

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F17– 007**

**DATE: JANUARY 30, 2017**

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

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

Please be advised that the December 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 -\$5.5 million and the incurred loss ratio to the end of 12 months is 99.6%, as summarized in the table below.

<b>Amounts in \$000s</b>	<b>December 2016</b>	December 2015	<b>Year to date Dec 2016</b>	Year to Date Dec 2015
Premiums Written	733	723	15,184	14,500
Premiums Earned	1,278	1,241	14,801	14,079
Claims Incurred	1,240	1,235	14,746	14,866
General Expenses	296	287	5,556	6,242
<b>Operating Result</b>	<b>(258)</b>	<b>(281)</b>	<b>(5,501)</b>	<b>(7,029)</b>
<b>Ratios:</b>				
<b>Loss ratio % - Prior Accident Years</b>	<b>(5.5%)</b>	<b>(4.3%)</b>	<b>(4.3%)</b>	1.3%
- Current Accident Year	102.5%	103.8%	103.9%	104.3%
<i>Total</i>	<b>97.0%</b>	<b>99.5%</b>	<b>99.6%</b>	<b>105.6%</b>
<b>General Expenses %</b>	<b>23.2%</b>	<b>23.1%</b>	<b>37.5%</b>	<b>44.3%</b>
<b>Combined Operating Ratio</b>	<b>120.2%</b>	<b>122.6%</b>	<b>137.1%</b>	<b>149.9%</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 2017*

An Outlook had been prepared to provide members with an estimate of Nova Scotia RSP operating results for calendar year 2017 based on the actuarial valuation at June 30, 2016, and reflecting actual experience to date as detailed in the August 2016 Operational Report. This Outlook was posted on September 28, 2016 (please refer to Bulletin [F16-075](#)), and projected a Net Result from Operations for 2017 of -\$5.7 million, and a combined operating ratio of 136.7%.

The projected calendar year Operating Result to December 2016 is now -\$12.3 million (a \$6.6 million deterioration relative to the Outlook) and the estimated combined operating ratio to December 2017 is 153.6% (a 16.9 point deterioration relative to the Outlook). The deterioration is composed of an estimated \$2.7 million unfavourable impact associated with the \$7.3 million increase in projected earned premium (at a combined ratio of 136.7%), with the remaining \$3.9 million deterioration stemming from the overall increase in the combined ratio (from 136.7% to 153.6% applied to \$22.9 million in projected earned premium).

*Current Month Results*

The Nova Scotia Risk Sharing Pool produced a -\$0.3 million Operating Result in the month of December 2016, a \$23 thousand improvement from the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 122.6% to 120.2% applied to \$1.3 million in earned premium).

This month’s results moved the year-to-date combined operating ratio from 138.7% at the end of 11 months to 137.1% at the end of 12 months. The 1.6 percentage point decrease is composed of a 0.1 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 0.1 percentage point decrease in the Current Accident Year, and a 1.4 percentage point decrease 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.

December 2016	Actual	Projection	Difference	Difference %
Premiums Written	733	1,415	(682)	(48.2%)
Premiums Earned	1,278	1,316	(38)	(2.9%)
Reported Losses				
Paid Losses	906	803	103	12.8%
Paid Expenses	57	41	16	39.0%
Change in Outstanding Losses	510	476	34	7.1%
<b>Total Reported Losses</b>	<b>1,473</b>	<b>1,320</b>	<b>153</b>	<b>11.6%</b>
Change in IBNR Provision *	(234)	(27)	(207)	
Change in Premium Deficiency (DPAC) *	(13)	54	(67)	

(Amounts in \$000's)

Rounding differences may occur.

\* Detailed information is included at [Nova Scotia RSP December 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 December 2016, reported losses were \$0.2 million higher than projected. The Current Accident Year had a \$0.3 million unfavourable variance in reported losses, while the Prior Accident Years had a \$0.1 million 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.

### Booking IBNR

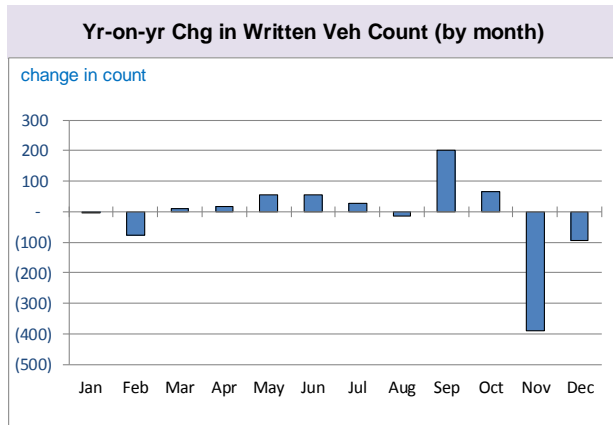
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

### **Effect of Quarterly Valuation**

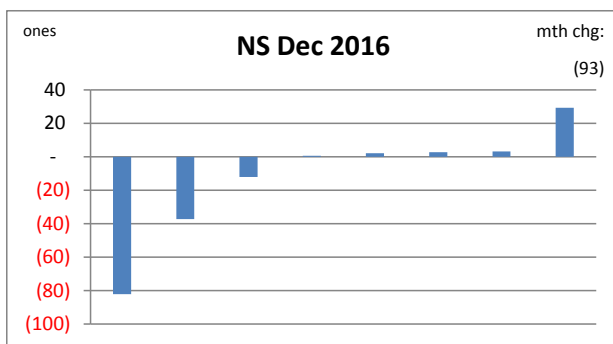
The December 2016 Nova Scotia Risk Sharing Pool Operational Report does not reflect the

results of an updated valuation (the most recent valuation is as at September 30, 2016). The actuarial valuation will be updated next as at December 31, 2016 and we anticipate that the results will be reflected in the March 2017 Operational Report.

**Management Comments**

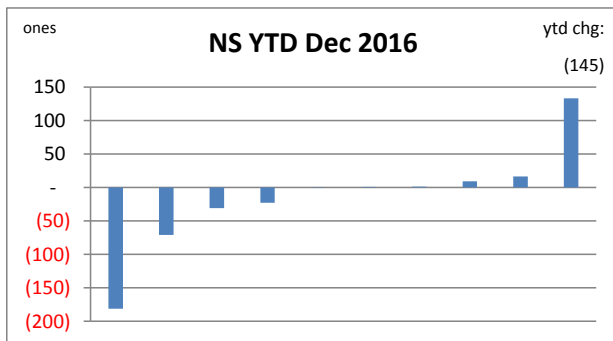


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with December showing a decrease of 93 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 482 vehicles, indicating a variance of 575 from the actual transfers. This variance was mainly due to one member company groups transferring a lower number of vehicles to the pool in December than projected.



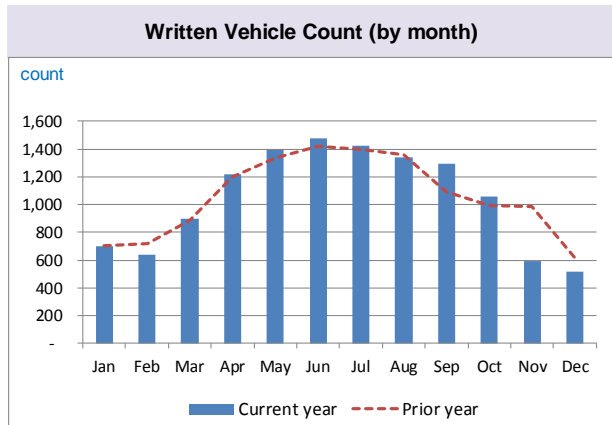
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Three member company groups transferred fewer vehicles to the pool this month compared with a year ago, while 5 transferred more. Of the 3 member company groups transferring fewer vehicles, 1 member company group accounted for 62% of the total transfer decrease for these “decliner” members.

Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 77% of the total transfer increase for these “grower” members.

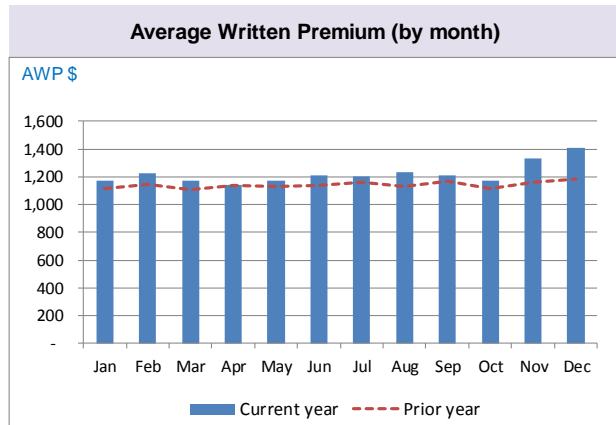


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

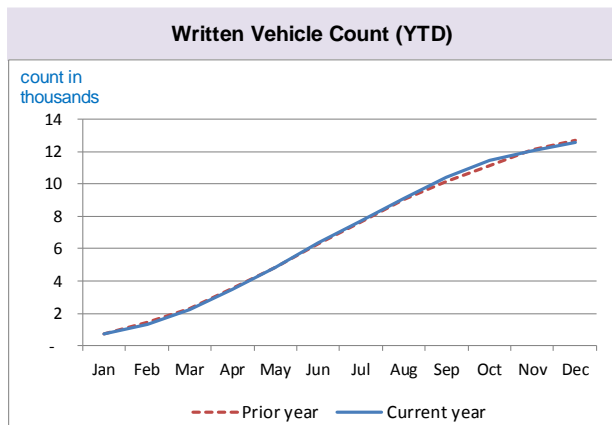
December’s vehicle count transfers to the pool represent a 15.2% decrease from December 2015, and vehicle counts were down 1.1% year-to-date. Average written premium was up 19.5% in December 2016, and was up 5.9% year-to-date (see charts at the top of the next page).



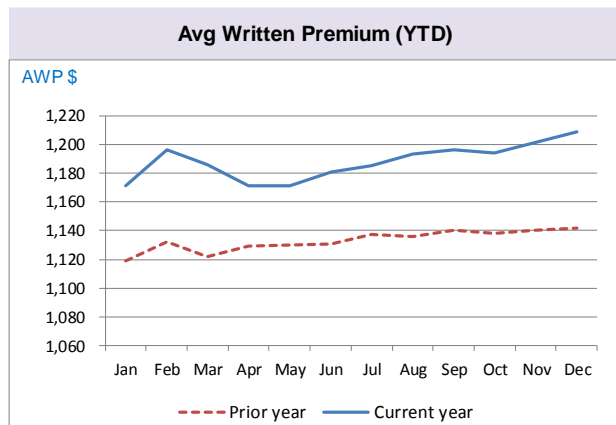
	Dec-16	Dec-15	Amt Chg	% Chg
W. Veh curr mth	519	612	(93)	-15.2%



	Dec-16	Dec-15	Amt Chg	% Chg
AWP curr mth	1,411	1,181	230	19.5%



	Dec-16	Dec-15	Amt Chg	% Chg
W. Vehicles YTD	12,555	12,700	(145)	-1.1%

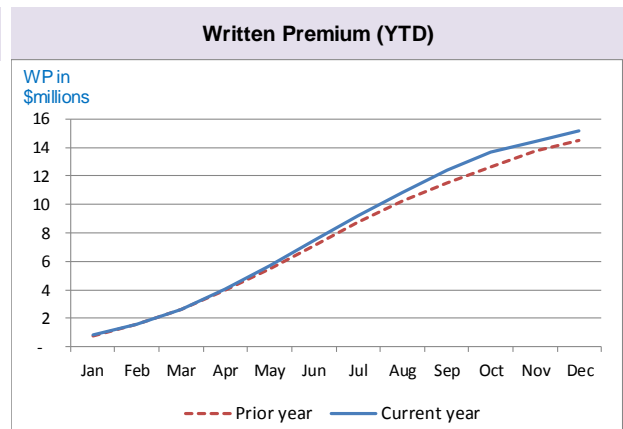
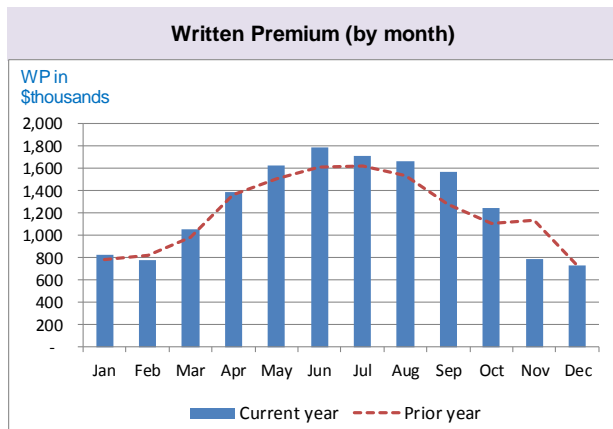


	Dec-16	Dec-15	Amt Chg	% Chg
Avg W. Prem YTD	1,209	1,142	67	5.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 1.2% for the month compared with the 95.6% increase we projected last month, but was up 4.7% year-to-date (see charts at the top of the next page).

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



	Dec-16	Dec-15	Amt Chg	% Chg
WP (\$000s) curr mth	733	723	9	1.2%

	Dec-16	Dec-15	Amt Chg	% Chg
WP (\$000s) YTD	15,184	14,500	684	4.7%

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 December 2016 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2016**

Risk Sharing Pool - Nova Scotia

Operating Results for the 12 Months Ended December 31, 2016 (Discounted basis)

Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2016 YTD	CY2017 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	\$1,570	\$1,244	\$792	\$733	\$15,184	\$31,469	\$14,500
Decrease (Increase) in Unearned Premiums	343	360	167	(200)	(387)	(565)	(427)	(382)	(322)	74	411	545	(383)	(8,605)	(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>\$1,248</b>	<b>\$1,318</b>	<b>\$1,203</b>	<b>\$1,278</b>	<b>\$14,801</b>	<b>\$22,864</b>	<b>\$14,079</b>
<b>Claims Incurred:</b>															
Prior Accident Years:															
Undiscounted	(\$78)	(\$16)	(\$271)	(\$12)	\$285	(\$5)	\$0	(\$262)	(\$6)	\$834	(\$24)	(\$4)	\$441	\$0	\$431
Effect of Discounting	(33)	(33)	15	(38)	25	(26)	(92)	(746)	(70)	84	(95)	(66)	(1,075)	(846)	(255)
Discounted	(\$111)	(\$49)	(\$256)	(\$50)	\$310	(\$31)	(\$92)	(\$1,008)	(\$76)	\$918	(\$119)	(\$70)	(\$634)	(\$846)	\$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	\$1,164	\$1,218	\$14,225	\$22,294	\$13,503
Effect of Discounting	132	102	101	110	126	114	117	(50)	87	130	94	92	1,155	1,609	1,187
Discounted	\$1,377	\$1,261	\$1,156	\$1,248	\$1,344	\$1,287	\$1,341	\$1,139	\$1,276	\$1,383	\$1,258	\$1,310	\$15,380	\$23,903	\$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>\$1,200</b>	<b>\$2,301</b>	<b>\$1,139</b>	<b>\$1,240</b>	<b>\$14,746</b>	<b>\$23,057</b>	<b>\$14,866</b>
<b>Underwriting Expenses:</b>															
Expense Allowance	\$287	\$273	\$368	\$484	\$568	\$623	\$596	\$578	\$547	\$433	\$276	\$255	\$5,288	\$9,754	\$5,008
Change in UPDR/DPAC:															
Undiscounted	6	(16)	(336)	1	(33)	(41)	(39)	156	19	27	35	37	(184)	347	546
Effect of Discounting	(36)	(36)	(59)	20	96	58	43	(69)	32	13	(34)	(50)	(22)	866	181
Discounted	(\$30)	(\$52)	(\$395)	\$21	\$63	\$17	\$4	\$87	\$51	\$40	\$1	(\$13)	(206)	\$1,213	\$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>\$598</b>	<b>\$473</b>	<b>\$277</b>	<b>\$242</b>	<b>\$5,082</b>	<b>\$10,967</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>(\$550)</b>	<b>(\$1,456)</b>	<b>(\$213)</b>	<b>(\$204)</b>	<b>(\$5,027)</b>	<b>(\$11,160)</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>\$35</b>	<b>\$40</b>	<b>\$39</b>	<b>\$54</b>	<b>\$474</b>	<b>\$1,102</b>	<b>\$507</b>
<b>Operating Result</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>(\$585)</b>	<b>(\$1,496)</b>	<b>(\$252)</b>	<b>(\$258)</b>	<b>(\$5,501)</b>	<b>(\$12,262)</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%	-6.1%	69.7%	-9.9%	-5.5%	-4.3%	-3.7%	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%	104.6%	102.5%	103.9%	104.5%	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%	94.7%	97.0%	99.6%	100.8%	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%	26.3%	23.2%	37.5%	52.8%	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>146.8%</b>	<b>213.5%</b>	<b>121.0%</b>	<b>120.2%</b>	<b>137.1%</b>	<b>153.6%</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