



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
NOVA SCOTIA RISK SHARING POOL PROJECT MANAGERS

BULLETIN NO.: F08 – 107

DATE: DECEMBER 23, 2008

SUBJECT: NOVA SCOTIA RISK SHARING POOL
– NOVEMBER 2008 OPERATIONAL REPORT (NEW)

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

Introducing Facility Association's New Operational Report

We are very pleased to introduce Facility Association's new monthly Risk Sharing Pool Operational Report to be used for all monthly reporting of Risk Sharing Pool Results. The report provides clearer information regarding the Pool results in aggregate and your share in these results. We have endeavored to ensure that the report contains the appropriate levels of detail and information for your operational, financial and management needs.

The new Operational Report is divided into major categories as follows:

- Pool Total (Pages 1 and 2)
- Member's Share of Pool Total (Pages 3 and 4)
- Account Reconciliation , Including Share on Cash Basis (Pages 5 to 7)
- Projections (Page 8)

For January 2009 Release:

- Government Line Report (will now be provided monthly - Expansion of Projections Page 8 by Government Line and Accident Year)
- Management Summary Report

The Projections section (page 8) in particular has been significantly expanded as a transition exhibit from the Monthly Operational Report to a new Monthly Government Line Report which will be introduced early in the new year. Please refer to Appendix A

for an explanation of the information shown in the Projections section.

A “User’s Guide” to the Operational and Government Line reports will be available shortly.

Operating Result

Throughout the Operational Report, the “Operating Result” is computed as Premiums Earned, Less Claims Incurred and General Expenses, as follows:

Premiums Written (Transferred)
+ Change in Unearned Premium
= **Premiums Earned (A)**

Paid Losses
+ Paid Expenses
+ Change in Outstanding Losses
+ Change in IBNR Provision
= **Claims Incurred (B)**

Expense Allowance
+ Administration Expense
+ Change in Premium Deficiency (DPAC)
= **General Expenses (C)**

OPERATING RESULT = (A)-(B)-(C)

IBNR Included in the November 2008 Operational Report

The provision for IBNR and Development shown in the November 2008 Operational Report is based on the same assumptions used to derive the IBNR and Development shown in last month’s report. They are based on an actuarial analysis at September 30, 2008.

In order to extend the projections into calendar year 2009, the following assumptions have been made with respect to the estimate for January 2009:

- The Challenge or MIR Provision has been increased to reflect the estimated liability attributable to the month of January 2009. The amounts selected for accident years 2008 and prior are unchanged.
- As a preliminary estimate, the expected loss ratio for accident year 2009 was set equal to the accident year 2008 expected loss ratio of 90.6%. Prior to discounting, the provision for IBNR and Development at a given month end is computed as the difference between the estimated ultimate losses and the actual or projected

reported losses. This method is consistent with prior estimates for the Nova Scotia Risk Sharing Pool, but differs from the other, larger, Risk Sharing Pools.

The next quarterly valuation will be based on Pool experience at December 31st, 2008.

NOVA SCOTIA RISK SHARING POOL PROVISION FOR IBNR AND DEVELOPMENT						
Accident Year	Selected Loss Ratios Prior to Discounting	Held at 31/Oct/08	NOV. 2008 OPERATIONAL REPORT			Target to 31/Dec/09
			As at 30/Nov/08	As at 31/Dec/08	As at 31/Jan/09	
Regular IBNR						
2007	82.8%	312	335	321	306	Not Available
2008	90.6%	2,914	3,468	3,830	3,747	
2009	90.6%	<u>0</u>	<u>0</u>	<u>0</u>	<u>530</u>	
Total	-	3,226	3,802	4,151	4,583	
MIR Provision						
2007	-	415	415	415	415	Not Available
2008	-	2,034	2,237	2,440	2,440	
2009	-	<u>0</u>	<u>0</u>	<u>0</u>	<u>203</u>	
Total	-	2,449	2,652	2,855	3,058	
Total IBNR	-	5,675	6,454	7,006	7,641	

(The MIR provision assumes a 50% probability that the constitutional challenge will be successful).
(Amounts in \$000's)

The selected loss ratios and the related provisions for IBNR and Development exclude all loss adjustment expenses. The provisions for IBNR and Development 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.

Valuation Context

No explicit provision has been made for causes of loss which are not already reflected in the historical data, nor for otherwise unforeseen changes to the legal or economic environment in which claims are settled, including changes in the interpretation of existing legislation or regulation on matters currently before the courts, such as challenges based on the Charter of Rights and Freedoms regarding the threshold on pain and suffering awards in the Province of Nova Scotia.

Measurement Uncertainty

The establishment of provisions for the unpaid and unreported claims is based on both known facts and the interpretation of current and anticipated circumstances. It is a complex and dynamic process influenced by a large variety of factors. These factors include the experience of the Nova Scotia Risk Sharing Pool and the experience of the voluntary market in Nova Scotia involving claim payment patterns, loss payments, pending levels of unpaid claims, claims severity and claim frequency patterns. The

process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

The estimate of the Nova Scotia Risk Sharing Pool's provision for unpaid and unreported claims and other policy liabilities involves a particularly high degree of measurement uncertainty because the Pool is relatively new. Further, underwriting results are impacted by legislation promulgated in recent years. To date, there is limited claims experience available to indicate how legislative changes are impacting and will impact the Pool's results of operations. It is impracticable to evaluate the extent of such measurement uncertainty.

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 November 2008 Nova Scotia Risk Sharing Pool Operational Report.

APPENDIX A

FACILITY ASSOCIATION RISK SHARING POOLS

INTRODUCING FACILITY ASSOCIATION'S NEW OPERATIONAL REPORT PROJECTIONS SECTION (PAGE 8)

As always, member companies may choose to book their share of the Pool results as at the current accounting date, as detailed in pages 3 and 4 of the (New) Operational Report, or based on the Pool results projected to two months beyond the accounting date, as detailed in page 8. To facilitate member's selection of the second option, the Projections section of the Operational Report has been significantly expanded, providing members with all of the components of their share of the Operating Result for the projection period. The following table provides three examples of the relevant accounting and projection dates:

OPERATIONAL REPORT – PROJECTIONS SECTION (PAGE 8)				
Column Reference	Description	November 2008 Operational Report	April 2009 Operational Report	October 2009 Operational Report
[1]	Fiscal Year 2009 Year to Date [A]	Period from 1/Nov/08 to 30/Nov/08 (1 month)	Period from 1/Nov/08 to 30/Apr/09 (6 months)	Period from 1/Nov/08 To 31/Oct/09 (12 months)
[2] and [3]	Current Estimates for Projected Months [B]	Dec/08 and Jan/09 as estimated at Nov/08	May/09 and Jun/09 as estimated at Apr/09	Nov/09 and Dec/09 as estimated at Oct/09
[4] and [5]	Beginning Estimates for the Projected Months [C]	Nov/08 and Dec/08 as estimated at Oct/08	Nov/08 and Dec/08 as estimated at Oct/08	Nov/08 and Dec/08 as estimated at Oct/08
[6]	Calendar Year 2009 Year to Date Estimate [D]=[A]+[B]-[C]	Period from 1/Jan/09 to 31/Jan/09 (1 month)	Period from 1/Jan/09 to 30/Jun/09 (6 months)	Period from 1/Jan/09 to 31/Dec/09 (12 months)
[7]	Calendar Year 2009 Year to Date from the Prior Operational Report [E]	n/a	Period from 1/Jan/09 to 31/May/09 (5 months)	Period from 1/Jan/09 to 30/Nov/09 (11 months)
[8]	Calendar Month Estimate [F]=[D]-[E]	Month of January 2009	Month of June 2009	Month of December 2009

Important Note regarding the November 2008 Operational Report

Due to the complexities associated with converting data from the old Operational Report system to the new Operational Report system, it was not feasible to extract the individual monthly components of the beginning estimates shown in columns [4] and [5]. The amounts shown in these columns should be combined for comparison to the projections shown in the October 2008 Operational Report. The same will apply throughout fiscal year 2009, up to and including the October 2009 Operational Report.

Balance Sheet and Memo Items

Each of the balance sheet and memo items are shown as at the accounting date (in this case 30/Nov/08) and as at each of the two projected months (in this case 31/Dec/08 and 31/Jan/09). Following is a brief description of each of these items. Note that items (2), (3) and (5) were also part of the old Operational Report projections page.

- (1) Unearned Premium**
Computed as the premiums earned years to date, less premiums transferred (written) years to date.
- (2) Outstanding Losses**
Outstanding case reserves.
- (3) IBNR Provision**
Provision for IBNR and Development estimated on a discounted basis. It reflects the time value of money, and includes explicit provisions for adverse deviations (PFAD). The PFAD amounts included in the IBNR provision are detailed in item (10), below.
- (4) Outstanding Losses including IBNR Provision = (2) + (3)**
- (5) Premium Deficiency (DPAC)**
The premium deficiency reserve (DPAC) is an amount which, when added to the unearned premium, is expected to make proper provision for the future costs expected to arise on the unexpired portion of in-force policies. The future costs are estimated on a discounted basis, reflecting the time value of money, and including explicit PFAD amounts. The future costs underlying the premium deficiency reserve (DPAC) are detailed in item (6), below.
- (6) Future Costs on Unearned Premium**
The future costs expected to arise on the unexpired portion of in-force policies. The future costs are estimated on a discounted basis, reflecting the time value of money, and including explicit PFAD amounts.
- (7) Undiscounted IBNR Provision**
The IBNR Provision comparable to item (3) above, prior to the effect of discounting.
- (8) Undiscounted Premium Deficiency (DPAC)**
The Premium Deficiency Reserve (DPAC) derived from an estimate of future costs prior to the effect of discounting.
- (9) Undiscounted Future Costs on Unearned Premium**
Estimated future costs comparable to item (6) above, prior to the effect of discounting.
- (10) PFAD Included in IBNR Provision**
The amount of explicit provisions for adverse deviations included in item (3) above.