharing – includes Actuarial Present Value Adjustments
- EXHIBIT B IBNR
- EXHIBIT C Premium Liabilities
- EXHIBIT D Projected Year-end Policy Liabilities
- EXHIBIT E Discount Rate & Margins for Adverse Deviations
- EXHIBIT F Interest Rate Sensitivity
- EXHIBIT G Components of IBNR Change During Month

EXHIBIT A

IBNR for Member Sharing – includes Actuarial Present Value Adjustments

TABLE EXHIBIT A

		Amounts in \$000s					
IBNR + M/S actuarial present value adjustments		Accident Year	Actual Apr 2018	Actual May 2018	Projected Jun 2018	Projected Jul 2018	Projected Dec 2018
	2005		(2)	(2)	(2)	(2)	(2)
	2006		-	-	-	-	-
	2007		9	9	7	6	5
	2008		49	36	27	24	21
	2009		(340)	(7)	2	7	10
	2010		645	97	72	62	53
	2011		210	323	259	230	199
	2012		107	85	72	68	60
discount rate	2013		233	(278)	(170)	(123)	(83)
1.93%	2014		399	437	428	418	345
	2015		512	97	81	80	75
interest rate margin	2016		1,247	913	1,261	1,226	1,111
25 basis pts	2017		1,247	1,189	1,266	1,254	1,077
	2018		1,004	1,410	1,786	2,162	2,254
	TOTAL		5,320	4,309	5,089	5,412	5,125
	Change			(1,011)	780	323	

Please see Exhibit G, page 1 for Components of Change during Current Month

EXHIBIT B

IBNR

TABLE EXHIBIT B

		Amounts in \$000s					
IBNR	Ultimate Loss Ratio	Accident Year	Actual Apr 2018	Actual May 2018	Projected Jun 2018	Projected Jul 2018	Projected Dec 2018
	84.0%	2005	(2)	(2)	(2)	(2)	(2)
	53.2%	2006	-	-	-	-	-
	72.1%	2007	8	8	6	5	4
	76.5%	2008	40	28	20	17	14
	81.7%	2009	(353)	(37)	(27)	(22)	(17)
	59.0%	2010	595	84	60	50	41
	85.1%	2011	107	226	163	135	109
	55.7%	2012	61	42	30	25	20
	69.8%	2013	111	(390)	(281)	(233)	(187)
	67.3%	2014	269	312	306	297	237
	62.0%	2015	383	(17)	(30)	(30)	(27)
	70.5%	2016	1,066	779	1,130	1,096	990
	80.1%	2017	951	924	1,007	997	837
	73.1%	2018	892	1,284	1,630	1,979	1,973
		TOTAL	4,128	3,241	4,012	4,314	3,992
		Change		(887)	771	302	

Please see Exhibit G, page 2 for Components of Change during Current Month

EXHIBIT C

Premium Liabilities

TABLE EXHIBIT C

	Amounts in \$000s				
	Actual Apr 2018	Actual May 2018	Projected Jun 2018	Projected Jul 2018	Projected Dec 2018
Premium Liabilities					
(1) unearned premium (UP)	6,047	6,274	6,815	7,152	7,921
FOR MEMBER SHARING					
(2) expected future costs ratio {% of (1)}	80.0%	79.4%	79.5%	79.7%	80.6%
(3) expected future costs {(1) x (2)}	4,836	4,984	5,421	5,702	6,386
(4) premium deficiency / (deferred policy acquisition cost)	(1,211)	(1,290)	(1,394)	(1,450)	(1,535)
Excluding Actuarial Present Value Adjustments					
(5) expected future costs ratio {% of (1)}	75.9%	75.9%	76.0%	76.2%	77.0%
(6) expected future costs {(1) x (5)}	4,589	4,763	5,181	5,448	6,103
(7) premium deficiency / (deferred policy acquisition cost)	(1,458)	(1,511)	(1,634)	(1,704)	(1,818)

EXHIBIT D
Projected Year-end Policy Liabilities

The table below presents the projected policy liabilities as at December 31, 2018, broken down by component.

New Brunswick		Projected Balances as at Dec. 31, 2018 (\$000s)										
ending 2018		nominal values			actuarial present value adjustments (apvs)						TOTAL	
Acc Yr	Case	IBNR	Total Unpaid	discount	investment PfAD	nominal development PfAD	development PfAD discount	development PfAD	Total apvs	TOTAL		
2005	-	(2)	(2)	-	-	-	-	-	-	(2)		
2006	-	-	-	-	-	-	-	-	-	-		
2007	4	4	8	-	-	1	-	1	1	9		
2008	85	14	99	(3)	-	10	-	10	7	106		
2009	396	(17)	379	(11)	1	38	(1)	37	27	406		
2010	130	41	171	(5)	1	17	(1)	16	12	183		
2011	1,224	109	1,333	(44)	5	133	(4)	129	90	1,423		
2012	596	20	616	(22)	2	62	(2)	60	40	656		
2013	1,874	(187)	1,687	(66)	8	169	(7)	162	104	1,791		
2014	1,504	237	1,741	(68)	9	174	(7)	167	108	1,849		
2015	1,455	(27)	1,428	(64)	7	167	(8)	159	102	1,530		
2016	884	990	1,874	(99)	13	219	(12)	207	121	1,995		
2017	3,253	837	4,090	(254)	33	491	(30)	461	240	4,330		
PAYs (sub-total):	11,405	2,019	13,424	(636)	79	1,481	(72)	1,409	852	14,276		
CAY (2018)	3,453	1,973	5,426	(342)	43	619	(39)	580	281	5,707		
claims liabilities:	14,858	3,992	18,850	(978)	122	2,100	(111)	1,989	1,133	19,983		
	Unearned Premium	Premium Deficiency / (DPAC)	Total Provision	discount	investment PfAD	nominal development PfAD	development PfAD discount	development PfAD	Total apvs	TOTAL*		
premium liabilities:	7,921	(1,818)	6,103	(301)	35	578	(29)	549	283	6,386		
*Total may not be sum of parts, as apvs apply to future costs within UPR												
policy liabilities:	24,953			(1,279)	157	2,678	(140)	2,538	1,416	26,369		

EXHIBIT E

Discount Rate & Margins for Adverse Deviations

The tables below present selected margins for adverse development by coverage (the total is a weighted average, based on the unpaid claims projection for December 31, 2018 from the valuation), followed by the selected discount rate and the associated margin for investment income.

Selected Claims Development MfADs (Mar. 31, 2018)

Accident Year	Third Party Liability	Accident Benefits	Other Coverages	Total
	Margins	Margins	Margins	Margins
2005	10.0%	10.0%	10.0%	10.0%
2006	10.0%	10.0%	10.0%	10.0%
2007	10.0%	10.0%	10.0%	10.0%
2008	10.0%	10.0%	10.0%	10.0%
2009	10.0%	10.0%	10.0%	10.0%
2010	10.0%	10.0%	10.0%	10.0%
2011	10.0%	10.0%	10.0%	10.0%
2012	10.0%	10.0%	10.0%	10.0%
2013	10.0%	10.0%	10.0%	10.0%
2014	10.0%	10.0%	7.1%	10.0%
2015	12.3%	10.0%	6.0%	11.7%
2016	12.4%	10.0%	6.0%	11.7%
2017	12.5%	10.0%	6.5%	12.0%
2018	12.3%	10.0%	5.6%	11.4%
2019	12.0%	10.0%	5.1%	9.8%
prem liab	12.0%	10.0%	5.1%	9.8%

discount rate: 1.93%
margin (basis points): 25

EXHIBIT F

Interest Rate Sensitivity

The tables below present sensitivity to the member statement claims liability as projected to Dec. 31, 2018 from the latest valuation date (projections in exhibits A to D are also to Dec. 31, 2018, but are based on more up-to-date information). We have included the most recent valuation selection (1.93%), the prior valuation assumption (1.75%) and the prior fiscal year end valuation assumption (1.74%) for comparative purposes. A 25 basis point margin for investment return adverse deviation is used in all scenarios presented.

\$ Format: \$000s

Actuarial Present Value of Provisions at Various Discount Rates - Dec. 31, 2018 projected Unpaid								
AY	0.93%	1.43%	1.93%	2.43%	2.93%	3.43%	1.75%	1.74%
2005	-	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-	-
2007	5	5	5	5	5	5	5	5
2008	72	72	71	71	70	70	71	71
2009	413	410	407	404	402	399	408	409
2010	145	144	143	142	140	139	143	143
2011	1,113	1,104	1,094	1,085	1,076	1,067	1,098	1,098
2012	581	576	570	565	560	555	572	572
2013	1,546	1,530	1,515	1,500	1,485	1,471	1,521	1,521
2014	1,696	1,679	1,662	1,646	1,629	1,614	1,668	1,669
2015	1,981	1,957	1,935	1,912	1,890	1,868	1,943	1,943
2016	2,461	2,427	2,394	2,361	2,330	2,299	2,406	2,406
2017	4,625	4,550	4,477	4,405	4,336	4,268	4,503	4,504
2018	6,030	5,928	5,831	5,736	5,644	5,554	5,865	5,868
Total	20,668	20,382	20,104	19,832	19,567	19,309	20,203	20,209
	curr - 100 bp	curr - 50 bp	curr val assumption	curr + 50bp	curr + 100bp	curr + 150bp	prior val assumption	prior fyr end assumption

Dollar Impact Relative to Valuation Assumption								
AY	0.93%	1.43%	1.93%	2.43%	2.93%	3.43%	1.75%	1.74%
Total	564	278	-	(272)	(537)	(795)	99	105
	curr - 100 bp	curr - 50 bp	curr val assumption	curr + 50bp	curr + 100bp	curr + 150bp	prior val assumption	prior fyr end assumption

Percentage Impact Relative to Valuation Assumption								
AY	0.93%	1.43%	1.93%	2.43%	2.93%	3.43%	1.75%	1.74%
2005	-	-	-	-	-	-	-	-
2006	-	-	-	-	-	-	-	-
2007	-	-	-	-	-	-	-	-
2008	1.4%	1.4%	-	-	(1.4%)	(1.4%)	-	-
2009	1.5%	0.7%	-	(0.7%)	(1.2%)	(2.0%)	0.2%	0.5%
2010	1.4%	0.7%	-	(0.7%)	(2.1%)	(2.8%)	-	-
2011	1.7%	0.9%	-	(0.8%)	(1.6%)	(2.5%)	0.4%	0.4%
2012	1.9%	1.1%	-	(0.9%)	(1.8%)	(2.6%)	0.4%	0.4%
2013	2.0%	1.0%	-	(1.0%)	(2.0%)	(2.9%)	0.4%	0.4%
2014	2.0%	1.0%	-	(1.0%)	(2.0%)	(2.9%)	0.4%	0.4%
2015	2.4%	1.1%	-	(1.2%)	(2.3%)	(3.5%)	0.4%	0.4%
2016	2.8%	1.4%	-	(1.4%)	(2.7%)	(4.0%)	0.5%	0.5%
2017	3.3%	1.6%	-	(1.6%)	(3.1%)	(4.7%)	0.6%	0.6%
2018	3.4%	1.7%	-	(1.6%)	(3.2%)	(4.8%)	0.6%	0.6%
Total	2.8%	1.4%	-	(1.4%)	(2.7%)	(4.0%)	0.5%	0.5%
	curr - 100 bp	curr - 50 bp	curr val assumption	curr + 50bp	curr + 100bp	curr + 150bp	prior val assumption	prior fyr end assumption

EXHIBIT G

Page 1 of 2

Components of Member Statement IBNR (i.e. “Discounted”) Change During Month

RSP **New Brunswi**
AccountCode Desc **IBNR - Discou**

M/S IBNR - in \$000s

AccYear	Values		Sum of Projected Change	Sum of Change Due to AvsP Variances	Sum of Change Due to Valuation Implementation	Sum of Total Change	Sum of % Total Change	Sum of Current Month Final Amount
	Sum of Prior Month Actual Amount							
2005	(2)	-	-	-	-	-	-	(2)
2006	-	-	-	-	-	-	-	-
2007	9	-	-	-	-	-	-	9
2008	49	(3)	3	(13)	(13)	(13)	(26.5%)	36
2009	(340)	13	(126)	446	333	(97.9%)	(7)	(7)
2010	645	(28)	29	(549)	(548)	(85.0%)	97	97
2011	210	(11)	53	71	113	53.8%	323	323
2012	107	(5)	(5)	(12)	(22)	(20.6%)	85	85
2013	233	(10)	(440)	(61)	(511)	(219.3%)	(278)	(278)
2014	399	(25)	10	53	38	9.5%	437	437
2015	512	302	(620)	(97)	(415)	(81.1%)	97	97
2016	1,247	520	(450)	(404)	(334)	(26.8%)	913	913
2017	1,247	83	(289)	148	(58)	(4.7%)	1,189	1,189
2018	1,004	369	59	(22)	406	40.4%	1,410	1,410
Grand Total	5,320	1,205	(1,776)	(440)	(1,011)	(19.0%)	4,309	4,309

EXHIBIT G

Page 2 of 2

Components of IBNR (i.e. “Undiscounted”) Change During Month

RSP		New Brunswi						IBNR - in \$000s
AccountCode Desc		IBNR - Undisc						
AccYear	Values							Sum of Current Month Final Amount
	Sum of Prior Month Actual Amount	Sum of Projected Change	Sum of Change Due to AvsP Variances	Sum of Change Due to Valuation Implementation	Sum of Total Change	Sum of % Total Change		
2005	(2)	-	-	-	-	-	(2)	
2006	-	-	-	-	-	-	-	
2007	8	-	-	-	-	-	8	
2008	40	(2)	2	(12)	(12)	(30.0%)	28	
2009	(353)	14	(115)	417	316	(89.5%)	(37)	
2010	595	(24)	25	(512)	(511)	(85.9%)	84	
2011	107	(4)	53	70	119	111.2%	226	
2012	61	(2)	(7)	(10)	(19)	(31.1%)	42	
2013	111	(4)	(445)	(52)	(501)	(451.4%)	(390)	
2014	269	(24)	9	58	43	16.0%	312	
2015	383	303	(621)	(82)	(400)	(104.4%)	(17)	
2016	1,066	522	(450)	(359)	(287)	(26.9%)	779	
2017	951	86	(285)	172	(27)	(2.8%)	924	
2018	892	338	59	(5)	392	43.9%	1,284	
Grand Total	4,128	1,203	(1,775)	(315)	(887)	(21.5%)	3,241	