

# FACILITY ASSOCIATION

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**TO:** MEMBERS OF THE FACILITY ASSOCIATION

**ATTENTION:** CHIEF EXECUTIVE OFFICER  
NEW BRUNSWICK RISK SHARING POOL PROJECT MANAGER

**BULLETIN NO.:** F06 – 043

**DATE:** NOVEMBER 24, 2006

**SUBJECT:** NEW BRUNSWICK RISK SHARING POOL  
- OCTOBER 2006 YEAR END REPORTS

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

## Discounted & Undiscounted Claims Liabilities

For member reporting purposes, the claims liabilities of Facility Association New Brunswick Risk Sharing Pool (“New Brunswick RSP”) at 31 October 2006 have been valued on a discounted basis. In this context, “discounted basis” refers to an estimate reflecting the effect of the time value of money, and including explicit provisions for adverse deviations, in accordance with the standards of practice of the Canadian Institute of Actuaries (“CIA”).

The claims liabilities of the New Brunswick RSP were also calculated on an undiscounted basis, i.e. prior to the effect of discounting, and not including any explicit provision for adverse deviations, as detailed in Exhibit 1, and summarized below:

<b>NEW BRUNSWICK RISK SHARING POOL PROVISION FOR IBNR AND DEVELOPMENT</b>			
<b>As at (Month)</b>	<b>Discounted Basis (1)</b>	<b>Undiscounted Basis (2)</b>	<b>Effect of Discounting = (1) – (2)</b>
Oct 2006	2,965	2,614	+351
Nov 2006	3,225	2,852	+373
Dec 2006	3,481	3,087	+394

(Amounts in \$000's)

The discounted provision for IBNR and Development in column (1) above was reported to members in the New Brunswick RSP October 2006 Operational Report, which included projections for the months of November 2006 and December 2006 as shown above.

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In addition to the Operational Report, members are also being provided with two Year End Reports. The first Year End Report provides the claims liabilities on a discounted basis, consistent with the Operational Report, except as follows:

- The liabilities are shown as at December 31, 2006, based on the 2-month projections in the Operational Report, and
- The liabilities are shown by annual statement line of business (Third Party Liability, Accident Benefits, Other Auto).

The second or “Special” Year End Report is in the same format as the first, but the provision for IBNR and Development is shown on an undiscounted basis, as per column (2) in the table shown earlier. This report may be used by members to quantify the effect of discounting underlying their own shares of the New Brunswick RSP. It may also be used by members to incorporate alternative discounting assumptions, as discussed below, under the heading “Interest Rate Sensitivity”.

**Discounting Assumptions**

The emergence factors used for discounting purposes were selected by major coverage (Third Party Liability, Accident Benefits and Other Coverages) on the basis of New Brunswick Industry experience as at 31 December 2005. The factors are available to members upon request.

New Brunswick RSP results are shared among member companies on a cash basis, with amounts paid to or assessed from members each month. The investments supporting the policy liabilities are therefore held by individual member companies, who invest them, as they deem appropriate. It was assumed that the yield anticipated from the investment of these amounts by members would not differ significantly from a risk free rate of return. A portfolio yield was estimated for the New Brunswick RSP based on a portfolio of Government of Canada bonds, for which the dates and amounts of maturities were matched to the expected payout of the New Brunswick RSP’s liabilities at 31 December 2006. The yield to maturity resulting from this portfolio is estimated to be 3.70% per annum, after consideration of investment expenses.

The selected discount rate of 3.70% per annum is considered appropriate for discounting New Brunswick RSP claims liabilities for the purposes of reporting to member companies. For the purposes of Facility Association’s financial statements, the effect of discounting the claims liabilities will be recalculated to reflect a yield rate appropriate for the investments held by Facility Association.

Accepted actuarial practice in Canada requires that the discounted liabilities include an explicit provision for adverse deviations (“PFAD”), which consists of three elements: Claims Development PFAD, Reinsurance Recovery PFAD, and Investment Return Rate PFAD. The margins used to derive each of these provisions are summarized in Exhibit 2.

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**Interest Rate Sensitivity**

As described above, the portfolio yield rate from which the discount rate was selected is consistent with a risk-free rate of return. Based on discussions with members of Facility Association's Actuarial Committee, it is anticipated that a member's share of New Brunswick RSP liabilities discounted at the selected rate of 3.70% per annum generally would not differ materially from an estimate derived on the basis of the yield anticipated on the member's own investment portfolio.

To assist member's in assessing the interest rate sensitivity of the estimated claims liabilities, we have derived estimates of the claims liabilities on the basis of several alternative discount rates. As shown in Exhibit 3, a discount rate adjustment of -50 basis points changes the aggregate claims liabilities by about +\$112,000 or +1.4%. Similarly, a discount rate adjustment of +50 basis points changes the aggregate claims liabilities by about -\$114,000 or -1.4%. Within a narrow range of discount rates, the effect of discount rate adjustments is approximately proportional to the size of the increase or decrease in the discount rate.

As indicated above, emergence factors will be provided upon request, should any members wish to use that information in conjunction with the Special (undiscounted) Year End Report to derive a discounted estimate using alternative discount rate assumptions, perhaps beyond the range shown in Exhibit 3.

Should you require any further information, please call Norm Seeney, Vice President, Finance & Chief Financial Officer, Facility Association at (416) 644-4914.

David J. Simpson, M.B.A., FCIP  
President & CEO

Attach.

*Note: A copy of this bulletin has been attached to the October 2006 New Brunswick Risk Sharing Pool Year End Reports*

EXHIBIT 1

FACILITY ASSOCIATION  
NEW BRUNSWICK RISK SHARING POOL

Provision for IBNR and Development  
(Amounts in \$000's)

31 OCTOBER 2006						
Accident Year	Case Reserves [1]	IBNR on a Discounted Basis [2]	Total Outstanding [3]=[1]+[2]	IBNR Prior to Effect of Discounting [4]	Outstanding Prior to Effect of Discounting [5]=[1]+[4]	Discount Factor [6]=[3]/[5]
2005	2,717	660	3,377	502	3,219	1.049
2006	1,678	2,305	3,983	2,112	3,790	1.051
Total	4,395	2,965	7,360	2,614	7,009	

30 NOVEMBER 2006						
Accident Year	Projected Case Reserves [1]	IBNR on a Discounted Basis [2]	Total Outstanding [3]=[1]+[2]	IBNR Prior to Effect of Discounting [4]	Outstanding Prior to Effect of Discounting [5]=[1]+[4]	Discount Factor [6]=[3]/[5]
2005	2,717	660	3,377	502	3,219	1.049
2006	1,867	2,565	4,432	2,350	4,217	1.051
Total	4,584	3,225	7,809	2,852	7,436	

31 DECEMBER 2006						
Accident Year	Projected Case Reserves [1]	IBNR on a Discounted Basis [2]	Total Outstanding [3]=[1]+[2]	IBNR Prior to Effect of Discounting [4]	Outstanding Prior to Effect of Discounting [5]=[1]+[4]	Discount Factor [6]=[3]/[5]
2005	2,717	660	3,377	502	3,219	1.049
2006	2,054	2,821	4,875	2,585	4,639	1.051
Total	4,771	3,481	8,252	3,087	7,858	

**EXHIBIT 2**

**FACILITY ASSOCIATION  
NEW BRUNSWICK RISK SHARING POOL  
31 OCTOBER 2006**

**Valuation of Policy Liabilities on a Discounted Basis**

**Selected Margins**

**Reinsurance Recovery Margin**

Facility Association New Brunswick Risk Sharing Pool has no reinsurance. Accordingly, the selected margin is 0%.

**Investment Return Rate Margin**

A discount rate of 3.70% per annum was selected prior to consideration of a margin. An investment return rate margin of 50 basis points was selected, resulting in a discount rate of 3.20% per annum net of the margin.

**Claims Development Margins**

The selected margins for the claims development variable are as follows:

<b>CLAIMS DEVELOPMENT MARGINS</b>		
<b>Coverage</b>	<b>Accident Years</b>	<b>Margin</b>
Liability	2005 to 2006	15.0%
Accident Benefits	2005 to 2006	15.0%
Other Coverages	2005 to 2006	15.0%

EXHIBIT 3

FACILITY ASSOCIATION  
NEW BRUNSWICK RISK SHARING POOL

Interest Rate Sensitivity  
Based on Total Outstanding Losses Projected to 31/Dec/06  
(Amounts in \$000's)

	Selected - 50 bps [a]	<b>Selected Rate [b]</b>	Selected +50 bps [c]	Selected +100 bps [d]	Selected +150 bps [e]
[1] Discount Rate Excluding Margin	3.20%	<b>3.70%</b>	4.20%	4.70%	5.20%
[2] Investment Return Rate Margin	50 bps	<b>50 bps</b>	50 bps	50 bps	50 bps
[3] Discount Rate Net of Margin = [1] - [2]	2.70%	<b>3.20%</b>	3.70%	4.20%	4.70%
[4] Outstanding at Dec/06 - Undiscounted	7,858	<b>7,858</b>	7,858	7,858	7,858
[5] Outstanding at Dec/06 - Discounted	8,364	<b>8,252</b>	8,138	8,035	7,927
[6] Estimated Effect of Discounting = [5] - [4]	506	<b>394</b>	280	177	69
[7] Relative to Selected Discount Rate = [6] - [6b]	112	<b>0</b>	-114	-217	-325
[8] Difference in [7] as a % of [5b]	1.4%	<b>0.0%</b>	-1.4%	-2.6%	-3.9%