

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18– 015

DATE: FEBRUARY 27, 2018

**SUBJECT: NOVA SCOTIA 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 Nova Scotia 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 Nova Scotia RSP as at October 31, 2017 as indicated in the table immediately below.

Estimated case reserve overstatement as at Oct 31, 2017

Case Reserve Overstatement

400 RSP NS

	Amounts in \$000s
2012	36
2013	34
2014	42
2015	77
2016	578
2017	206
TOTAL	973

The overstatement of \$1.0 million represented 3.9% of total case reserves recorded at October 31, 2017 for the Nova Scotia RSP, and 2.8% 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

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 -\$0.6 million and the incurred loss ratio to the end of 1 month is 101.9%, 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	1,773	739	1,773	739
Premium Earned	2,162	1,268	2,162	1,268
Incurred Losses	2,204	1,266	2,204	1,266
Underwriting & Admin Expense	578	226	578	226
Operating Result	(620)	(224)	(620)	(224)
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	2.8%	(9.7%)	2.8%	(9.7%)
- Current Accident Year	99.1%	109.5%	99.1%	109.5%
<i>Total</i>	101.9%	99.8%	101.9%	99.8%
<i>Underwriting & Admin Expense</i>	26.7%	17.8%	26.7%	17.8%
<i>Combined Operating Ratio</i>	128.6%	117.6%	128.6%	117.6%

rounding differences may occur

These results are discussed in some detail in the “Current Month Results” section. For additional numeric details, 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 -\$11.2 million and the estimated combined operating ratio to December 2018 is 135.9%, 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 (-\$11.3 million and 135.9%).

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NS RSP 2018 Yr-end Projection	Current	Prior Mth	Change	Final 2018
Amounts in \$000s	(Jan 2018)	(Dec 2017)		Outlook*
Premium Written	35,920	36,094	(174)	39,593
Premium Earned	31,234	31,402	(168)	35,242
Incurred Losses	29,840	30,028	(188)	33,944
Underwriting & Admin Expense	12,618	12,653	(35)	13,954
Net Result from Operations	(11,224)	(11,279)	55	(12,656)
Ratios:				
Loss ratio - Prior Accident Years	(1.1%)	(0.9%)	(0.2%)	(1.6%)
- Current Accident Year	96.6%	96.5%	0.1%	98.0%
<i>Total</i>	95.5%	95.6%	(0.1%)	96.4%
Underwriting & Admin Expense	40.4%	40.3%	0.1%	39.6%
Combined Operating Ratio	135.9%	135.9%	0.0%	136.0%

rounding differences may occur

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

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$0.6 million Operating Result in the month of January 2018, a \$0.4 million deterioration from the same month last year. This deterioration is composed of an estimated \$0.2 million unfavourable impact associated with the \$0.9 million increase in earned premium (at a combined ratio of 117.6%), with the remaining \$0.2 million deterioration stemming from the overall increase in the combined ratio (from 117.6% to 128.6% applied to \$2.2 million in earned premium).

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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January 2018	Actual	Projection	Difference	Difference %
Written Premium	1,773	1,947	(174)	(8.9%)
Earned Premium	2,162	2,225	(63)	(2.8%)
Reported Losses				
Paid Losses	1,119	1,008	111	11.0%
Paid Expenses	59	44	15	34.1%
Change in Outstanding Losses	1,281	685	596	87.0%
Total Reported Losses	2,459	1,737	722	41.6%
Change in IBNR Provision *	(255)	535	(790)	
Change in Premium Deficiency (DPAC) *	4	2	2	

*(Amounts in \$000's)**rounding differences may occur*

*Detailed information is included at [Nova Scotia 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 \$0.7 million higher than projected. The Current Accident Year had a \$0.2 million favourable variance in reported losses, while the Prior Accident Years had a \$0.9 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

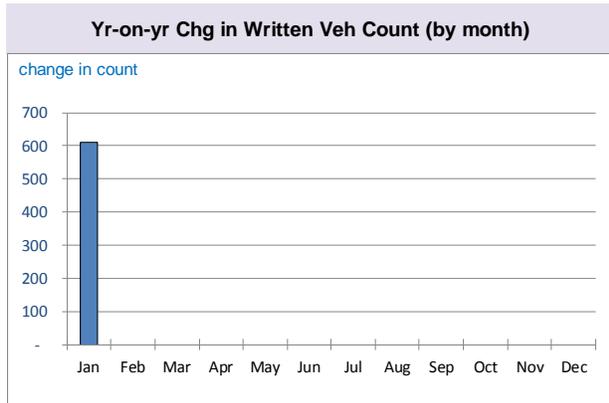
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 [Nova Scotia RSP January 2018 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

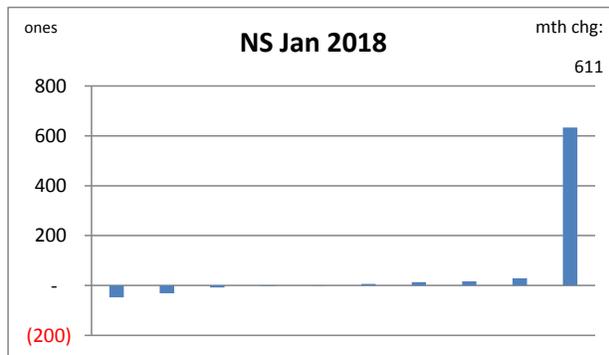
The January 2018 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results

of an updated valuation (the most recent valuation is as at September 30, 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

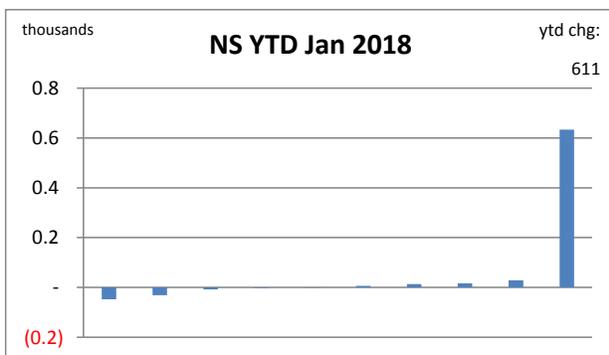


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with January showing an increase of 611 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 761 vehicles, indicating a variance of 150 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in January than projected.



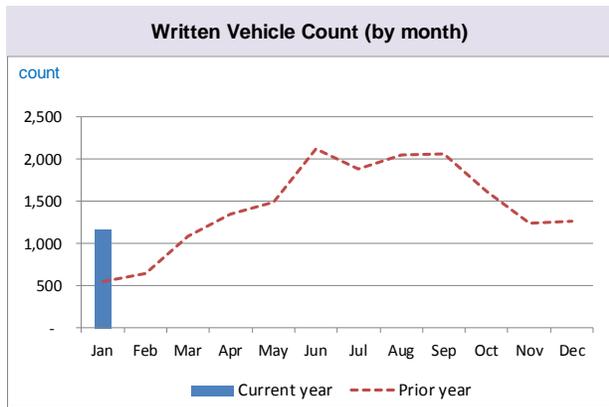
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the pool this month compared with a year ago, while five transferred more. Of the 5 member company groups transferring fewer vehicles, 2 member company groups accounted for 89% of the total transfer decrease for these “decliner” members.

Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 91% of the total transfer increase for these “grower” members.

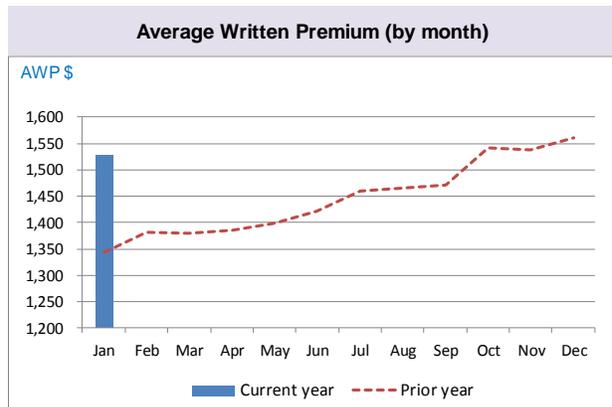


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

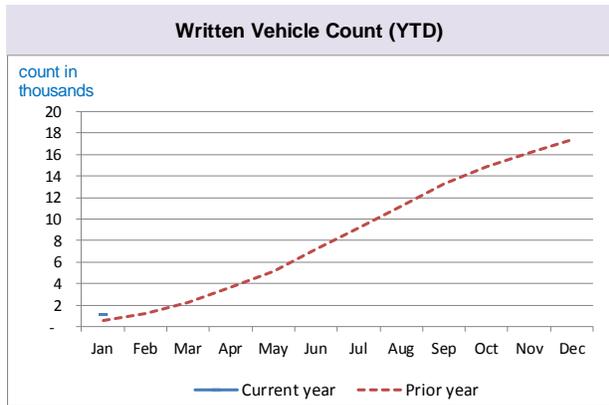
January’s vehicle count transfers to the pool represent a 111.0% increase from January 2017. Average written premium was up 13.7% in January 2018 (see charts at the top of the next page).



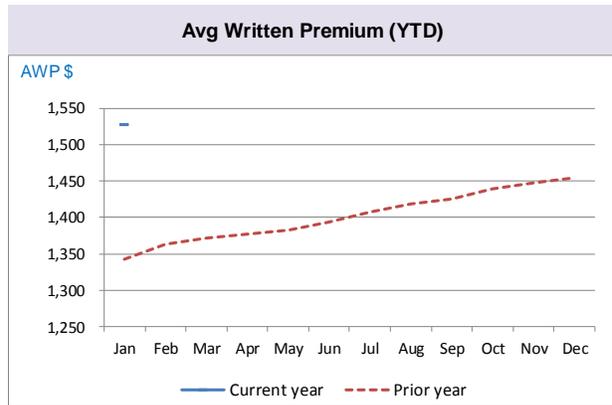
	Jan-18	Jan-17	Amt Chg	% Chg
W. Veh curr mth	1,161	550	611	111.0%



	Jan-18	Jan-17	Amt Chg	% Chg
AWP curr mth	1,527	1,343	184	13.7%

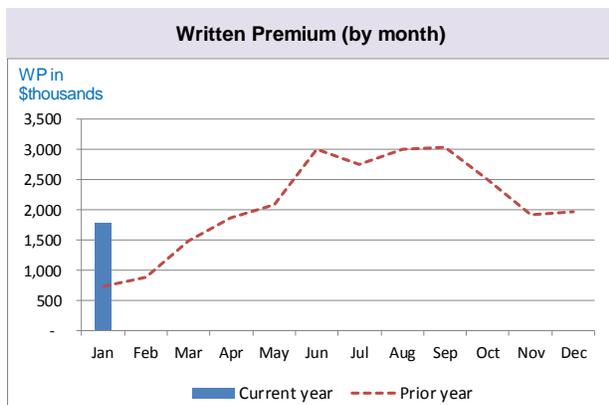


	Jan-18	Jan-17	Amt Chg	% Chg
W. Vehicles YTD	1,161	550	611	111.0%

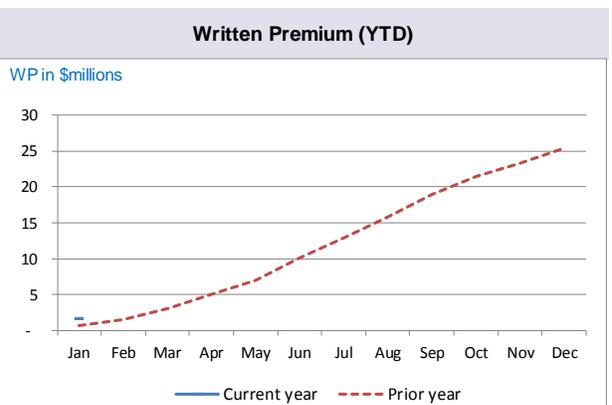


	Jan-18	Jan-17	Amt Chg	% Chg
Avg W. Prem YTD	1,527	1,343	184	13.7%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 139.9% for the month compared with the 163.4% increase we projected last month (see charts immediately below).



	Jan-18	Jan-17	Amt Chg	% Chg
WP (\$000s) curr mth	1,773	739	1,034	139.9%



	Jan-18	Jan-17	Amt Chg	% Chg
WP (\$000s) YTD	1,773	739	1,034	139.9%

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Nova Scotia Risk Sharing Pool – January 2018 Operational Report

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 January 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Nova Scotia

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	\$1,773	\$1,773	\$35,920	\$25,298
Decrease (Increase) in Unearned Premiums	389	389	(4,686)	(6,335)
Net Premiums Earned	\$2,162	\$2,162	\$31,234	\$18,963
Claims Incurred:				
Prior Accident Years:				
Undiscounted	(\$29)	(\$29)	(\$29)	(\$2,136)
Effect of Discounting	90	90	(299)	(1,836)
Discounted	\$61	\$61	(\$328)	(\$3,972)
Current Accident Year:				
Undiscounted	\$2,026	\$2,026	\$28,887	\$17,837
Effect of Discounting	117	117	1,281	817
Discounted	\$2,143	\$2,143	\$30,168	\$18,654
Claims Incurred	\$2,204	\$2,204	\$29,840	\$14,682
Underwriting Expenses:				
Expense Allowance	\$534	\$534	\$10,844	\$7,829
Change in UPDR/DPAC:				
Undiscounted	25	25	198	(773)
Effect of Discounting	(21)	(21)	291	37
Discounted	\$4	4	489	(\$736)
Underwriting Expenses	\$538	\$538	\$11,333	\$7,093
Net Underwriting Gain (Loss)	(\$580)	(\$580)	(\$9,939)	(\$2,812)
Administrative Expenses	\$40	\$40	\$1,285	\$600
Operating Result	(\$620)	(\$620)	(\$11,224)	(\$3,412)
Ratios:				
Claims & Expenses Incurred (Earned)				
Prior Accident Years	2.8%	2.8%	-1.1%	-20.9%
Current Accident Year	99.1%	99.1%	96.6%	98.4%
All Accident Years Combined	101.9%	101.9%	95.5%	77.5%
Underwriting & Administrative Expenses (Earned)	26.7%	26.7%	40.4%	40.6%
Combined Operating Ratio	128.6%	128.6%	135.9%	118.1%

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