

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 063

DATE: AUGUST 29, 2016

**SUBJECT: NOVA SCOTIA RISK SHARING POOL
– JULY 2016 OPERATIONAL REPORT**

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

Please be advised that the July 2016 Nova Scotia Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$3.4 million and the incurred loss ratio to the end of 7 months is 103.1%, as summarized in the table below.

Amounts in \$000s	July 2016	July 2015	Year to date Jul 2016	Year to Date Jul 2015
Written Premiums	1,712	1,622	9,183	8,713
Earned Premiums	1,285	1,209	8,474	8,038
Incurred Losses	1,249	1,181	8,735	8,000
Underwriting Expenses and Others	646	615	3,090	3,587
Net Result from Operations	(610)	(587)	(3,351)	(3,549)
Ratios:				
Loss ratio % - Prior Accident Year	(7.2%)	(5.9%)	(3.3%)	(4.4%)
- Current Accident Years	104.4%	103.6%	106.4%	103.9%
<i>Total</i>	97.2%	97.7%	103.1%	99.5%
Underwriting & Admin Exp.%	50.3%	50.9%	36.5%	44.6%
Combined Operating Ratio	147.5%	148.6%	139.6%	144.1%

Rounding differences may apply.

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These results are discussed in some detail in the “Current Month Results” section below. For additional numeric details, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2016” attached to this bulletin.

Updated Projection to Year-end 2016

The projected calendar year Net Result from Operations to December 2016 is -\$5.2 million and the estimated combined operating ratio to December 2016 is 134.9%. This updated projection to the end of the year has not changed significantly from the projection provided last month (-\$5.2 million and 134.8%).

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$0.6 million Net Result from Operations in the month of July 2016, a \$23 thousand deterioration from the same month last year. This deterioration is composed of a \$37 thousand unfavourable impact associated with the \$76 thousand increase in earned premium (at a combined ratio of 148.6%), offset by a \$14 thousand improvement stemming from the overall decrease in the combined ratio (from 148.6% to 147.5% applied to \$1.3 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 138.1% at the end of 6 months to 139.6% at the end of 7 months. The 1.5 percentage point increase is composed of a 2.5 percentage point increase in the expense ratio, offset by a 0.7 percentage point decrease in the Prior Accident Years loss ratio, further offset by a 0.3 percentage point decrease in the Current Accident Year loss ratio.

Variances from Projections

The table below provides a summary of key components of the operating results as compared to the estimates projected last month.

July 2016	Actual	Projection	Difference	Difference %
Written Premiums	1,712	1,642	70	4.3%
Earned Premiums	1,285	1,326	(41)	(3.1%)
Reported Losses				
Paid Losses	857	707	150	21.2%
Loss Expenses Paid	113	37	76	205.4%
Change in Outstanding Losses	1,412	224	1,188	530.4%
Total Reported Losses	2,382	968	1,414	146.1%
Change in IBNR *	(1,133)	355	(1,488)	
Change in Premium Deficiency (DPAC) *	4	(3)	7	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included at [Nova Scotia RSP July 2016 Operational Report - Actuarial Highlights](#).

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 July 2016, reported losses were \$1.4 million higher than projected. The Current Accident Year had a \$0.1 million favourable variance in reported losses, while the Prior Accident Years had a \$1.5 million unfavourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variance for Prior Accident Years' reported claims activity was beyond the set threshold for the month. Management investigated the variance and is satisfied it is appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

Part of management's investigation involved discussion with a member company who is in the process of completing a comprehensive review of their open claims transactions as reported to the FA RSP system, resulting in the closure of six open claims (with no associated payments) with the case reserve take downs in total amounting to \$1.7 million during the month of June 2016 (last month). During the current month (July 2016), correcting transactions were posted to reverse these claim closures (and associated case reserve takedowns). The updated amounts have been confirmed as correct with the member, but our investigation and discussion with the member continues to ensure our records are accurate in relation to their own (i.e. the member's) records in relation to their RSP claims portfolio.

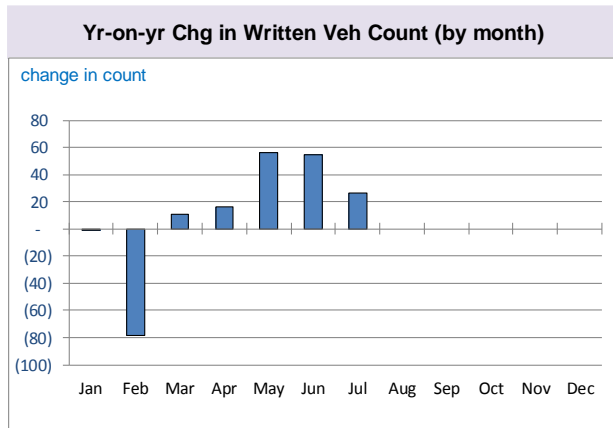
Booking IBNR

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. IBNR is discussed in more detail in the [Nova Scotia RSP July 2016 Operational Report – Actuarial Highlights](#).

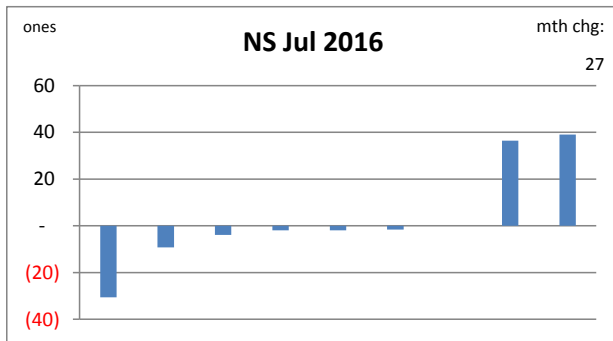
Effect of Quarterly Valuation

The July 2016 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at March 31, 2016). The actuarial valuation will be updated next as at June 30, 2016 and we anticipate that the results will be reflected in the August 2016 Operational Report.

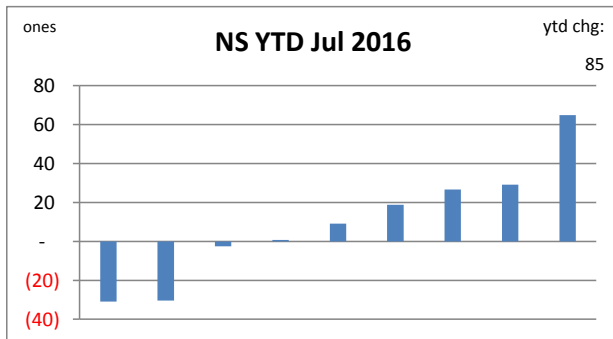
Management Comments



The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with July showing an increase of 27 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 34 vehicles, indicating a variance of 61 from the actual transfers. This variance was mainly due to one member company groups transferring a greater number of vehicles to the pool in July than projected.

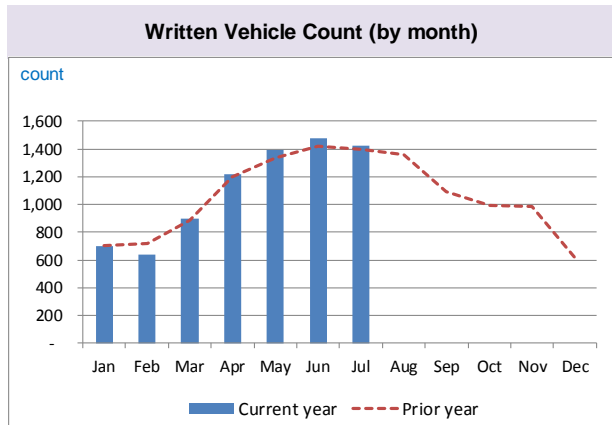


The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Six member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 2 transferred more and 1 remained the same. Of the 6 member company groups transferring fewer vehicles, 1 member company group accounted for 62% of the total transfer decrease for these “decliner” members. Of the 2 member company groups transferring more vehicles, 1 member company group accounted for 52% of the total transfer increase for these “grower” members.

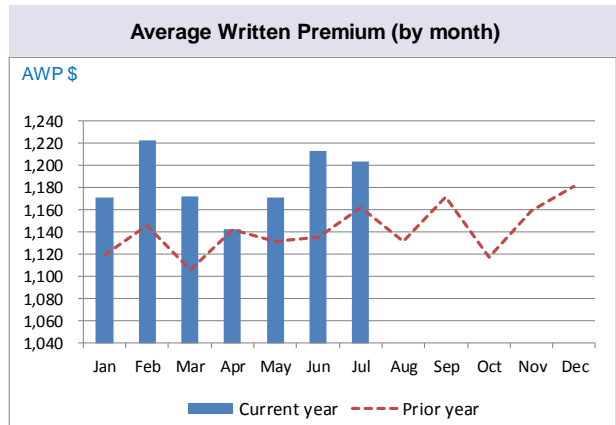


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

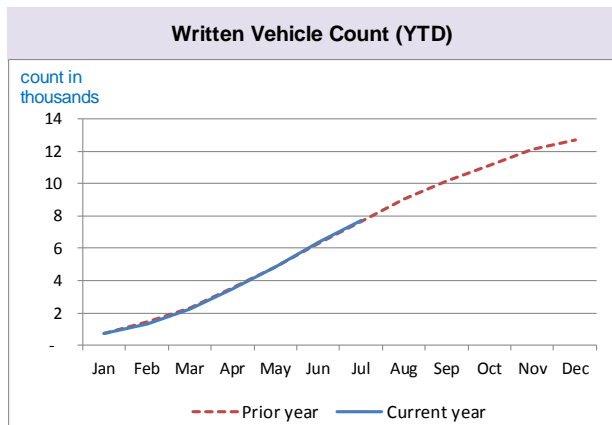
July’s vehicle count transfers to the pool represent a 1.9% increase from July 2015, and vehicle counts were up 1.1% year-to-date. Average written premium was up 3.6% in July 2016, and was up 4.2% year-to-date (see charts at the top of the next page).



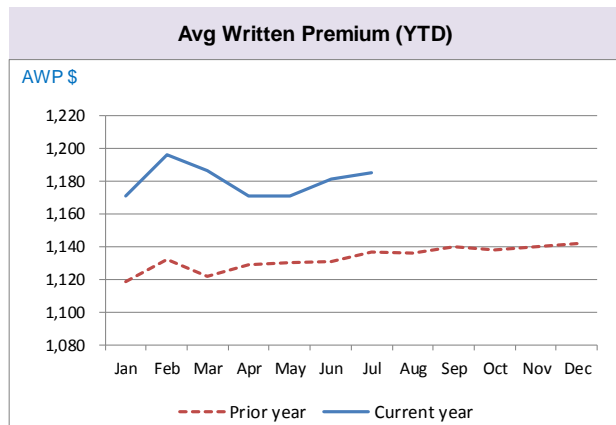
	Jul-16	Jul-15	Amt Chg	% Chg
W. Veh curr mth	1,422	1,396	27	1.9%



	Jul-16	Jul-15	Amt Chg	% Chg
AWP curr mth	1,204	1,162	42	3.6%



	Jul-16	Jul-15	Amt Chg	% Chg
W. Vehicles YTD	7,749	7,663	85	1.1%

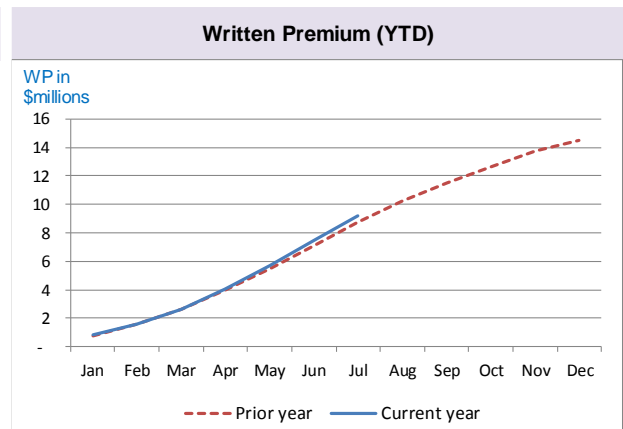
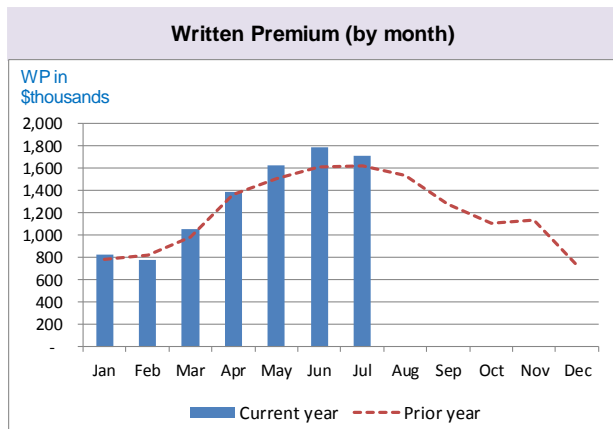


	Jul-16	Jul-15	Amt Chg	% Chg
Avg W. Prem YTD	1,185	1,137	48	4.2%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 5.5% for the month compared with the 1.2% increase we projected last month, and was up 5.4% year-to-date (see charts at the top of the next page).

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	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) curr mth	1,712	1,622	90	5.5%

	Jul-16	Jul-15	Amt Chg	% Chg
WP (\$000s) YTD	9,183	8,713	471	5.4%

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

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

Related links:

[Nova Scotia RSP July 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Nova Scotia

Operating Results for the 7 Months Ended July 31, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
Underwriting Revenue:										
Net Premiums Written	\$822	\$783	\$1,055	\$1,390	\$1,631	\$1,790	\$1,712	\$9,183	\$14,968	\$14,500
Decrease (Increase) in Unearned Premiums	343	360	167	(200)	(387)	(565)	(427)	(709)	(179)	(421)
Net Premiums Earned	\$1,165	\$1,143	\$1,222	\$1,190	\$1,244	\$1,225	\$1,285	\$8,474	\$14,789	\$14,079
Claims Incurred:										
Prior Accident Years:										
Undiscounted	(\$78)	(\$16)	(\$271)	(\$12)	\$285	(\$5)	\$0	(\$97)	(\$97)	\$431
Effect of Discounting	(33)	(33)	15	(38)	25	(26)	(92)	(182)	(518)	(255)
Discounted	(\$111)	(\$49)	(\$256)	(\$50)	\$310	(\$31)	(\$92)	(\$279)	(\$615)	\$176
Current Accident Year:										
Undiscounted	\$1,245	\$1,159	\$1,055	\$1,138	\$1,218	\$1,173	\$1,224	\$8,212	\$14,223	\$13,503
Effect of Discounting	132	102	101	110	126	114	117	802	1,213	1,187
Discounted	\$1,377	\$1,261	\$1,156	\$1,248	\$1,344	\$1,287	\$1,341	\$9,014	\$15,436	\$14,690
Claims Incurred	\$1,266	\$1,212	\$900	\$1,198	\$1,654	\$1,256	\$1,249	\$8,735	\$14,821	\$14,866
Underwriting Expenses:										
Expense Allowance	\$287	\$273	\$368	\$484	\$568	\$623	\$596	\$3,199	\$5,212	\$5,008
Change in UPDR/DPAC:										
Undiscounted	6	(16)	(336)	1	(33)	(41)	(39)	(458)	(572)	546
Effect of Discounting	(36)	(36)	(59)	20	96	58	43	86	13	181
Discounted	(\$30)	(\$52)	(\$395)	\$21	\$63	\$17	\$4	(372)	(\$559)	\$727
Underwriting Expenses	\$257	\$221	(\$27)	\$505	\$631	\$640	\$600	\$2,827	\$4,653	\$5,735
Net Underwriting Gain (Loss)	(\$358)	(\$290)	\$349	(\$513)	(\$1,041)	(\$671)	(\$564)	(\$3,088)	(\$4,685)	(\$6,522)
Administrative Expenses	\$29	\$36	\$37	\$34	\$43	\$38	\$46	\$263	\$485	\$507
Net Result from Operations	(\$387)	(\$326)	\$312	(\$547)	(\$1,084)	(\$709)	(\$610)	(\$3,351)	(\$5,170)	(\$7,029)
Ratios:										
Claims & Expenses Incurred (Earned)										
Prior Accident Years	-9.5%	-4.3%	-20.9%	-4.2%	24.9%	-2.5%	-7.2%	-3.3%	-4.2%	1.3%
Current Accident Year	118.2%	110.3%	94.6%	104.9%	108.0%	105.1%	104.4%	106.4%	104.4%	104.3%
All Accident Years Combined	108.7%	106.0%	73.7%	100.7%	132.9%	102.6%	97.2%	103.1%	100.2%	105.6%
Underwriting & Administrative Expenses (Earned)	24.5%	22.5%	0.8%	45.3%	54.2%	55.3%	50.3%	36.5%	34.7%	44.3%
Combined Operating Ratio	133.2%	128.5%	74.5%	146.0%	187.1%	157.9%	147.5%	139.6%	134.9%	149.9%

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