

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F16 – 092

DATE: NOVEMBER 29, 2016

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

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

Please be advised that the October 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 September 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 unfavourable** impact on the month’s net result from operations, adding an estimated 8.0 points to the year-to-date Combined Operating Ratio (ending at 140.5%). The impact is summarized in the tables at the top of the next page¹.

¹ In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dsct 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”.

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Nova Scotia Risk Sharing Pool – October 2016 Operational Report

NS	unfav / (fav) for the month and ytd						ytd EP 12,320 (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	836	79	915	24	-	939	6.8%	0.6%	7.4%	0.2%	-	7.6%
CAY	-	9	9	19	-	28	-	0.1%	0.1%	0.2%	-	0.2%
Prem Def	-	-	-	19	-	19	-	-	-	0.2%	-	0.2%
TOTAL	836	88	924	62	-	986	6.8%	0.7%	7.5%	0.5%	-	8.0%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.9 million unfavourable 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 0.56% to 0.51%, generating a \$62 thousand unfavourable impact – see column [4] in the left table above). There was no change in the margin for adverse deviation in investment yield (remains at 25 basis points), and no changes to the margins for adverse deviation for claims development as selected at the coverage / accident year level with this valuation (therefore generating no 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 Operating Result is -\$5.0 million and the incurred loss ratio to the end of 10 months is 100.4%, as summarized in the table below.

Amounts in \$000s	October 2016	October 2015	Year to date Oct 2016	Year to Date Oct 2015
Premiums Written	1,244	1,109	13,659	12,637
Premiums Earned	1,318	1,209	12,320	11,650
Claims Incurred	2,301	1,145	12,367	12,590
General Expenses	513	536	4,944	5,474
Operating Result	(1,496)	(472)	(4,991)	(6,414)
Ratios:				
Loss ratio % - Prior Accident Years	69.7%	8.9%	(3.6%)	3.5%
- Current Accident Year	104.9%	85.9%	104.0%	104.5%
<i>Total</i>	174.6%	94.8%	100.4%	108.0%
General Expenses %	38.9%	44.3%	40.1%	47.0%
Combined Operating Ratio	213.5%	139.1%	140.5%	155.0%

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 -\$6.4 million and the estimated combined operating ratio to December 2016 is 142.4%. This updated projection to the end of the year has deteriorated by \$1.2 million from the projection provided last month (-\$5.2 million and 134.6%), mainly due to the overall unfavourable impact of the September 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 10,045 (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	836	79	915	22	-	937	8.3%	0.8%	9.1%	0.2%	-	9.3%
CAY	-	11	11	24	-	35	-	0.1%	0.1%	0.2%	-	0.3%
Prem Def	-	-	-	21	-	21	-	-	-	0.2%	-	0.2%
TOTAL	836	90	926	67	-	993	8.3%	0.9%	9.2%	0.7%	-	9.9%

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$1.5 million Operating Result in the month of October 2016, a \$1.0 million deterioration from the same month last year. This deterioration mainly stems from the overall increase in the combined ratio (from 139.1% to 213.5% applied to \$1.3 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 131.8% at the end of 9 months to 140.5% at the end of 10 months. The 8.7 percentage point increase is composed of an 8.8 percentage point increase in the Prior Accident Years loss ratio, coupled with a 0.1 percentage point increase in the Current Accident Year loss ratio, offset by a 0.2 percentage point decrease in the expense ratio.

Variations 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.

October 2016	Actual	Projection	Difference	Difference %
Premiums Written	1,244	1,154	90	7.8%
Premiums Earned	1,318	1,313	5	0.4%
Reported Losses				
Paid Losses	482	877	(395)	(45.0%)
Paid Expenses	37	34	3	8.8%
Change in Outstanding Losses	429	56	373	666.1%
Total Reported Losses	948	967	(19)	(2.0%)
Change in IBNR Provision *	1,353	315	1,038	
Change in Premium Deficiency (DPAC) *	40	24	16	

(Amounts in \$000's)

Rounding differences may occur.

* Detailed information is included at [Nova Scotia RSP October 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 October 2016, reported losses were \$19 thousand lower than projected. The Current Accident Year had a \$145 thousand unfavourable variance in reported losses, while the Prior Accident Years had a \$164 thousand favourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

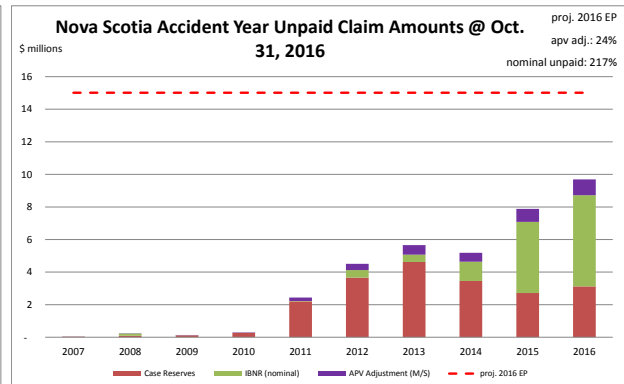
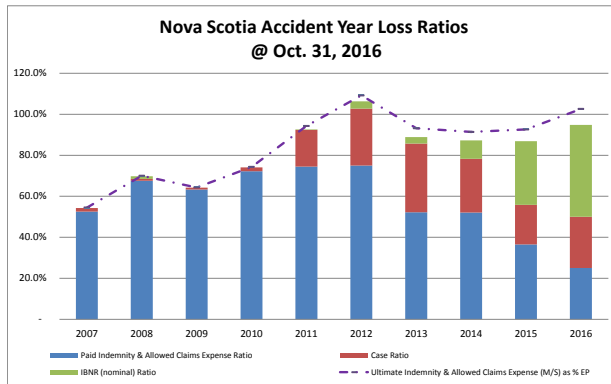
The variance for Prior Accident Years' reported claims activity was beyond the set threshold for the month. Management investigated the variance and is satisfied it is appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

Effect of Quarterly Valuation

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

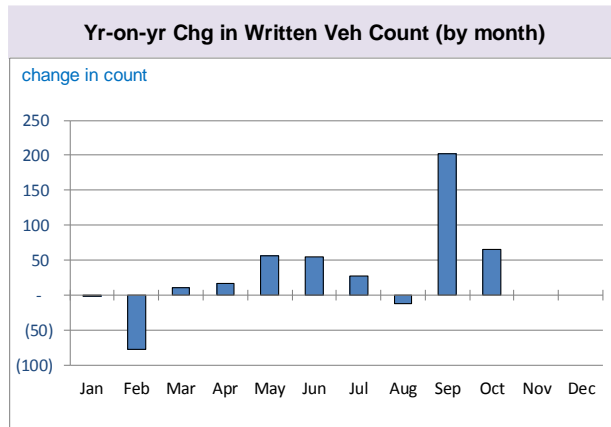
NS	unfav / (fav) for the month and ytd						mth EP 1,318 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	836	79	915	24	-	939	63.4%	6.0%	69.4%	1.8%	-	71.2%
CAY	-	9	9	19	-	28	-	0.7%	0.7%	1.4%	-	2.1%
Prem Def	-	-	-	19	-	19	-	-	-	1.4%	-	1.4%
TOTAL	836	88	924	62	-	986	63.4%	6.7%	70.1%	4.7%	-	74.8%

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.

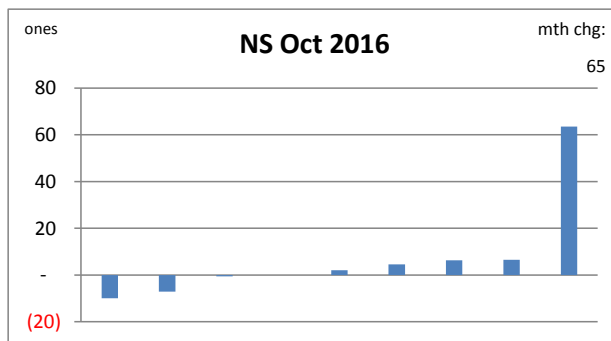


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Nova Scotia RSP October 2016 Operational Report – Actuarial Highlights](#) and in the [Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at September 30, 2016](#). The actuarial valuation will be updated next as at December 31, 2016 and we anticipate the results will be reflected in the March 2017 Operational Report.

Management Comments

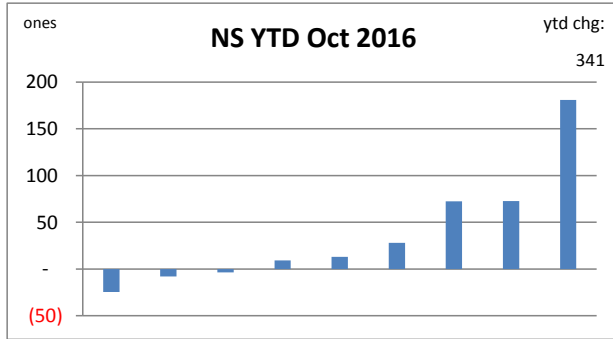


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with October showing an increase of 65 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 18 vehicles, indicating 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 October than projected.



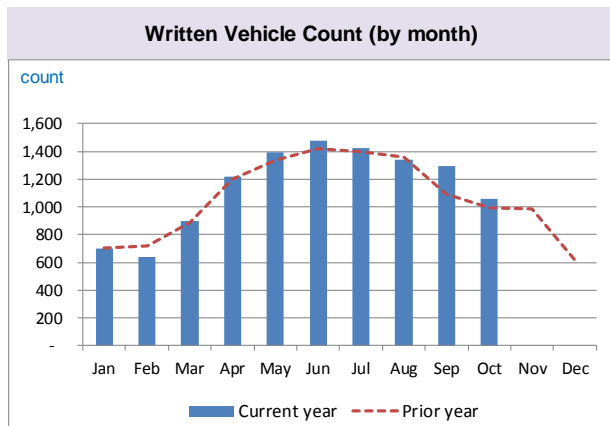
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Three member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 5 transferred more and 1 remained the same. Of the 3 member company groups transferring fewer vehicles, 2 member company groups accounted for 97% of the total transfer decrease for

these “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 76% of the total transfer increase for these “grower” members.

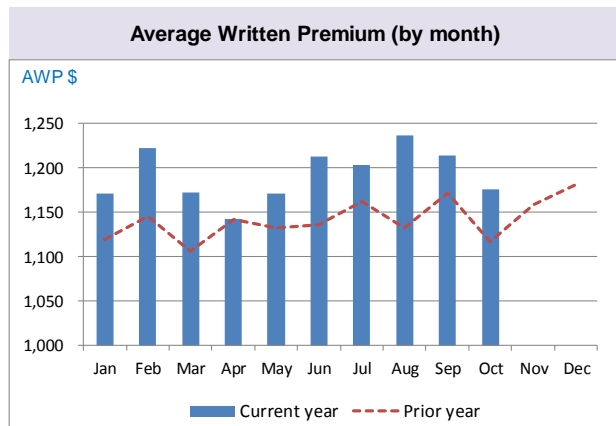


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

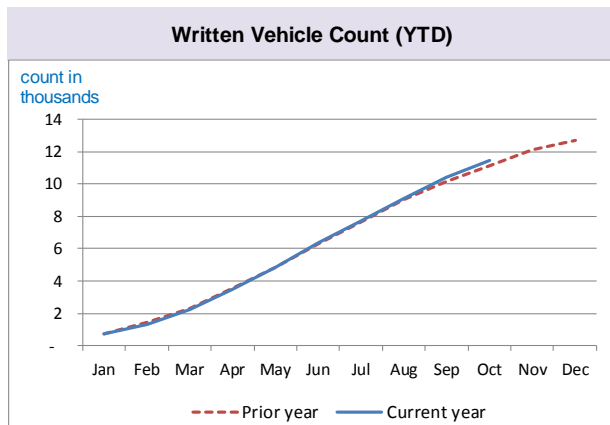
October’s vehicle count transfers to the pool represent a 6.6% increase from October 2015, and vehicle counts were up 3.1% year-to-date. Average written premium was up 5.3% in October 2016, and was up 4.9% year-to-date (see charts immediately below).



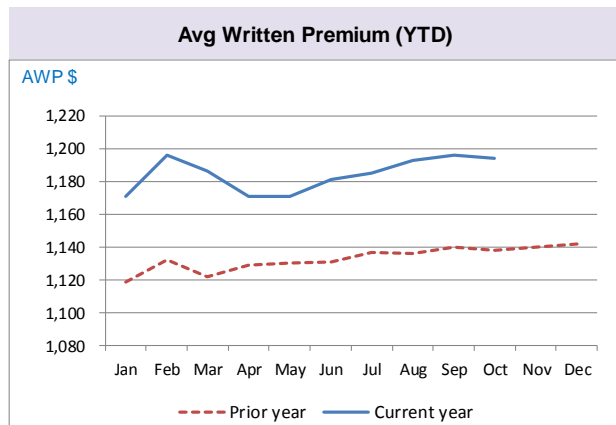
	Oct-16	Oct-15	Amt Chg	% Chg
W. Veh curr mth	1,058	993	65	6.6%



	Oct-16	Oct-15	Amt Chg	% Chg
AWP curr mth	1,176	1,117	59	5.3%



	Oct-16	Oct-15	Amt Chg	% Chg
W. Vehicles YTD	11,444	11,103	341	3.1%

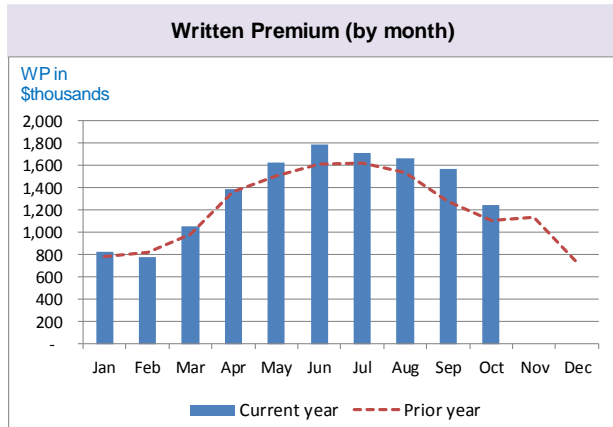


	Oct-16	Oct-15	Amt Chg	% Chg
Avg W. Prem YTD	1,194	1,138	56	4.9%

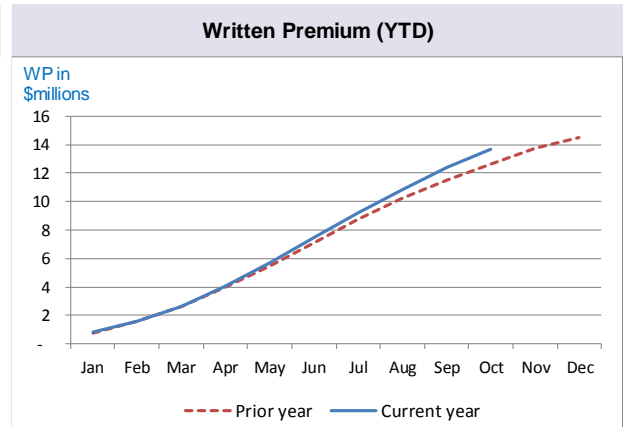
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As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 12.2% for the month compared with the 4.1% increase we projected last month, and was up 8.1% year-to-date (see charts immediately below).



	Oct-16	Oct-15	Amt Chg	% Chg
WP (\$000s) curr mth	1,244	1,109	135	12.2%



	Oct-16	Oct-15	Amt Chg	% Chg
WP (\$000s) YTD	13,660	12,636	1,024	8.1%

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 October 2016 Operational Report – Actuarial Highlights](#)

[Actuarial Quarterly Valuation Highlights Risk Sharing Pools as at September 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 10 Months Ended October 31, 2016 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	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	\$1,244	\$13,659	\$16,947	\$14,500
Decrease (Increase) in Unearned Premiums	343	360	167	(200)	(387)	(565)	(427)	(382)	(322)	74	(1,339)	(1,937)	(421)
Net Premiums Earned	\$1,165	\$1,143	\$1,222	\$1,190	\$1,244	\$1,225	\$1,285	\$1,280	\$1,248	\$1,318	\$12,320	\$15,010	\$14,079
Claims Incurred:													
Prior Accident Years:													
Undiscounted	(\$78)	(\$16)	(\$271)	(\$12)	\$285	(\$5)	\$0	(\$262)	(\$6)	\$834	\$469	\$469	\$431
Effect of Discounting	(33)	(33)	15	(38)	25	(26)	(92)	(746)	(70)	84	(914)	(1,008)	(255)
Discounted	(\$111)	(\$49)	(\$256)	(\$50)	\$310	(\$31)	(\$92)	(\$1,008)	(\$76)	\$918	(\$445)	(\$539)	\$176
Current Accident Year:													
Undiscounted	\$1,245	\$1,159	\$1,055	\$1,138	\$1,218	\$1,173	\$1,224	\$1,189	\$1,189	\$1,253	\$11,843	\$14,393	\$13,503
Effect of Discounting	132	102	101	110	126	114	117	(50)	87	130	969	1,159	1,187
Discounted	\$1,377	\$1,261	\$1,156	\$1,248	\$1,344	\$1,287	\$1,341	\$1,139	\$1,276	\$1,383	\$12,812	\$15,552	\$14,690
Claims Incurred	\$1,266	\$1,212	\$900	\$1,198	\$1,654	\$1,256	\$1,249	\$131	\$1,200	\$2,301	\$12,367	\$15,013	\$14,866
Underwriting Expenses:													
Expense Allowance	\$287	\$273	\$368	\$484	\$568	\$623	\$596	\$578	\$547	\$433	\$4,757	\$5,901	\$5,008
Change in UPDR/DPAC:													
Undiscounted	6	(16)	(336)	1	(33)	(41)	(39)	156	19	27	(256)	(186)	546
Effect of Discounting	(36)	(36)	(59)	20	96	58	43	(69)	32	13	62	127	181
Discounted	(\$30)	(\$52)	(\$395)	\$21	\$63	\$17	\$4	\$87	\$51	\$40	(194)	(\$59)	\$727
Underwriting Expenses	\$257	\$221	(\$27)	\$505	\$631	\$640	\$600	\$665	\$598	\$473	\$4,563	\$5,842	\$5,735
Net Underwriting Gain (Loss)	(\$358)	(\$290)	\$349	(\$513)	(\$1,041)	(\$671)	(\$564)	\$484	(\$550)	(\$1,456)	(\$4,610)	(\$5,845)	(\$6,522)
Administrative Expenses	\$29	\$36	\$37	\$34	\$43	\$38	\$46	\$43	\$35	\$40	\$381	\$518	\$507
Operating Result	(\$387)	(\$326)	\$312	(\$547)	(\$1,084)	(\$709)	(\$610)	\$441	(\$585)	(\$1,496)	(\$4,991)	(\$6,363)	(\$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%	69.7%	-3.6%	-3.6%	1.3%
Current Accident Year	118.2%	110.3%	94.6%	104.9%	108.0%	105.1%	104.4%	89.0%	102.2%	104.9%	104.0%	103.6%	104.3%
All Accident Years Combined	108.7%	106.0%	73.7%	100.7%	132.9%	102.6%	97.2%	10.2%	96.1%	174.6%	100.4%	100.0%	105.6%
Underwriting & Administrative Expenses (Earned)	24.5%	22.5%	0.8%	45.3%	54.2%	55.3%	50.3%	55.3%	50.7%	38.9%	40.1%	42.4%	44.3%
Combined Operating Ratio	133.2%	128.5%	74.5%	146.0%	187.1%	157.9%	147.5%	65.5%	146.8%	213.5%	140.5%	142.4%	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