

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2021 – 006

DATE: JANUARY 28, 2021

SUBJECT: NOVA SCOTIA RISK SHARING POOL
– DECEMBER 2020 OPERATIONAL REPORT

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

Please be advised that the December 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 **2020 year-to-date net operating deficit was \$10.2 million**, with a COR of 127.3% on earned premium of \$37.4 million;
- (b) In comparison with the final Outlook for 2020, Nova Scotia RSP's full year net operating result was \$4.3 million (29.7%) higher (i.e. better) and the combined ratio was 13.2 points lower than expected; and
- (c) The **projected 2021 year-end net operating deficit is now \$27.2 million**, with a COR at 148.8% on earned premium of \$55.7 million (our Outlook for 2021 was \$22.7 million of net operating deficit with a COR of 145.7% on earned premium of \$49.6 million).

Summary of Financial Results

The calendar year-to-date Operating Result is -\$10.2 million and the incurred loss ratio to the end of twelve months is 81.9%, as summarized in the following table.

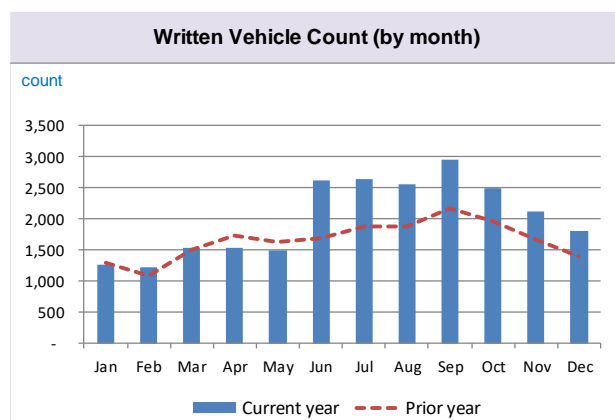
NS RSP Summary of Financial Results (for month and year-to-date)

Amounts in \$000s	December 2020	December 2019	Year to date Dec 2020	Year to Date Dec 2019
Premium Written	3,696	2,527	45,525	33,046
Premium Earned	3,881	2,805	37,401	30,265
Incurred Losses	3,569	2,819	30,642	31,719
Underwriting & Admin Expense	1,739	864	16,968	11,783
Operating Result	(1,427)	(878)	(10,209)	(13,237)
Ratios:				
Loss ratio - Prior Accident Years	(2.4%)	(2.2%)	(14.0%)	1.2%
- Current Accident Year	94.3%	102.7%	95.9%	103.6%
Total	91.9%	100.5%	81.9%	104.8%
Underwriting & Admin Expense	44.8%	30.8%	45.4%	38.9%
Combined Operating Ratio	136.7%	131.3%	127.3%	143.7%

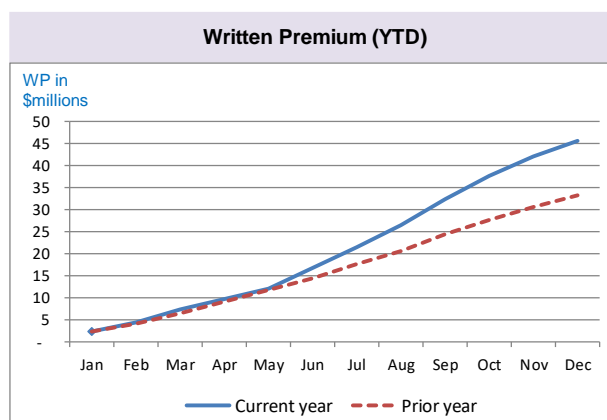
rounding differences may occur

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.

2020 finished with written premium up \$12.5 million (37.8%) and earned premium was up \$7.1 million (23.6%). Transfers grew more in the latter part of the year, resulting in written premium growth accelerating June and beyond, as shown in the following charts.



	Dec-20	Dec-19	Amt Chg	% Chg
W. Veh curr mth	1,811	1,389	422	30.4%



	Dec-20	Dec-19	Amt Chg	% Chg
WP (\$000s) YTD	45,525	33,045	12,481	37.8%

As a result of the increase in written premium, unearned premium also increased. Because the Nova Scotia RSP operates at a deficit, increases in unearned premium result in increases in premium deficiency, which will increase the underwriting & administrative expense ratio relative to earned premium (as evident in the preceding financial results table).

The net operating result for 2020 had an improvement relative to 2019, up \$3.0 million (22.9%); and the 2020 combined operating ratio had dropped 16.4 percentage point relative to 2019. This improvement was primarily driven by the favorable Prior Accident Year claims impact (loss ratio down 15.2 percentage points) driven by valuation updates throughout 2020, and the favorable Current Accident Year claims impact (loss ratio down 7.7 percentage points) in relation to COVID-19 pandemic, offset by the unfavourable impact on the expenses (expense ratio up 6.5 percentage points) driven by the decrease in premium deficiency as mentioned above.

Compared with the Nova Scotia RSP projections as found in the Risk Sharing Pools' Final Outlook for 2020 ([F19-082](#) posted November 5, 2019), 2020 finished with written premium \$7.3 million (19.3%) higher than expected, and earned premium \$1.6 million (4.4%) higher than expected. The 2020 net operating deficit of \$10.2 million was \$4.3 million (29.7%) lower than expected and the combined ratio was 13.2 points lower than expected as shown in the following table. (We don't explicitly show in the table the differences between the current/final result for 2020 and the Outlook, but they can be derived by comparing the first column and the last column). Both Current Accident Year and Prior Accident Years performed better than expected (favourably impacted by the COVID-19 pandemic on Current Accident Year and 2020 valuation updates on Prior Accident Years), while the increase in written premium drove higher than expected unearned premium (by \$5.8 million), resulting in an unfavourable premium deficiency impact on the underwriting & administrative expense.

NS RSP Summary of Projected Year-end Financial Results (current month's projection, prior month's projection, and Outlook posted last fall)

NS RSP 2020 Yr-end Projection Amounts in \$000s	Current (Dec 2020)	Prior Mth (Nov 2020)	Change	Final 2020 Outlook*
Premium Written	45,525	45,223	302	38,176
Premium Earned	37,402	37,372	30	35,830
Incurred Losses	30,642	30,620	22	36,407
Underwriting & Admin Expense	16,977	16,873	104	13,949
Net Result from Operations	(10,217)	(10,121)	(96)	(14,526)
Ratios:				
Loss ratio - Prior Accident Years	(14.0%)	(14.0%)	-	(2.1%)
- Current Accident Year	95.9%	96.0%	(0.1%)	103.7%
<i>Total</i>	81.9%	82.0%	(0.1%)	101.6%
Underwriting & Admin Expense	45.4%	45.1%	0.3%	38.9%
Combined Operating Ratio	127.3%	127.1%	0.2%	140.5%

rounding differences may occur

*as posted to FA's website Nov. 5, 2019

Updated Projection to Year-end 2021

An Outlook had been prepared to provide Members with an estimate of Nova Scotia RSP operating results for calendar year 2021 based on the actuarial valuation at June 30, 2020, and reflecting actual experience to date as detailed in the September 2020 Operational Report. This Outlook was posted on November 18, 2020 (please refer to Bulletin [F2020-082](#)), and projected a Net Result from

Operations for 2021 of -\$22.7 million, and a combined operating ratio of 145.7%. Projections for 2021 have been updated each month since, as per our usual practice (although until this month, the bulletins have focused on projections to the end of 2020 compared with the previous Outlook).

The projected calendar year Operating Result to December 2021 is now -\$27.2 million (a \$4.5 million deterioration relative to the Outlook) and the estimated combined operating ratio to December 2021 is 148.8% (a 3.1 point deterioration relative to the Outlook). The deterioration is composed of a \$2.8 million unfavourable impact associated with the \$6.1 million increase in projected earned premium (at a combined ratio of 145.7%) and a \$1.7 million unfavourable impact stemming from the overall increase in the combined ratio (from 145.7% to 148.8% applied to \$55.7 million in projected earned premium).

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$1.4 million Operating Result in the month of December 2020, a \$0.5 million deterioration compared with the same month last year. This deterioration is composed of a \$0.3 million unfavourable impact associated with the \$1.1 million increase in earned premium (at a prior combined ratio of 131.3%), and a \$0.2 million unfavourable impact associated with the overall increase in the combined ratio (from 131.3% to 136.7%) applied to \$3.9 million in earned premium.

This month's results moved the year-to-date combined operating ratio from 126.2% at the end of eleven months to 127.3% at the end of twelve months. The 1.1 percentage point increase is composed of a 1.3 percentage point increase in Prior Accident Years Loss Ratio, offset by a 0.2 percentage point decrease in the Current Accident Year 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

December 2020	Actual	Projection	Difference	Difference %
Written Premium	3,696	3,394	302	8.9%
Earned Premium	3,881	3,851	30	0.8%
Reported Losses				
Paid Losses	1,956	1,817	139	7.6%
Paid Expenses	95	110	(15)	(13.6%)
Change in Outstanding Losses	389	596	(207)	(34.7%)
Total Reported Losses	2,440	2,523	(83)	(3.3%)
Change in IBNR Provision *	1,129	1,024	105	
Change in Premium Deficiency (DPAC) *	463	90	373	

(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.

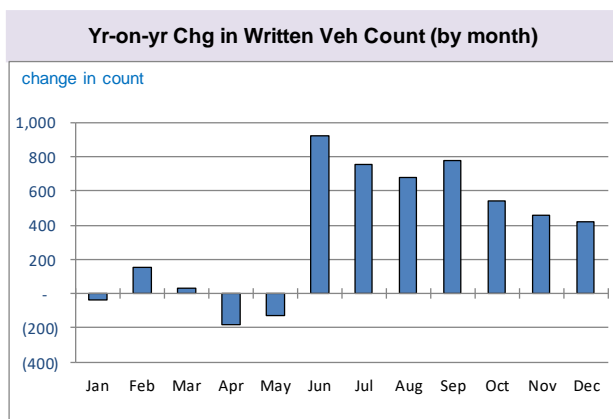
For the month of December 2020, total reported losses were \$0.1 million lower than projected. The Current Accident Year had a \$0.3 million favourable variance in reported losses, while the Prior Accident Years had a \$0.2 million unfavourable variance. No single Accident Year had a reported loss variance 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.

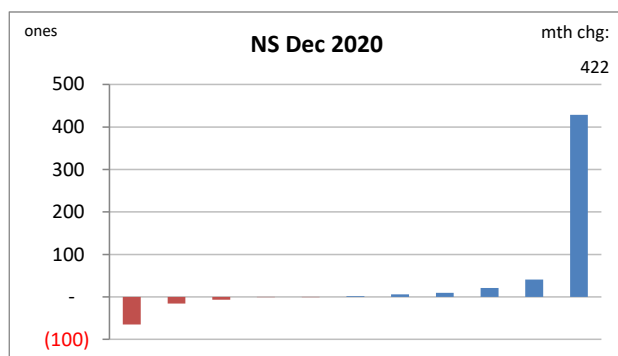
Effect of Quarterly Valuation

The December 2020 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2020). The actuarial valuation will be updated next as at December 31, 2020 and we anticipate that the results will be reflected in the March 2021 Operational Report.

Management Comments

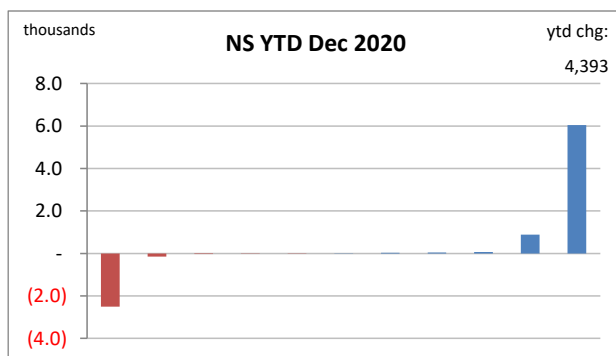


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with December showing an increase of 422 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 354 vehicles, indicating a variance of 68 from the actual transfers. This variance was mainly due to one member company group transferring a higher number of vehicles to the RSP in December than projected.



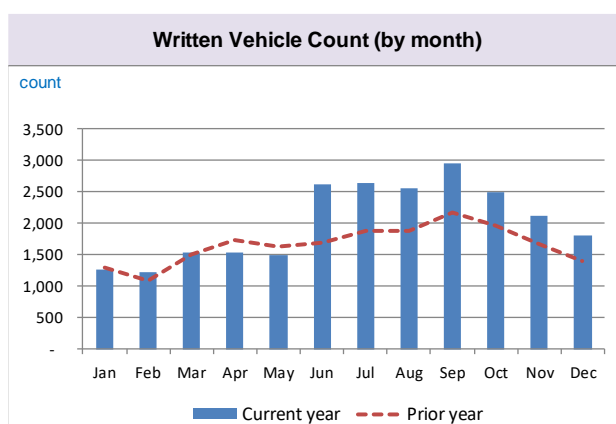
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while six transferred more. Of the 5 member company groups transferring fewer vehicles, 1 member company group accounted for 75% of the total transfer decrease for these “decliner” members.

Of the 6 member company groups transferring more vehicles, 1 member company group accounted for 84% of the total transfer increase for these “grower” members.

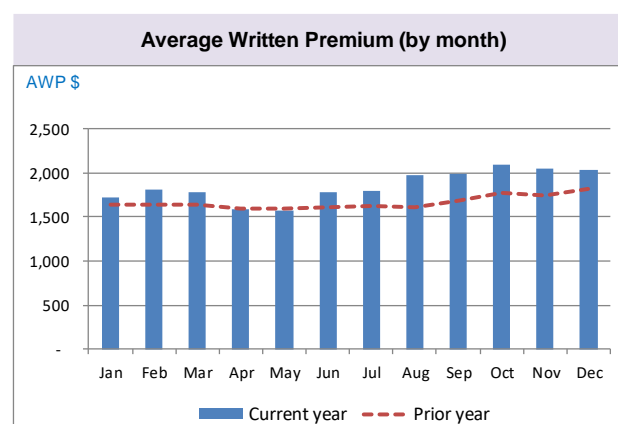


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

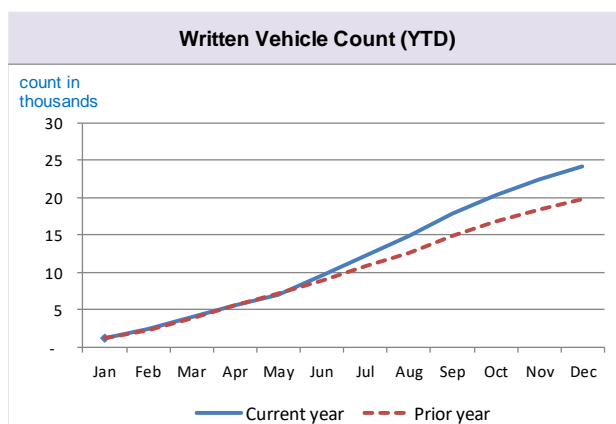
December's vehicle count transfers to the RSP represent a 30.4% increase from December 2019, and counts were up 22.1% year-to-date. Average written premium was up 12.1% in December 2020, and up 12.9% year-to date (see the following charts).



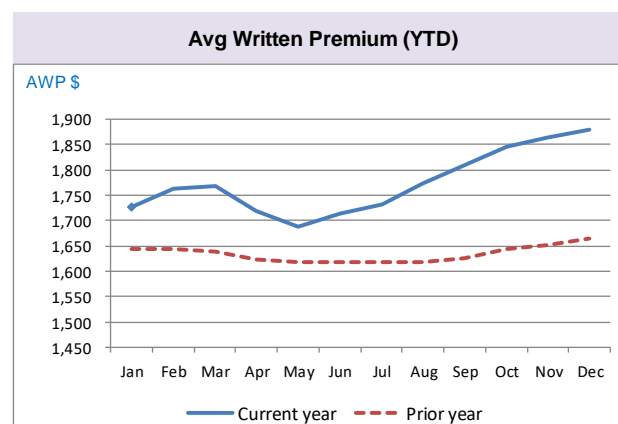
	Dec-20	Dec-19	Amt Chg	% Chg
W. Veh curr mth	1,811	1,389	422	30.4%



	Dec-20	Dec-19	Amt Chg	% Chg
AWP curr mth	2,041	1,820	221	12.1%

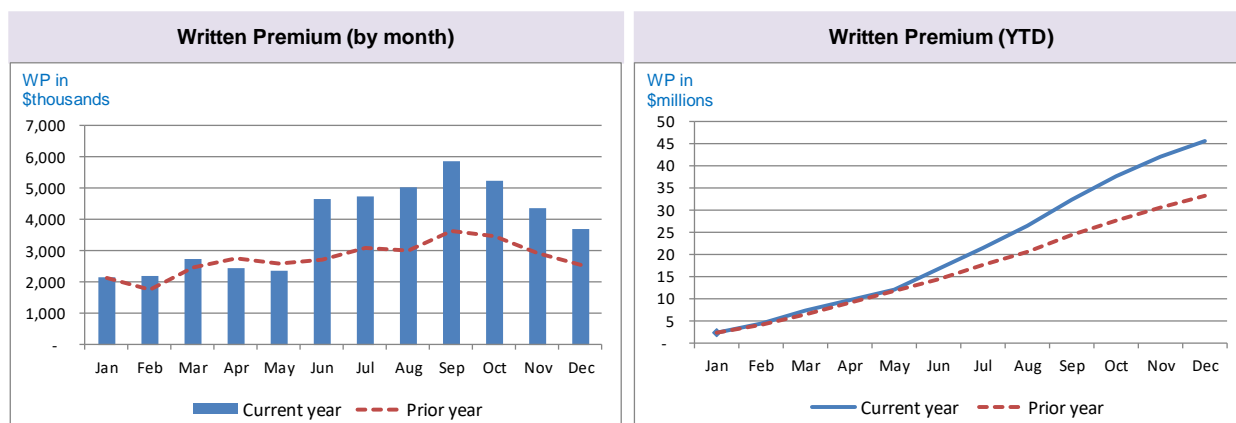


	Dec-20	Dec-19	Amt Chg	% Chg
W. Vehicles YTD	24,247	19,854	4,393	22.1%



	Dec-20	Dec-19	Amt Chg	% Chg
Avg W. Prem YTD	1,878	1,664	214	12.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 46.2% for the month compared with the 34.3% increase we projected last month, and was up 37.8% year-to-date (see the following charts).



	Dec-20	Dec-19	Amt Chg	% Chg
WP (\$000s) curr mth	3,696	2,527	1,169	46.2%

	Dec-20	Dec-19	Amt Chg	% Chg
WP (\$000s) YTD	45,525	33,045	12,481	37.8%

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 December 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 12 Months Ended December 31, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2020 YTD	CY2021 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:															
Net Premiums Written	\$2,168	\$2,212	\$2,731	\$2,443	\$2,367	\$4,647	\$4,755	\$5,036	\$5,864	\$5,244	\$4,362	\$3,696	\$45,525	\$63,678	\$33,046
Decrease (Increase) in Unearned Premiums	657	464	(4)	320	492	(1,887)	(1,652)	(1,775)	(2,511)	(1,684)	(729)	185	(8,124)	(7,967)	(2,781)
Net Premiums Earned	\$2,825	\$2,676	\$2,727	\$2,763	\$2,859	\$2,760	\$3,103	\$3,261	\$3,353	\$3,560	\$3,633	\$3,881	\$37,401	\$55,711	\$30,265
Claims Incurred:															
Prior Accident Years:															
Undiscounted	(\$17)	(\$11)	\$567	(\$24)	\$139	(\$32)	(\$13)	(\$3,673)	\$0	(\$2,079)	(\$19)	(\$4)	(\$5,166)	\$0	\$107
Effect of Discounting	92	(50)	(292)	(38)	1,154	(60)	(71)	(150)	(126)	(314)	(128)	(88)	(71)	(1,433)	249
Discounted	\$75	(\$61)	\$275	(\$62)	\$1,293	(\$92)	(\$84)	(\$3,823)	(\$126)	(\$2,393)	(\$147)	(\$92)	(\$5,237)	(\$1,433)	\$356
Current Accident Year:															
Undiscounted	\$2,802	\$2,651	\$3,195	\$2,873	\$2,465	\$2,783	\$3,103	\$449	\$2,934	\$3,224	\$3,205	\$3,409	\$33,093	\$55,376	\$29,858
Effect of Discounting	200	176	94	154	525	230	246	188	201	271	249	252	2,786	5,066	1,505
Discounted	\$3,002	\$2,827	\$3,289	\$3,027	\$2,990	\$3,013	\$3,349	\$637	\$3,135	\$3,495	\$3,454	\$3,661	\$35,879	\$60,442	\$31,363
Claims Incurred	\$3,077	\$2,766	\$3,564	\$2,965	\$4,283	\$2,921	\$3,265	(\$3,186)	\$3,009	\$1,102	\$3,307	\$3,569	\$30,642	\$59,009	\$31,719
Underwriting Expenses:															
Expense Allowance	\$689	\$701	\$867	\$775	\$751	\$1,474	\$1,508	\$1,597	\$1,859	\$1,663	\$1,383	\$1,172	\$14,439	\$19,933	\$10,247
Change in UPDR/DPAC:															
Undiscounted	3	11	792	14	(473)	167	192	(1,850)	219	331	375	437	218	1,263	279
Effect of Discounting	(42)	(33)	(20)	(21)	416	187	169	195	276	157	109	26	1,419	916	504
Discounted	(39)	(22)	772	(7)	(57)	354	361	(1,655)	495	488	484	463	1,637	2,179	783
Underwriting Expenses	\$650	\$679	\$1,639	\$768	\$694	\$1,828	\$1,869	(\$58)	\$2,354	\$2,151	\$1,867	\$1,635	\$16,076	\$22,112	\$11,030
Net Underwriting Gain (Loss)	(\$902)	(\$769)	(\$2,476)	(\$970)	(\$2,118)	(\$1,989)	(\$2,031)	\$6,505	(\$2,010)	\$307	(\$1,541)	(\$1,323)	(\$9,317)	(\$25,410)	(\$12,484)
Administrative Expenses	\$60	\$85	\$61	\$70	\$67	\$75	\$75	\$62	\$65	\$117	\$51	\$104	\$892	\$1,761	\$753
Operating Result	(\$962)	(\$854)	(\$2,537)	(\$1,040)	(\$2,185)	(\$2,064)	(\$2,106)	\$6,443	(\$2,075)	\$190	(\$1,592)	(\$1,427)	(\$10,209)	(\$27,171)	(\$13,237)
Ratios:															
Claims & Expenses Incurred (Earned)															
Prior Accident Years	2.7%	-2.3%	10.1%	-2.2%	45.2%	-3.3%	-2.7%	-117.2%	-3.8%	-67.2%	-4.0%	-2.4%	-14.0%	-2.6%	1.2%
Current Accident Year	106.3%	105.6%	120.6%	109.6%	104.6%	109.2%	107.9%	19.5%	93.5%	98.2%	95.1%	94.3%	95.9%	108.5%	103.6%
All Accident Years Combined	109.0%	103.3%	130.7%	107.4%	149.8%	105.9%	105.2%	-97.7%	89.7%	31.0%	91.1%	91.9%	81.9%	105.9%	104.8%
Underwriting & Administrative Expenses (Earned)	25.1%	28.6%	62.3%	30.3%	26.6%	68.9%	62.6%	0.1%	72.1%	63.7%	52.8%	44.8%	45.4%	42.9%	38.9%
Combined Operating Ratio	134.1%	131.9%	193.0%	137.7%	176.4%	174.8%	167.8%	-97.6%	161.8%	94.7%	143.9%	136.7%	127.3%	148.8%	143.7%

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facility Association premium dollars invested directly by members.

Rounding difference may apply