

TO: MEMBERS OF THE FACILITY ASSOCIATION

**ATTENTION: CHIEF EXECUTIVE OFFICER
NEW BRUNSWICK RISK SHARING POOL PROJECT MANAGER**

BULLETIN NO.: F18 – 014

DATE: FEBRUARY 27, 2018

**SUBJECT: NEW BRUNSWICK RISK SHARING POOL
– JANUARY 2018 OPERATIONAL REPORT**

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

Please be advised that the January 2018 New Brunswick Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

New this Month

FA management was notified on January 31, 2018 by a member of a potential recorded case reserve overstatement. Management investigated and estimated the overstatement for the New Brunswick RSP as at October 31, 2017 as indicated in the table at the top of the next page.

Estimated case reserve overstatement as at Oct 31, 2017

Case Reserve Overstatement
300 RSP NB

| | Amounts in \$000s |
|--------------|----------------------|
| 2012 | 24 |
| 2013 | 22 |
| 2014 | 9 |
| 2015 | 418 |
| 2016 | 506 |
| 2017 | 164 |
| TOTAL | 1,143 |

The overstatement of \$1.1 million represented 8.5% of total case reserves recorded at October 31, 2017 for the New Brunswick RSP, and 6.3% of nominal claims liabilities.

FA’s year-end audited financial statements (as at October 31, 2017) were adjusted to reflect this overstatement by reducing the claims liabilities amount by the overstatement (as well as release of associated margins for adverse claims development). However, no adjustment has currently been made to reflect this in the Member Statements (i.e. monthly RSP Operational Reports). It is

Bulletin F18-014**New Brunswick Risk Sharing Pool – January 2018 Operational Report**

currently expected to be reflected via reductions in ultimate with the December 31, 2017 valuation, expected to be implemented into the March 2018 Operational Reports.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$0.1 million and the incurred loss ratio to the end of 1 month is 80.1%, as summarized in the table below.

| Amounts in \$000s | January 2018 | January 2017 | Year to date Jan 2018 | Year to Date Jan 2017 |
|---|-------------------------|-----------------|----------------------------------|--------------------------|
| Premium Written | 682 | 532 | 682 | 532 |
| Premium Earned | 1,021 | 845 | 1,021 | 845 |
| Incurring Losses | 818 | 698 | 818 | 698 |
| Underwriting & Admin Expense | 308 | 259 | 308 | 259 |
| Operating Result | (105) | (112) | (105) | (112) |
| Ratios: | | | | |
| Loss ratio - <i>Prior Accident Years</i> | 4.0% | (3.7%) | 4.0% | (3.7%) |
| - <i>Current Accident Year</i> | 76.1% | 86.3% | 76.1% | 86.3% |
| <i>Total</i> | 80.1% | 82.6% | 80.1% | 82.6% |
| <i>Underwriting & Admin Expense</i> | 30.2% | 30.7% | 30.2% | 30.7% |
| Combined Operating Ratio | 110.3% | 113.3% | 110.3% | 113.3% |

rounding differences may occur

These results are discussed in some detail in the “Current Month Results” section. For additional numeric detail, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2017” attached to this bulletin.

Updated Projection to Year-end 2018

The projected calendar year Operating Result to December 2018 is -\$1.5 million and the estimated combined operating ratio to December 2018 is 110.3%, as summarized in the table at the top of the next page. This updated projection to the end of the year has not changed significantly from the projection provided last month (-\$1.5 million and 109.9%).

Bulletin F18-014

New Brunswick Risk Sharing Pool – January 2018 Operational Report

| NB RSP 2018 Yr-end Projection | Current | Prior Mth | Change | Final 2018 |
|--|-------------------|-------------------|---------------|-------------------|
| Amounts in \$000s | (Jan 2018) | (Dec 2017) | | Outlook* |
| Premium Written | 17,688 | 17,981 | (293) | 17,486 |
| Premium Earned | 14,888 | 15,292 | (404) | 15,974 |
| Incurred Losses | 10,926 | 11,237 | (311) | 11,739 |
| Underwriting & Admin Expense | 5,496 | 5,588 | (92) | 5,688 |
| Net Result from Operations | (1,534) | (1,533) | (1) | (1,453) |
| Ratios: | | | | |
| Loss ratio - Prior Accident Years | (0.9%) | (0.9%) | 0.0% | (1.7%) |
| - Current Accident Year | 74.3% | 74.3% | 0.0% | 75.1% |
| <i>Total</i> | 73.4% | 73.4% | 0.0% | 73.4% |
| <i>Underwriting & Admin Expense</i> | 36.9% | 36.5% | 0.4% | 35.6% |
| <i>Combined Operating Ratio</i> | 110.3% | 109.9% | 0.4% | 109.0% |

rounding differences may occur

*as posted to FA's website Oct. 3, 2017

Current Month Results

The New Brunswick Risk Sharing Pool produced a -\$0.1 million Operating Result in the month of January 2018, not significantly different from the same month last year.

Variances from Projections

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

| January 2018 | Actual | Projection | Difference | Difference % |
|--------------------------------------|---------------|-------------------|-------------------|---------------------|
| Written Premium | 682 | 975 | (293) | (30.1%) |
| Earned Premium | 1,021 | 1,041 | (20) | (1.9%) |
| Reported Losses | | | | |
| Paid Losses | 441 | 516 | (75) | (14.5%) |
| Paid Expenses | 62 | 27 | 35 | 129.6% |
| Change in Outstanding Losses | 301 | 114 | 187 | 164.0% |
| Total Reported Losses | 804 | 657 | 147 | 22.4% |
| Change in IBNR Provision* | 14 | 170 | (156) | |
| Change in Premium Deficiency (DPAC)* | 74 | 15 | 59 | |

(Amounts in \$000 's)

rounding differences may occur

*Detailed information is included in [New Brunswick RSP January 2018 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 January 2018, reported losses were \$0.1 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 \$0.2 million unfavourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for the Prior Accident Years for the month. Management investigated paid claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the set thresholds for the month.

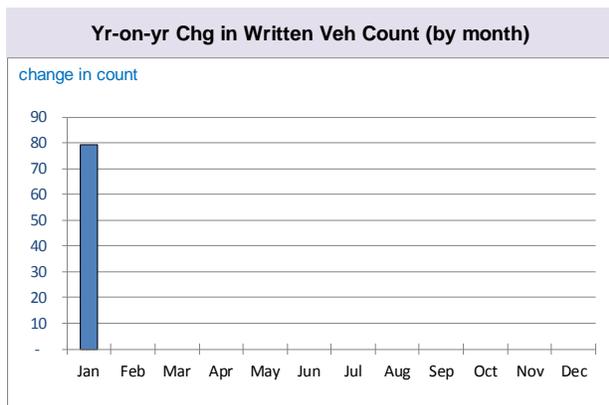
Booking IBNR

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 [New Brunswick RSP January 2018 Operational Report – Actuarial Highlights](#).

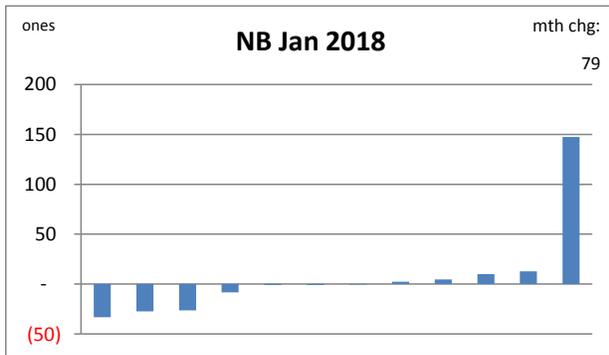
Effect of Quarterly Valuation

The January 2018 New Brunswick Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at September 30, 2017). The actuarial valuation will be updated next as at December 31, 2017 and we anticipate that the results will be reflected in the March 2018 Operational Report.

Management Comments

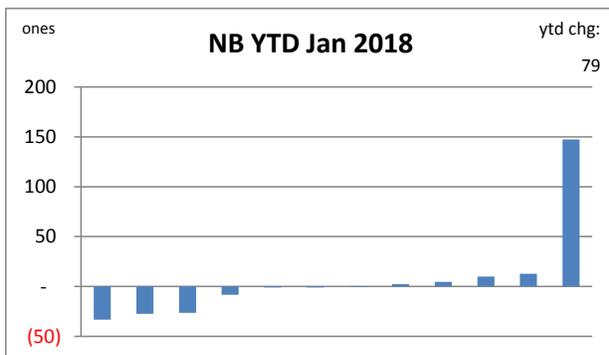


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with January showing an increase of 79 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 315 vehicles, indicating a variance of 236 from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the pool in January than projected.



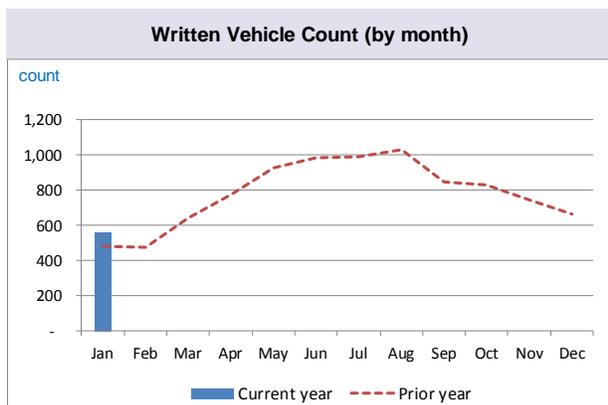
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Seven member company groups transferred fewer vehicles to the pool this month compared with a year ago, while five transferred more. Of the 7 member company groups transferring fewer vehicles, 3 member

company groups accounted for 89% of the total transfer decrease for the “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 83% of the total transfer increase for the “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.

January’s vehicle count transfers to the pool represent a 16.5% increase from January 2017. Average written premium was up 10.1% in January 2018 (see charts immediately below and at the top of the next page).



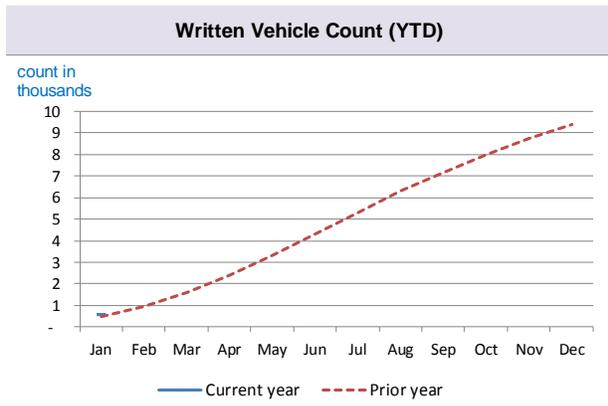
| | Jan-18 | Jan-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Veh curr mth | 562 | 482 | 79 | 16.5% |



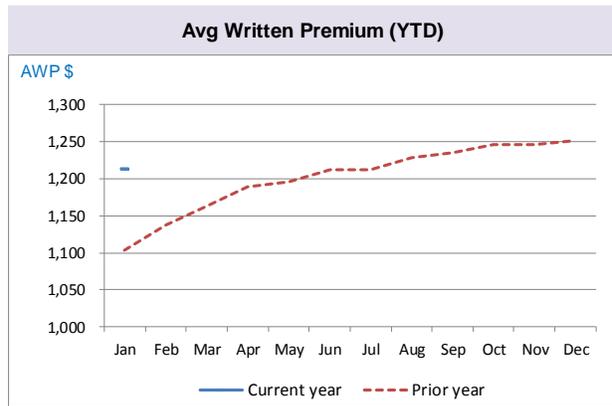
| | Jan-18 | Jan-17 | Amt Chg | % Chg |
|--------------|--------|--------|---------|-------|
| AWP curr mth | 1,214 | 1,103 | 111 | 10.1% |

Bulletin F18-014

New Brunswick Risk Sharing Pool – January 2018 Operational Report

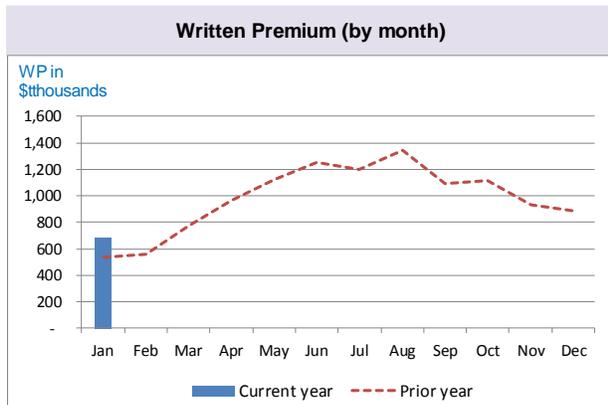


| | Jan-18 | Jan-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| W. Vehicles YTD | 562 | 482 | 79 | 16.5% |



| | Jan-18 | Jan-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| Avg W. Prem YTD | 1,214 | 1,103 | 111 | 10.1% |

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 28.2% for the month compared with the 83.3% increase we projected last month (see charts immediately below).



| | Jan-18 | Jan-17 | Amt Chg | % Chg |
|----------------------|--------|--------|---------|-------|
| WP (\$000s) curr mth | 682 | 532 | 150 | 28.2% |



| | Jan-18 | Jan-17 | Amt Chg | % Chg |
|-----------------|--------|--------|---------|-------|
| WP (\$000s) YTD | 682 | 532 | 150 | 28.2% |

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

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

Related links:

[New Brunswick RSP January 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - New Brunswick

Operating Results for the 1 Month Ended January 31, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

| | January | CY2018 YTD | CY2018 12 MONTHS Updated Projection | CY2017 12 MONTHS Actual |
|---|----------------|----------------|--|-------------------------------|
| Underwriting Revenue: | | | | |
| Net Premiums Written | \$682 | \$682 | \$17,688 | \$11,775 |
| Decrease (Increase) in Unearned Premiums | 339 | 339 | (2,800) | (1,161) |
| Net Premiums Earned | \$1,021 | \$1,021 | \$14,888 | \$10,614 |
| Claims Incurred: | | | | |
| Prior Accident Years: | | | | |
| Undiscounted | (\$5) | (\$5) | (\$5) | (\$340) |
| Effect of Discounting | 46 | 46 | (130) | (915) |
| Discounted | \$41 | \$41 | (\$135) | (\$1,255) |
| Current Accident Year: | | | | |
| Undiscounted | \$742 | \$742 | \$10,740 | \$7,958 |
| Effect of Discounting | 35 | 35 | 321 | 256 |
| Discounted | \$777 | \$777 | \$11,061 | \$8,214 |
| Claims Incurred | \$818 | \$818 | \$10,926 | \$6,959 |
| Underwriting Expenses: | | | | |
| Expense Allowance | \$193 | \$193 | \$5,057 | \$3,744 |
| Change in UPDR/DPAC: | | | | |
| Undiscounted | 87 | 87 | (608) | (556) |
| Effect of Discounting | (13) | (13) | 119 | (109) |
| Discounted | 74 | 74 | (489) | (\$665) |
| Underwriting Expenses | \$267 | \$267 | \$4,568 | \$3,079 |
| Net Underwriting Gain (Loss) | (\$64) | (\$64) | (\$606) | \$576 |
| Administrative Expenses | \$41 | \$41 | \$928 | \$603 |
| Operating Result | (\$105) | (\$105) | (\$1,534) | (\$27) |
| Ratios: | | | | |
| Claims & Expenses Incurred (Earned) | | | | |
| Prior Accident Years | 4.0% | 4.0% | -0.9% | -11.8% |
| Current Accident Year | 76.1% | 76.1% | 74.3% | 77.4% |
| All Accident Years Combined | 80.1% | 80.1% | 73.4% | 65.6% |
| Underwriting & Administrative Expenses (Earned) | 30.2% | 30.2% | 36.9% | 34.7% |
| Combined Operating Ratio | 110.3% | 110.3% | 110.3% | 100.3% |

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium tax health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association investment income earned on Facility Association premium dollars invested directly by members.

Rounding difference may apply