

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 083

DATE: OCTOBER 27, 2016

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

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

Please be advised that the September 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 Operating Result is -\$3.5 million and the incurred loss ratio to the end of 9 months is 91.5%, as summarized in the table below.

Amounts in \$000s	September 2016	September 2015	Year to date Sep 2016	Year to Date Sep 2015
Premiums Written	1,570	1,279	12,415	11,528
Premiums Earned	1,248	1,173	11,002	10,441
Claims Incurred	1,200	1,217	10,066	11,445
General Expenses	633	491	4,431	4,938
Operating Result	(585)	(535)	(3,495)	(5,942)
Ratios:				
Loss ratio % - Prior Accident Years	(6.1%)	(2.9%)	(12.4%)	2.9%
- Current Accident Year	102.2%	106.6%	103.9%	106.7%
<i>Total</i>	96.1%	103.7%	91.5%	109.6%
General Expenses %	50.7%	41.9%	40.3%	47.3%
Combined Operating Ratio	146.8%	145.6%	131.8%	156.9%

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 Operating Result to December 2016 is -\$5.2 million and the estimated combined operating ratio to December 2016 is 134.6%. This updated projection to the end of the year has deteriorated by \$0.7 million from the projection provided last month (-\$4.5 million and 130.4%). This deterioration is driven by a \$1.6 million increase in projected written premium (and associated assumption updates), resulting in a higher projected net operating loss.

Current Month Results

The Nova Scotia Risk Sharing Pool produced a \$0.6 million Operating Result in the month of September 2016, a \$50 thousand deterioration from the same month last year. This deterioration is composed of an estimated \$35 thousand unfavourable impact associated with the \$0.1 million increase in earned premium (at a combined ratio of 145.6%), with the remaining \$15 thousand deterioration stemming from the overall increase in the combined ratio (from 145.6% to 146.8% applied to \$1.2 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 129.8% at the end of 8 months to 131.8% at the end of 9 months. The 2.0 percentage point increase is composed of a 0.8 percentage point increase in the Prior Accident Years loss ratio, and a 1.4 percentage point increase in the expense ratio, offset by a 0.2 percentage point decrease in the Current Accident Year loss 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.

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September 2016	Actual	Projection	Difference	Difference %
Premiums Written	1,570	1,340	230	17.2%
Premiums Earned	1,248	1,253	(5)	(0.4%)
Reported Losses				
Paid Losses	968	288	680	236.1%
Paid Expenses	87	10	77	770.0%
Change in Outstanding Losses	(337)	411	(748)	(182.0%)
Total Reported Losses	718	709	9	1.3%
Change in IBNR Provision *	482	573	(91)	
Change in Premium Deficiency (DPAC) *	51	32	19	

*(Amounts in \$000's)**Rounding differences may occur.** Detailed information is included at [Nova Scotia RSP September 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 September 2016, reported losses were \$9 thousand higher than projected. The Current Accident Year had a \$0.2 million favourable variance in reported losses, while the Prior Accident Years had a \$0.2 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.

Booking IBNR

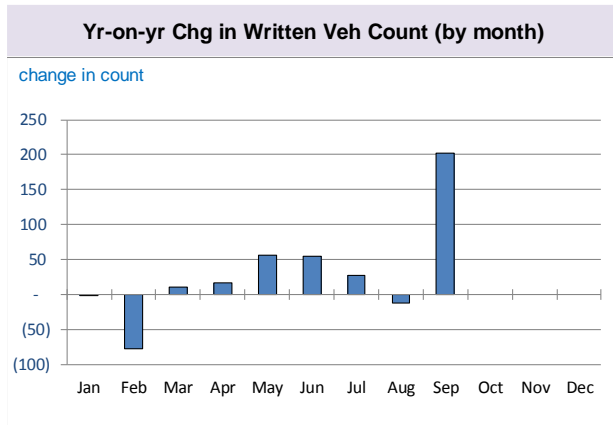
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 September 2016 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

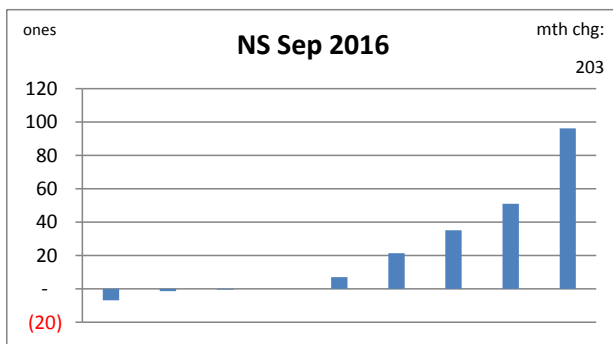
The September 2016 Nova Scotia Risk Sharing Pool Operational Report does not reflect the

results of an updated valuation (the most recent valuation is as at June 30, 2016). The actuarial valuation will be updated next as at September 30, 2016 and we anticipate that the results will be reflected in the October 2016 Operational Report.

Management Comments

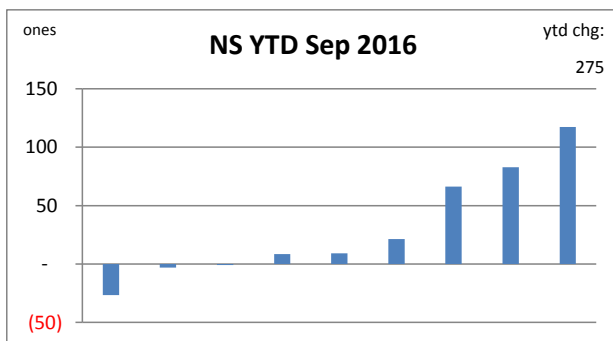


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with September showing an increase of 203 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 23 vehicles, indicating a variance of 180 from the actual transfers. This variance was mainly due to one member company groups transferring a greater number of vehicles to the pool in September than projected.



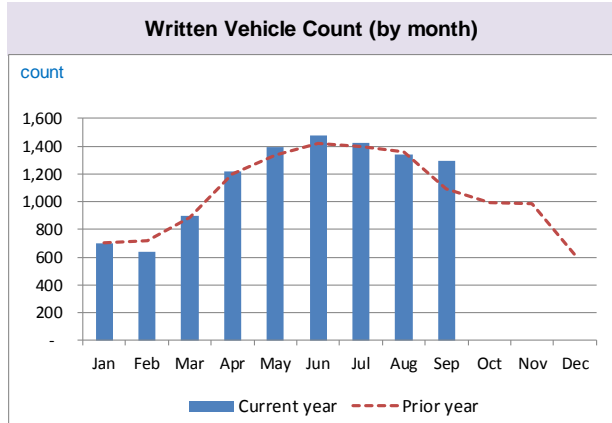
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Three member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 5 transferred more and 1 remained the same. Of the 3 member company groups transferring

fewer vehicles, 1 member company group accounted for 81% of the total transfer decrease for these “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 46% of the total transfer increase for these “grower” members.

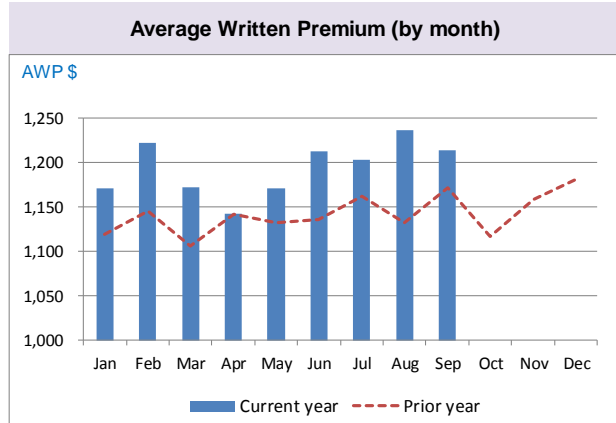


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

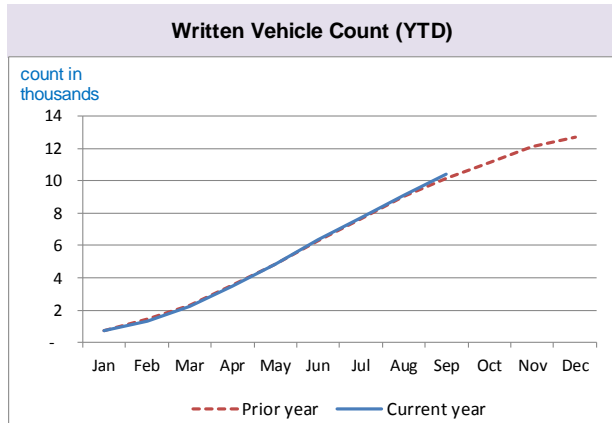
September’s vehicle count transfers to the pool represent an 18.6% increase from September 2015, and vehicle counts were up 2.7% year-to-date. Average written premium was up 3.6% in September 2016, and was up 4.9% year-to-date (see charts immediately below).



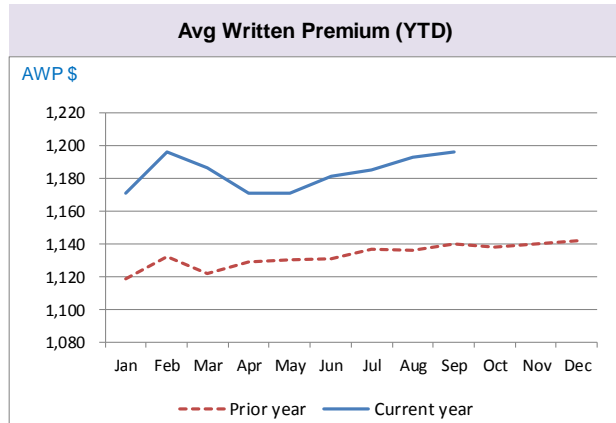
	Sep-16	Sep-15	Amt Chg	% Chg
W. Veh curr mth	1,293	1,091	203	18.6%



	Sep-16	Sep-15	Amt Chg	% Chg
AWP curr mth	1,214	1,172	42	3.6%

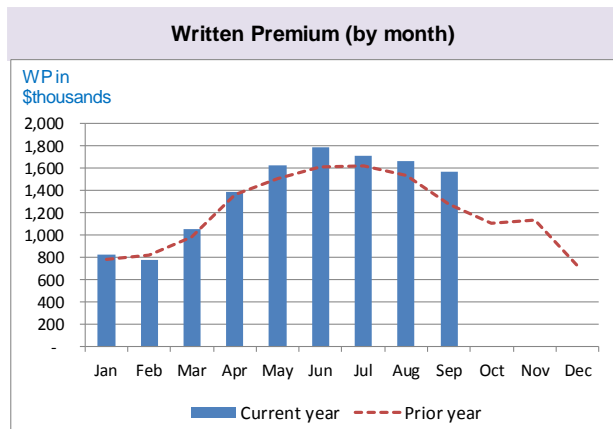


	Sep-16	Sep-15	Amt Chg	% Chg
W. Vehicles YTD	10,385	10,110	275	2.7%

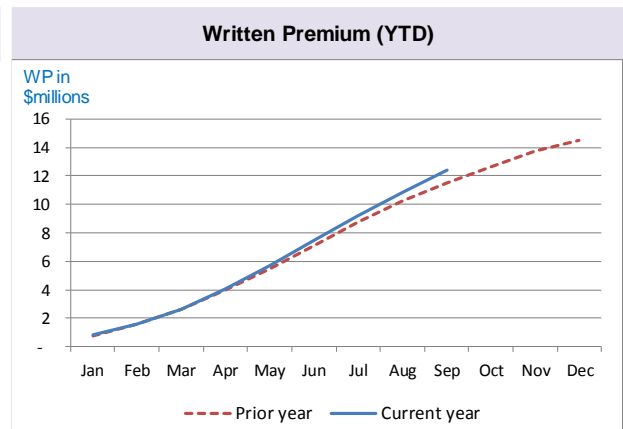


	Sep-16	Sep-15	Amt Chg	% Chg
Avg W. Prem YTD	1,196	1,140	56	4.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 22.8% for the month compared with the 4.8% increase we projected last month, and was up 7.7% year-to-date (see charts at the top of the next page).



	Sep-16	Sep-15	Amt Chg	% Chg
WP (\$000s) curr mth	1,570	1,279	292	22.8%



	Sep-16	Sep-15	Amt Chg	% Chg
WP (\$000s) YTD	12,416	11,527	889	7.7%

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 September 2016 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2016

Risk Sharing Pool - Nova Scotia

EXHIBIT 1

Operating Results for the 9 Months Ended September 30, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

	January	February	March	April	May	June	July	August	September	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	\$1,662	\$1,570	\$12,415	\$16,857	\$14,500
Decrease (Increase) in Unearned Premiums	343	360	167	(200)	(387)	(565)	(427)	(382)	(322)	(1,413)	(1,866)	(421)
Net Premiums Earned	\$1,165	\$1,143	\$1,222	\$1,190	\$1,244	\$1,225	\$1,285	\$1,280	\$1,248	\$11,002	\$14,991	\$14,079
Claims Incurred:												
Prior Accident Years:												
Undiscounted	(\$78)	(\$16)	(\$271)	(\$12)	\$285	(\$5)	\$0	(\$262)	(\$6)	(\$365)	(\$365)	\$431
Effect of Discounting	(33)	(33)	15	(38)	25	(26)	(92)	(746)	(70)	(998)	(1,156)	(255)
Discounted	(\$111)	(\$49)	(\$256)	(\$50)	\$310	(\$31)	(\$92)	(\$1,008)	(\$76)	(\$1,363)	(\$1,521)	\$176
Current Accident Year:												
Undiscounted	\$1,245	\$1,159	\$1,055	\$1,138	\$1,218	\$1,173	\$1,224	\$1,189	\$1,189	\$10,590	\$14,372	\$13,503
Effect of Discounting	132	102	101	110	126	114	117	(50)	87	839	1,030	1,187
Discounted	\$1,377	\$1,261	\$1,156	\$1,248	\$1,344	\$1,287	\$1,341	\$1,139	\$1,276	\$11,429	\$15,402	\$14,690
Claims Incurred	\$1,266	\$1,212	\$900	\$1,198	\$1,654	\$1,256	\$1,249	\$131	\$1,200	\$10,066	\$13,881	\$14,866
Underwriting Expenses:												
Expense Allowance	\$287	\$273	\$368	\$484	\$568	\$623	\$596	\$578	\$547	\$4,324	\$5,868	\$5,008
Change in UPDR/DPAC:												
Undiscounted	6	(16)	(336)	1	(33)	(41)	(39)	156	19	(283)	(187)	546
Effect of Discounting	(36)	(36)	(59)	20	96	58	43	(69)	32	49	100	181
Discounted	(\$30)	(\$52)	(\$395)	\$21	\$63	\$17	\$4	\$87	\$51	(234)	(\$87)	\$727
Underwriting Expenses	\$257	\$221	(\$27)	\$505	\$631	\$640	\$600	\$665	\$598	\$4,090	\$5,781	\$5,735
Net Underwriting Gain (Loss)	(\$358)	(\$290)	\$349	(\$513)	(\$1,041)	(\$671)	(\$564)	\$484	(\$550)	(\$3,154)	(\$4,671)	(\$6,522)
Administrative Expenses	\$29	\$36	\$37	\$34	\$43	\$38	\$46	\$43	\$35	\$341	\$522	\$507
Operating Result	(\$387)	(\$326)	\$312	(\$547)	(\$1,084)	(\$709)	(\$610)	\$441	(\$585)	(\$3,495)	(\$5,193)	(\$7,029)
Ratios:												
Claims & Expenses Incurred (Earned)												
Prior Accident Years	-9.5%	-4.3%	-20.9%	-4.2%	24.9%	-2.5%	-7.2%	-78.8%	-6.1%	-12.4%	-10.1%	1.3%
Current Accident Year	118.2%	110.3%	94.6%	104.9%	108.0%	105.1%	104.4%	89.0%	102.2%	103.9%	102.7%	104.3%
All Accident Years Combined	108.7%	106.0%	73.7%	100.7%	132.9%	102.6%	97.2%	10.2%	96.1%	91.5%	92.6%	105.6%
Underwriting & Administrative Expenses (Earned)	24.5%	22.5%	0.8%	45.3%	54.2%	55.3%	50.3%	55.3%	50.7%	40.3%	42.0%	44.3%
Combined Operating Ratio	133.2%	128.5%	74.5%	146.0%	187.1%	157.9%	147.5%	65.5%	146.8%	131.8%	134.6%	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