

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F16 – 073**

**DATE: SEPTEMBER 28, 2016**

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

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

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

## **New This Month**

### Valuation

A valuation of the Nova Scotia Risk Sharing Pool (“RSP”) as at June 30, 2016 has been completed since last month’s Operational Report and the results of that valuation have been incorporated into this month’s Operational Report. The valuation was completed by the Facility Association’s internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

The implementation of the new valuation resulted in an estimated overall **\$1.0 million favourable** impact on the month’s net result from operations, subtracting an estimated 10.1 points from the year-to-date Combined Operating Ratio (ending at 129.8%). The impact is summarized in the tables at the top of the next page<sup>1</sup>.

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<sup>1</sup> In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dscst rate” refers to the impact of changes in the selected discount rate applied to projected cashflows; and “apv adj.” refers to “actuarial present value adjustments”.

## Bulletin F16-073

### Nova Scotia Risk Sharing Pool – August 2016 Operational Report

NS	unfav / (fav) for the month and ytd						ytd EP 9,754 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(250)	(45)	(295)	41	(638)	(892)	(2.6%)	(0.5%)	(3.0%)	0.4%	(6.5%)	(9.1%)
CAY	(40)	(12)	(52)	15	(150)	(187)	(0.4%)	(0.1%)	(0.5%)	0.2%	(1.5%)	(1.9%)
Prem Def	198	14	212	11	(130)	93	2.0%	0.1%	2.2%	0.1%	(1.3%)	1.0%
<b>TOTAL</b>	<b>(92)</b>	<b>(43)</b>	<b>(135)</b>	<b>67</b>	<b>(918)</b>	<b>(986)</b>	<b>(0.9%)</b>	<b>(0.4%)</b>	<b>(1.4%)</b>	<b>0.7%</b>	<b>(9.4%)</b>	<b>(10.1%)</b>

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.1 million favourable impact – see column [3] in the left table above), offset by the impact of a 5 basis point decrease in the selected discount rate (from 0.61% to 0.56%, generating a \$67 thousand unfavourable impact – see column [4] in the left table above). Finally, there was no change in the margin for adverse deviation in investment yield (remains at 25 basis points) but the margins for adverse deviation for claims development as selected at the coverage / accident year level were updated with this valuation (generating a \$0.9 million favourable impact – see column [5] in the left table above).

Please see “Effect of Quarterly Valuation” further in this bulletin for additional details on the impacts of the updated valuation.

### Summary of Financial Results

The calendar year-to-date Net Result from Operations is -\$2.9 million and the incurred loss ratio to the end of 8 months is 90.9%, as summarized in the table below.

Amounts in \$000s	August 2016	August 2015	Year to date Aug 2016	Year to Date Aug 2015
Written Premiums	1,662	1,536	10,845	10,249
Earned Premiums	1,280	1,230	9,754	9,268
Incurred Losses	131	2,228	8,866	10,228
Underwriting Expenses and Others	708	860	3,798	4,447
<b>Net Result from Operations</b>	<b>441</b>	<b>(1,858)</b>	<b>(2,910)</b>	<b>(5,407)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Year</b>	<b>(78.8%)</b>	55.9%	<b>(13.2%)</b>	3.6%
<b>- Current Accident Years</b>	89.0%	125.2%	104.1%	106.7%
<b>Total</b>	<b>10.2%</b>	<b>181.1%</b>	<b>90.9%</b>	<b>110.3%</b>
<b>Underwriting &amp; Admin Exp.%</b>	<b>55.3%</b>	<b>69.9%</b>	<b>38.9%</b>	<b>48.0%</b>
<b>Combined Operating Ratio</b>	<b>65.5%</b>	<b>251.0%</b>	<b>129.8%</b>	<b>158.3%</b>

*Rounding differences may apply.*

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 -\$4.5 million and the estimated combined operating ratio to December 2016 is 130.4%. This updated projection to the end of the year has improved by \$0.7 million from the projection provided last month (-\$5.2 million and 134.9%), mainly due to impact of the June 30, 2016 valuation, as summarized in the table immediately below (see more information under “Effect of Quarterly Valuation”). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

NS	unfav / (fav) projected for full year						year EP 10,009 (projected this month)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % full year EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(250)	(43)	(293)	41	(602)	(854)	(2.5%)	(0.4%)	(2.9%)	0.4%	(6.0%)	(8.5%)
CAY	(60)	(22)	(82)	19	(202)	(265)	(0.6%)	(0.2%)	(0.8%)	0.2%	(2.0%)	(2.6%)
Prem Def	408	37	445	9	(121)	333	4.1%	0.4%	4.4%	0.1%	(1.2%)	3.3%
TOTAL	98	(28)	70	69	(925)	(786)	1.0%	(0.3%)	0.7%	0.7%	(9.2%)	(7.9%)

Current Month Results

The Nova Scotia Risk Sharing Pool produced a \$0.4 million Net Result from Operations in the month of August 2016, a \$2.3 million improvement from the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 251.0% to 65.5% applied to \$1.2 million in earned premium). The primary driver of the difference in combined ratios is the difference in the respective valuation implementation impacts.

This month’s results moved the year-to-date combined operating ratio from 139.6% at the end of 7 months to 129.8% at the end of 8 months. The 9.8 percentage point decrease is composed of a 9.9 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 2.3 percentage point decrease in the Current Accident Year loss ratio, offset by a 2.4 percentage point increase in the expense ratio.

Variances from Projections

The table at the top of the next page provides a summary of key components of the operating results as compared to the estimates projected last month.

August 2016	Actual	Projection	Difference	Difference %
Written Premiums	1,662	1,551	111	7.2%
Earned Premiums	1,280	1,304	(24)	(1.8%)
Reported Losses				
Paid Losses	1,217	637	580	91.1%
Loss Expenses Paid	47	29	18	62.1%
Change in Outstanding Losses	266	228	38	16.7%
<b>Total Reported Losses</b>	<b>1,530</b>	<b>894</b>	<b>636</b>	<b>71.1%</b>
Change in IBNR *	(1,399)	424	(1,823)	
Change in Premium Deficiency (DPAC) *	87	(11)	98	

(Amounts in \$000's)

Rounding differences may occur.

\* Detailed information is included at [Nova Scotia RSP August 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 August 2016, reported losses were \$0.6 million higher than projected. The Current Accident Year had a \$0.1 million unfavourable variance in reported losses, and the Prior Accident Years had an approximately \$0.5 million unfavourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

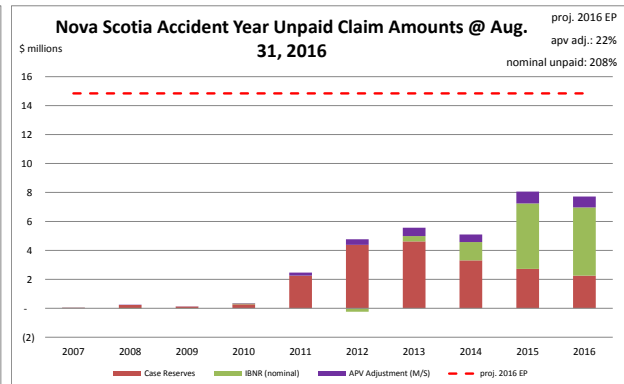
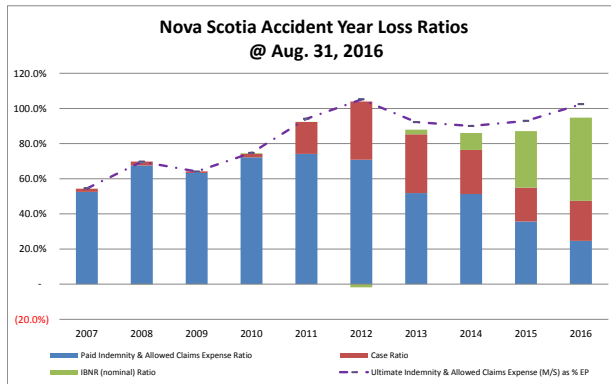
The variance for Prior Accident Years' reported claims activity was beyond the set threshold for the month. Management investigated the variance and is satisfied it is appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

### Effect of Quarterly Valuation

The August 2016 Nova Scotia Risk Sharing Pool Operational Report reflects the results of an updated valuation as at June 30, 2016, with the associated impacts in relation to the results for August 2016 summarized in the table immediately below.

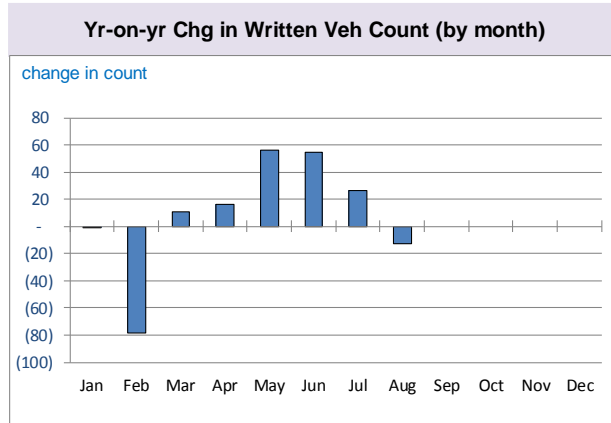
NS	unfav / (fav) for the month and ytd						mth EP 1,280 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(250)	(45)	(295)	41	(638)	(892)	(19.5%)	(3.5%)	(23.0%)	3.2%	(49.8%)	(69.7%)
CAY	(40)	(12)	(52)	15	(150)	(187)	(3.1%)	(0.9%)	(4.1%)	1.2%	(11.7%)	(14.6%)
Prem Def	198	14	212	11	(130)	93	15.5%	1.1%	16.6%	0.9%	(10.2%)	7.3%
<b>TOTAL</b>	<b>(92)</b>	<b>(43)</b>	<b>(135)</b>	<b>67</b>	<b>(918)</b>	<b>(986)</b>	<b>(7.2%)</b>	<b>(3.4%)</b>	<b>(10.5%)</b>	<b>5.2%</b>	<b>(71.7%)</b>	<b>(77.0%)</b>

The charts below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.

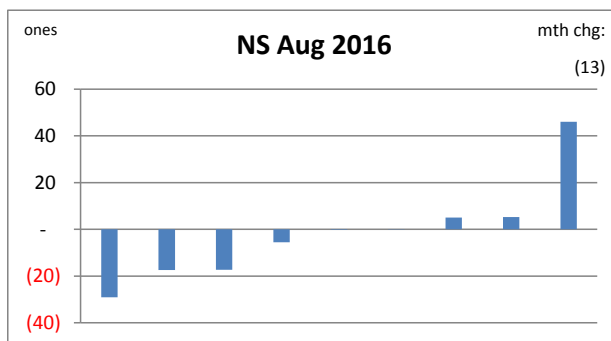


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Nova Scotia RSP August 2016 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at June 30, 2016](#). The actuarial valuation will be updated next as at September 30, 2016 and we anticipate the results will be reflected in the October 2016 Operational Report.

Management Comments

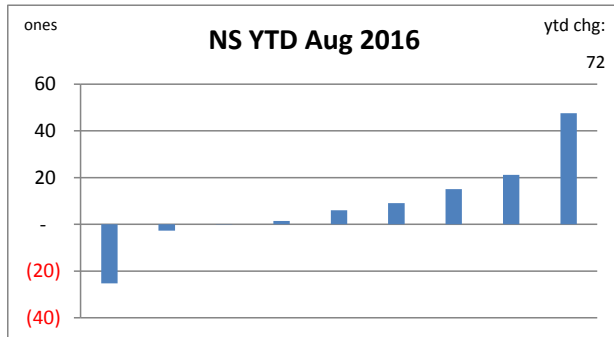


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with August showing a decrease of 13 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 60 vehicles, indicating a variance of 47 from the actual transfers. This variance was mainly due to one member company groups transferring a greater number of vehicles to the pool in August than projected.



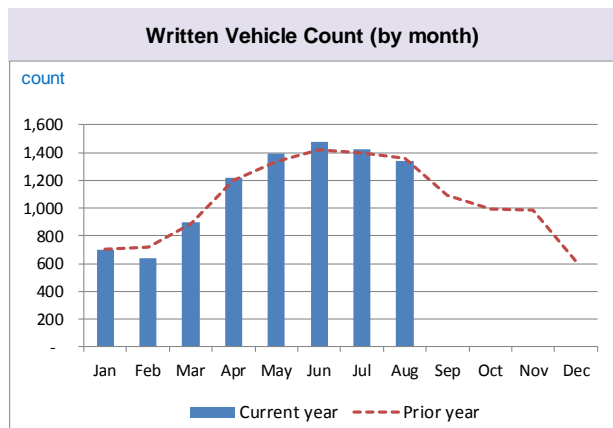
The chart on the left shows the overall change in the month, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Six member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 3 transferred more. Of the 6 member company groups transferring fewer vehicles, 1 member company group accounted for 42% of the total transfer decrease for these “decliner” members.

Of the 3 member company groups transferring more vehicles, 1 member company group accounted for 82% of the total transfer increase for these “grower” members.

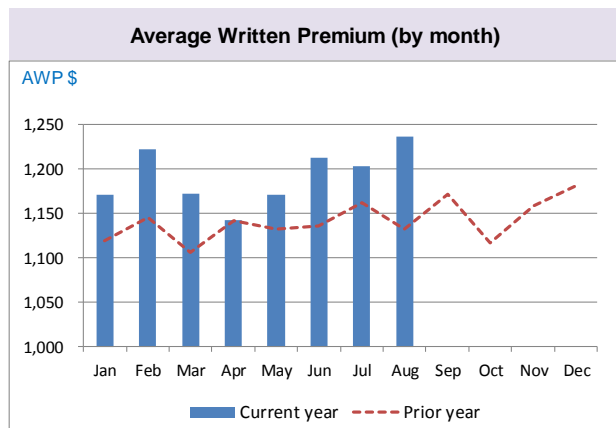


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

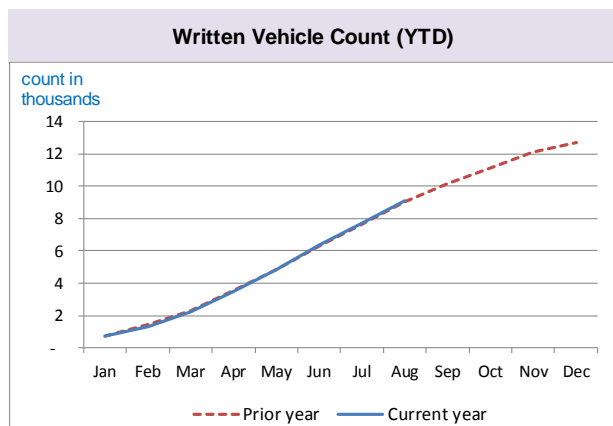
August’s vehicle count transfers to the pool represent a 1.0% decrease from August 2015, but vehicle counts were up 0.8% year-to-date. Average written premium was up 9.3% in August 2016, and was up 5.0% year-to-date (see charts immediately below).



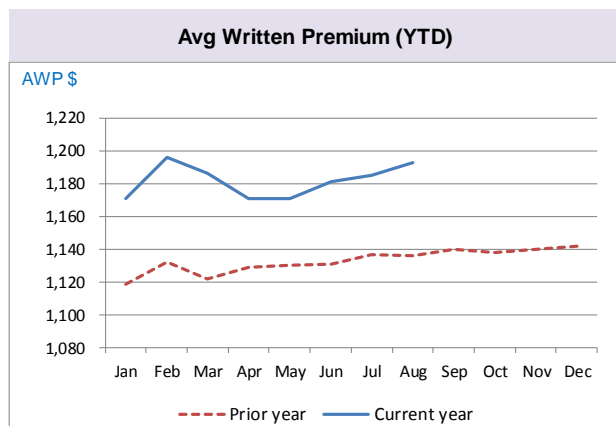
	Aug-16	Aug-15	Amt Chg	% Chg
W. Veh curr mth	1,343	1,356	(13)	-1.0%



	Aug-16	Aug-15	Amt Chg	% Chg
AWP curr mth	1,237	1,132	105	9.3%



	Aug-16	Aug-15	Amt Chg	% Chg
W. Vehicles YTD	9,092	9,019	72	0.8%

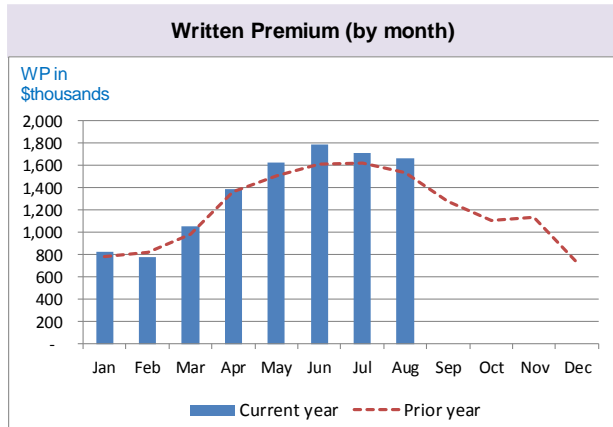


	Aug-16	Aug-15	Amt Chg	% Chg
Avg W. Prem YTD	1,193	1,136	57	5.0%

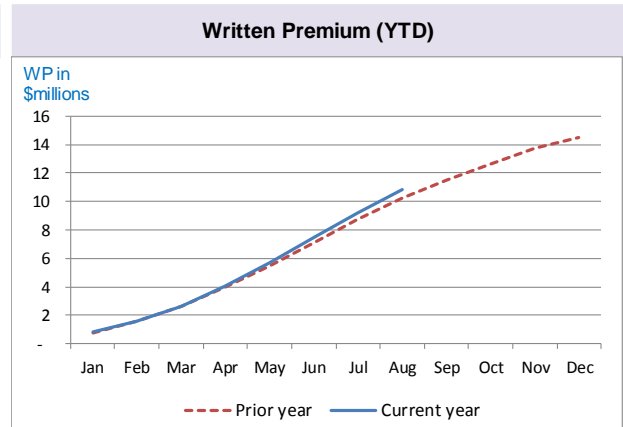
**Bulletin F16-073**

**Nova Scotia Risk Sharing Pool – August 2016 Operational Report**

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 8.2% for the month compared with the 1.0% increase we projected last month, and was up 5.8% year-to-date (see charts immediately below).



	Aug-16	Aug-15	Amt Chg	% Chg
WP (\$000s) curr mth	1,662	1,536	126	8.2%



	Aug-16	Aug-15	Amt Chg	% Chg
WP (\$000s) YTD	10,845	10,248	597	5.8%

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 August 2016 Operational Report – Actuarial Highlights](#)

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at June 30, 2016](#)

[Actuarial Quarterly Valuation Highlights Exhibits – Nova Scotia RSP](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2016**

Risk Sharing Pool - Nova Scotia

Operating Results for the 8 Months Ended August 31, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	CY2016 YTD	CY2016 12 MONTHS Updated Projection	CY2015 12 MONTHS Actual
<b>Underwriting Revenue:</b>											
Net Premiums Written	\$822	\$783	\$1,055	\$1,390	\$1,631	\$1,790	\$1,712	\$1,662	\$10,845	\$15,243	\$14,500
Decrease (Increase) in Unearned Premiums	343	360	167	(200)	(387)	(565)	(427)	(382)	(1,091)	(399)	(421)
<b>Net Premiums Earned</b>	<b>\$1,165</b>	<b>\$1,143</b>	<b>\$1,222</b>	<b>\$1,190</b>	<b>\$1,244</b>	<b>\$1,225</b>	<b>\$1,285</b>	<b>\$1,280</b>	<b>\$9,754</b>	<b>\$14,844</b>	<b>\$14,079</b>
<b>Claims Incurred:</b>											
Prior Accident Years:											
Undiscounted	(\$78)	(\$16)	(\$271)	(\$12)	\$285	(\$5)	\$0	(\$262)	(\$359)	(\$359)	\$431
Effect of Discounting	(33)	(33)	15	(38)	25	(26)	(92)	(746)	(928)	(1,093)	(255)
Discounted	(\$111)	(\$49)	(\$256)	(\$50)	\$310	(\$31)	(\$92)	(\$1,008)	(\$1,287)	(\$1,452)	\$176
Current Accident Year:											
Undiscounted	\$1,245	\$1,159	\$1,055	\$1,138	\$1,218	\$1,173	\$1,224	\$1,189	\$9,401	\$14,226	\$13,503
Effect of Discounting	132	102	101	110	126	114	117	(50)	752	1,013	1,187
Discounted	\$1,377	\$1,261	\$1,156	\$1,248	\$1,344	\$1,287	\$1,341	\$1,139	\$10,153	\$15,239	\$14,690
<b>Claims Incurred</b>	<b>\$1,266</b>	<b>\$1,212</b>	<b>\$900</b>	<b>\$1,198</b>	<b>\$1,654</b>	<b>\$1,256</b>	<b>\$1,249</b>	<b>\$131</b>	<b>\$8,866</b>	<b>\$13,787</b>	<b>\$14,866</b>
<b>Underwriting Expenses:</b>											
Expense Allowance	\$287	\$273	\$368	\$484	\$568	\$623	\$596	\$578	\$3,777	\$5,307	\$5,008
Change in UPDR/DPAC:											
Undiscounted	6	(16)	(336)	1	(33)	(41)	(39)	156	(302)	(178)	546
Effect of Discounting	(36)	(36)	(59)	20	96	58	43	(69)	17	(37)	181
Discounted	(\$30)	(\$52)	(\$395)	\$21	\$63	\$17	\$4	\$87	(285)	(\$215)	\$727
<b>Underwriting Expenses</b>	<b>\$257</b>	<b>\$221</b>	<b>(\$27)</b>	<b>\$505</b>	<b>\$631</b>	<b>\$640</b>	<b>\$600</b>	<b>\$665</b>	<b>\$3,492</b>	<b>\$5,092</b>	<b>\$5,735</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$358)</b>	<b>(\$290)</b>	<b>\$349</b>	<b>(\$513)</b>	<b>(\$1,041)</b>	<b>(\$671)</b>	<b>(\$564)</b>	<b>\$484</b>	<b>(\$2,604)</b>	<b>(\$4,035)</b>	<b>(\$6,522)</b>
<b>Administrative Expenses</b>	<b>\$29</b>	<b>\$36</b>	<b>\$37</b>	<b>\$34</b>	<b>\$43</b>	<b>\$38</b>	<b>\$46</b>	<b>\$43</b>	<b>\$306</b>	<b>\$478</b>	<b>\$507</b>
<b>Net Result from Operations</b>	<b>(\$387)</b>	<b>(\$326)</b>	<b>\$312</b>	<b>(\$547)</b>	<b>(\$1,084)</b>	<b>(\$709)</b>	<b>(\$610)</b>	<b>\$441</b>	<b>(\$2,910)</b>	<b>(\$4,513)</b>	<b>(\$7,029)</b>
<b>Ratios:</b>											
<b>Claims &amp; Expenses Incurred (Earned)</b>											
Prior Accident Years	-9.5%	-4.3%	-20.9%	-4.2%	24.9%	-2.5%	-7.2%	-78.8%	-13.2%	-9.8%	1.3%
Current Accident Year	118.2%	110.3%	94.6%	104.9%	108.0%	105.1%	104.4%	89.0%	104.1%	102.7%	104.3%
All Accident Years Combined	108.7%	106.0%	73.7%	100.7%	132.9%	102.6%	97.2%	10.2%	90.9%	92.9%	105.6%
Underwriting & Administrative Expenses (Earned)	24.5%	22.5%	0.8%	45.3%	54.2%	55.3%	50.3%	55.3%	38.9%	37.5%	44.3%
<b>Combined Operating Ratio</b>	<b>133.2%</b>	<b>128.5%</b>	<b>74.5%</b>	<b>146.0%</b>	<b>187.1%</b>	<b>157.9%</b>	<b>147.5%</b>	<b>65.5%</b>	<b>129.8%</b>	<b>130.4%</b>	<b>149.9%</b>

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