



TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F18 – 029

DATE: APRIL 27, 2018

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

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

Please be advised that the March 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

Valuation

A valuation of the New Brunswick Risk Sharing Pool (“RSP”) as at December 31, 2017 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 **\$0.1 million unfavourable** impact on the month’s net result from operations, adding an estimated 2.9 points to the year-to-date Combined Operating Ratio (ending at 106.7%). The impact is summarized in the tables at the top of the next page¹.

¹In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dscst 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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NB	unfav / (fav) for the month and ytd						ytd EP 2,973 (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	(44)	29	(15)	(5)	-	(20)	(1.5%)	1.0%	(0.5%)	(0.2%)	-	(0.7%)
CAY	34	4	38	(1)	-	37	1.1%	0.1%	1.3%	-	-	1.2%
Prem Def	65	4	69	-	-	69	2.2%	0.1%	2.3%	-	-	2.3%
TOTAL	55	37	92	(6)	-	86	1.8%	1.2%	3.1%	(0.2%)	-	2.9%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.1 million unfavourable impact – see column [3] in the left table above), partially offset by the impact of a 1 basis point increase in the selected discount rate (from 1.74% to 1.75%, generating a \$6 thousand favourable 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 change in the margins for adverse deviation for claims development as selected at the coverage / accident year level (hence generating no impact – see column [5] in the left table above).

As indicated in the table above, the prior accident years (PAYs) nominal impact was \$44 thousand favourable (first row under column [1]). Of this amount, \$1.0 million was directly attributable to valuation adjustments made to reflect a known overstatement of a member’s reported case reserves. Specifically, as noted in the last two month’s Bulletins, FA management was notified on January 31, 2018 by a member of a potential recorded case reserve overstatement. Furthermore, during the current valuation review, FA management was advised of an additional and separate recorded case reserve understatement primarily due to incorrect reporting after FA’s October 31, 2017 fiscal year end. Management investigated and estimated the overall overstatement for the New Brunswick RSP as at December 31, 2017 as indicated in the table immediately below.

Estimated case reserve overstatement as at Dec 31, 2017

overstatement / (understatement)	
Accident Year	Total Case Reserve Adjustment (\$'000s)
2011	(121)
2012	24
2013	23
2014	9
2015	454
2016	506
2017	103
Total	998

A decision was made by management and the Appointed Actuary, after receiving the initial January 2018 notification, to not make an adjustment to selected loss ratios until the 2017 Q4

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RSP valuation was completed (however, for the purposes of the fiscal year-end financial reporting, an adjustment was made). With this valuation, prior accident years’ ultimates selections have now taken into account the member’s overstatement (both the original amount as notified, and the subsequent amount, with the combination of the two being summarized in the table above). FA management is working with the member on a process to correct the reported levels, and we currently anticipate that this will be either partially or entirely completed in time for the 2018 Q2 valuation.

Management has observed favourable *total* valuation impacts over the last 12 valuation implementations, although with 5 of 12 valuation implementations being unfavourable over that period, as shown in the table below (summarizing the same information as provided in the left table above as relates to the most recent 12 valuation implementations). Nominal estimate updates (column [1]) drive the overall impacts. It should be noted that the impacts in column [3] are largely outside of the control of FA (as being related to macroeconomic factors).

RSP: New Brunswick, as at: 2017 Q4		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LRs & exp [1]	APVs @ prior assumptions [2]	updated dsct rate [3]	updated margins [4]	Total Impact [5] = sum([1] to [5])	Booked Policy Liabilities [6]	Total Impact as % Book Liabs [7] = [5] / [6]	Nominal Impact as % Book Liabs [8] = [1] / [6]
2015 Q1	May 2015	(356)	(41)	330	(130)	(197)	21,651	(0.9%)	(1.6%)
2015 Q2	Aug 2015	1,846	189	(166)	(21)	1,848	25,209	7.3%	7.3%
2015 Q3	Oct 2015	372	32	125	-	529	26,351	2.0%	1.4%
2015 Q4	Mar 2016	(2,379)	(243)	40	-	(2,582)	23,779	(10.9%)	(10.0%)
2016 Q1	May 2016	(226)	(38)	25	-	(239)	23,693	(1.0%)	(1.0%)
2016 Q2	Aug 2016	(418)	(103)	43	(471)	(949)	23,496	(4.0%)	(1.8%)
2016 Q3	Oct 2016	379	32	41	-	452	24,304	1.9%	1.6%
2016 Q4	Mar 2017	(736)	(71)	(312)	-	(1,119)	23,149	(4.8%)	(3.2%)
2017 Q1	May 2017	(552)	(57)	53	-	(556)	23,168	(2.4%)	(2.4%)
2017 Q2	Aug 2017	(701)	(95)	(129)	(46)	(971)	23,538	(4.1%)	(3.0%)
2017 Q3	Oct 2017	1,415	101	(354)	-	1,162	24,385	4.8%	5.8%
2017 Q4	Mar 2018	55	37	(6)	-	86	23,228	0.4%	0.2%
12-qtrs	-	(1,301)	(257)	(310)	(668)	(2,536)			
% of total		51.3%	10.1%	12.2%	26.3%	100.0%			
Averages									
12-qtrs		(108)	(21)	(26)	(56)	(211)	23,829	(0.9%)	(0.5%)
2015 Q1 to 2016 Q4		(190)	(30)	16	(78)	(282)	23,954	(1.2%)	(0.8%)
2017 Q1 to 2017 Q4		54	(4)	(109)	(12)	(70)	23,580	(0.3%)	0.2%

The FA valuation approach is focused on providing best estimates on a nominal basis, and we expect this to manifest itself as a close-to-zero 12-quarter impact for column [1] in the table above. While this objective has not been met, we are encouraged that the average impact over the most recent 4 valuations has been much smaller than the earliest 8 valuations shown. Further, the nominal impacts, as a percentage of booked policy liabilities, should ideally be small (less than 2.5%) – this percentage is provided in column [8] above, and, while 5 of the 12 valuation implementations above indicate an impact greater than 2.5%, part of this may be attributed to the fact that this is a smaller RSP, and the overall average impact at 0.9% is below the 2.5% level. Finally, potential “bias” in the nominal impacts should be considered (per either

column [1] or [8]). We generally anticipate approximately 1/3rd of nominal valuation impacts will be unfavourable, and 2/3^{rds} will be favourable (due to the skewness of the development), and this seems to be satisfied.

In summary, we believe the nominal valuation impacts are moving toward our target impacts (long term zero impact; individual valuation impact of no more than 2.5% of policy liabilities; no bias evident), although the small RSP size may make it challenging to meet the 2.5% target.

Please see “Effect of Quarterly Valuation” on page 7 for additional valuation result detail.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$0.2 million and the incurred loss ratio to the end of 3 months is 71.9%, as summarized in the table below.

Amounts in \$000s	March 2018	March 2017	Year to date Mar 2018	Year to Date Mar 2017
Premium Written	984	771	2,405	1,862
Premium Earned	1,023	833	2,973	2,419
Incurring Losses	718	(279)	2,135	1,003
Underwriting & Admin Expense	416	97	1,035	607
Operating Result	(111)	1,015	(197)	809
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(10.1%)	(104.1%)	(5.1%)	(39.3%)
- Current Accident Year	80.3%	70.6%	77.0%	80.8%
<i>Total</i>	70.2%	(33.5%)	71.9%	41.5%
Underwriting & Admin Expense	40.7%	11.6%	34.8%	25.1%
Combined Operating Ratio	110.9%	(21.9%)	106.7%	66.6%

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 2018” 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 110.6%, as summarized in the table at the top of the next page.

NB RSP 2018 Yr-end Projection	Current	Prior Mth	Change	Final 2018
Amounts in \$000s	(Mar 2018)	(Feb 2018)		Outlook*
Premium Written	15,754	15,975	(221)	17,486
Premium Earned	13,899	14,108	(209)	15,974
Incurred Losses	10,227	10,292	(65)	11,739
Underwriting & Admin Expense	5,156	5,102	53	5,688
Net Result from Operations	(1,484)	(1,286)	(197)	(1,453)
Ratios:				
Loss ratio - Prior Accident Years	(2.1%)	(1.4%)	(0.7%)	(1.7%)
- Current Accident Year	75.6%	74.3%	1.3%	75.1%
<i>Total</i>	73.5%	72.9%	0.6%	73.4%
Underwriting & Admin Expense	37.1%	36.2%	0.9%	35.6%
Combined Operating Ratio	110.6%	109.1%	1.5%	109.0%

rounding differences may occur

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

This updated projection to the end of the year has deteriorated by \$0.2 million from the projection provided last month (-\$1.3 million and 109.1%), mainly due to the \$0.3 million overall unfavourable impact of the valuation implementation as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 7). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

NB	unfav / (fav) projected for full year						year EP 13,899 (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	(44)	21	(23)	(4)	-	(27)	(0.3%)	0.2%	(0.2%)	-	-	(0.2%)
CAY	153	11	164	-	-	164	1.1%	0.1%	1.2%	-	-	1.2%
Prem Def	107	7	114	-	-	114	0.8%	0.1%	0.8%	-	-	0.8%
TOTAL	216	39	255	(4)	-	251	1.6%	0.3%	1.8%	-	-	1.8%

Current Month Results

The New Brunswick Risk Sharing Pool produced a -\$0.1 million Operating Result in the month of March 2018, a deterioration of \$1.1 million compared with the same month last year. This deterioration is composed of an approximately \$1.3 million unfavourable impact stemming from the overall increase in the combined ratio (from -21.9% to 110.9% applied to \$1.0 million in earned premium), offset by \$0.2 million favourable impact associated with the \$0.2 million increase in earned premium (at a combined ratio of -21.9%). 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 104.3% at the end of

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2 months to 106.7% at the end of 3 months. The 2.4 percentage point increase is composed of a 1.8 percentage point increase in the Current Accident Years loss ratio, and a 3.1 percentage point increase in the expense ratio, offset by a 2.5 percentage point decrease in the Prior Accident Years loss ratio.

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.

March 2018	Actual	Projection	Difference	Difference %
Written Premium	984	1,205	(221)	(18.3%)
Earned Premium	1,023	1,052	(29)	(2.8%)
Reported Losses				
Paid Losses	1,191	557	634	113.8%
Paid Expenses	26	59	(33)	(55.9%)
Change in Outstanding Losses	(879)	41	(920)	<-999.9%
Total Reported Losses	338	657	(319)	(48.6%)
Change in IBNR Provision*	380	108	272	
Change in Premium Deficiency (DPAC)*	77	(31)	108	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [New Brunswick RSP March 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 March 2018, reported losses were \$0.3 million lower than projected. The Current Accident Year had a \$0.2 million favourable variance in reported losses, and 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.

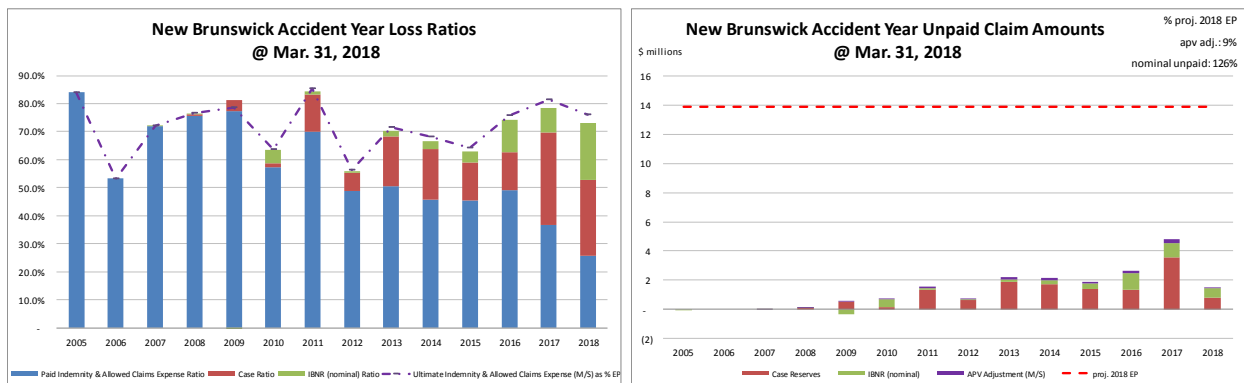
The variances for claims activity were beyond the set thresholds for the Prior Accident Years for the month. Management investigated paid claims activity and is satisfied that the variances are appropriately accounted for in our current booking process. All other variances were within the set thresholds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

Effect of Quarterly Valuation

The March 2018 New Brunswick Risk Sharing Pool Operational Report reflects the results of an updated valuation as at December 31, 2017 with the associated impacts in relation to the results for March 2018 summarized in the table immediately below.

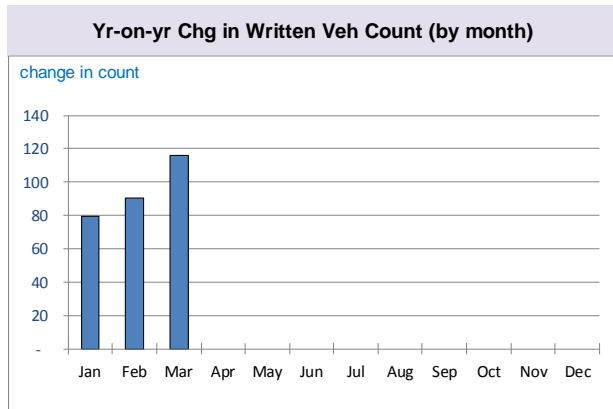
NB	unfav / (fav) for the month and ytd						mth EP 1,023 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	(44)	29	(15)	(5)	-	(20)	(4.3%)	2.8%	(1.5%)	(0.5%)	-	(2.0%)
CAY	34	4	38	(1)	-	37	3.3%	0.4%	3.7%	(0.1%)	-	3.6%
Prem Def	65	4	69	-	-	69	6.4%	0.4%	6.7%	-	-	6.7%
TOTAL	55	37	92	(6)	-	86	5.4%	3.6%	9.0%	(0.6%)	-	8.4%

The charts immediately 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.

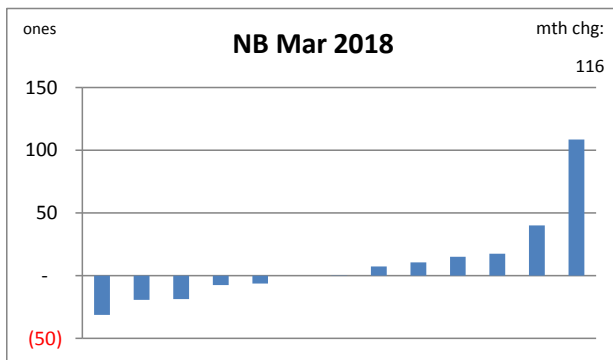


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [New Brunswick RSP March 2018 Operational Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at December 31, 2017 is expected to be posted on or before May 11, 2018. The actuarial valuation will be updated next as at March 31, 2018 and we anticipate the results will be reflected in the May 2018 Operational Report.

Management Comments

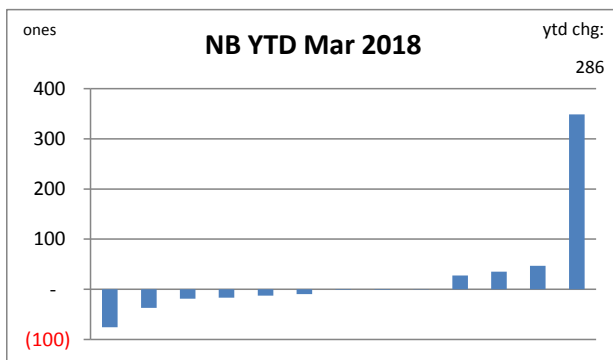


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with March showing an increase of 116 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 286 vehicles, indicating a variance of 170 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in March than projected.



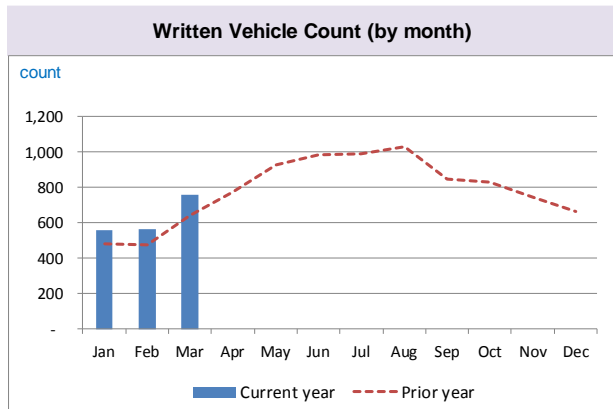
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the pool this month compared with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

3 member company groups accounted for 83% of the total transfer decrease for the “decliner” members. Of the 7 member company groups transferring more vehicles, 1 member company group accounted for 54% of the total transfer increase for the “grower” members.

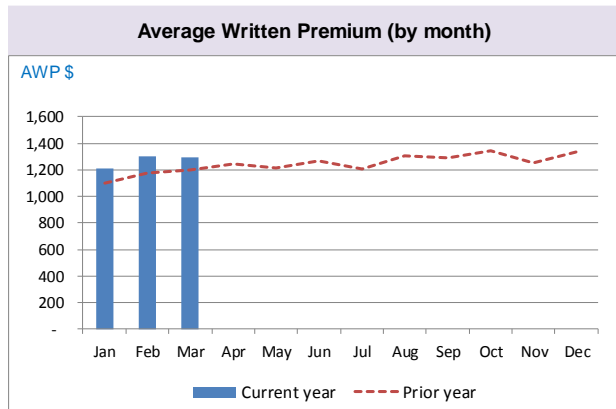


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

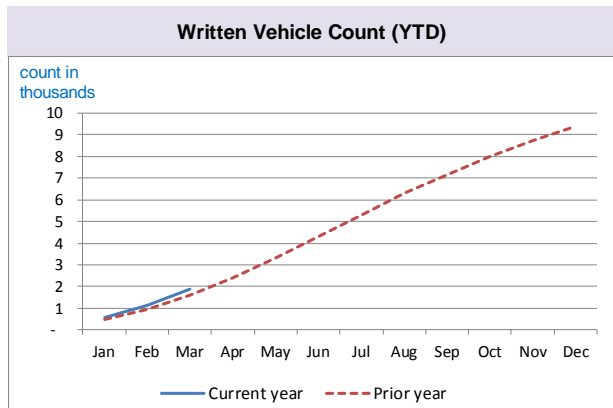
March’s vehicle count transfers to the pool represent an 18.1% increase from March 2017, and counts were up 17.9% year-to-date. Average written premium was up 8.1% in March 2018, and up 9.6% year-to-date (see at the top of the next page).



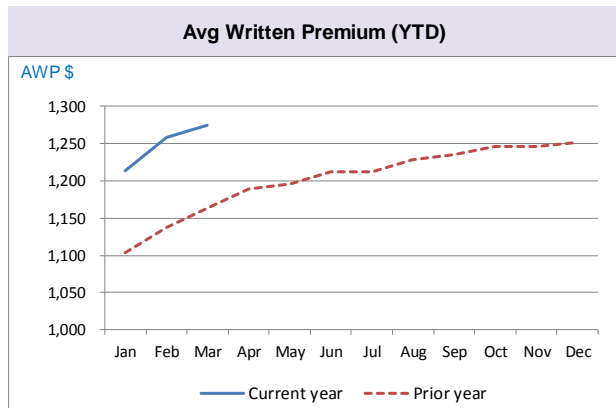
	Mar-18	Mar-17	Amt Chg	% Chg
W. Veh curr mth	759	642	116	18.1%



	Mar-18	Mar-17	Amt Chg	% Chg
AWP curr mth	1,297	1,200	97	8.1%

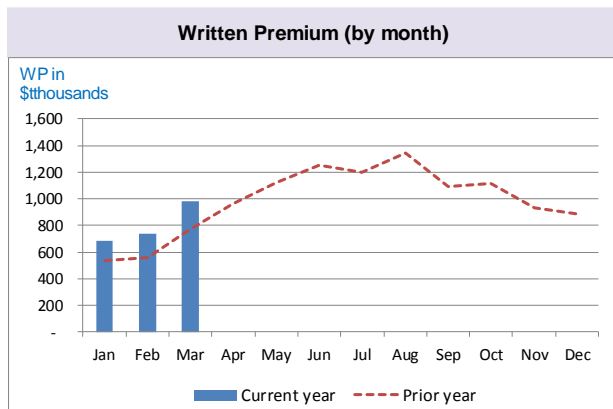


	Mar-18	Mar-17	Amt Chg	% Chg
W. Vehicles YTD	1,887	1,601	286	17.9%

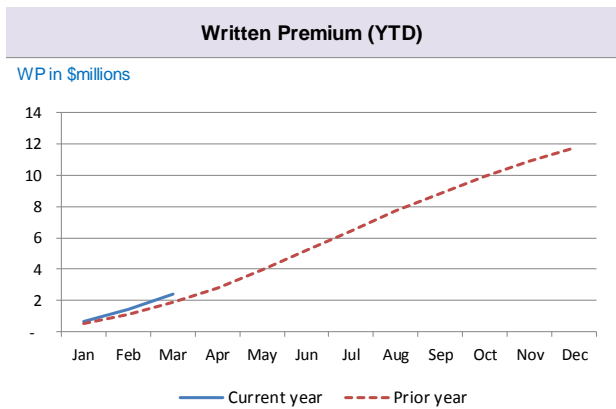


	Mar-18	Mar-17	Amt Chg	% Chg
Avg W. Prem YTD	1,275	1,163	112	9.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 27.7% for the month compared with the 56.4% increase we projected last month, and was up 29.2% year-to-date (see charts immediately below).



	Mar-18	Mar-17	Amt Chg	% Chg
WP (\$000s) curr mth	984	771	213	27.7%



	Mar-18	Mar-17	Amt Chg	% Chg
WP (\$000s) YTD	2,405	1,861	543	29.2%

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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:

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
**Risk Sharing Pool - New Brunswick
Operating Results for the 3 Months Ended March 31, 2018 (Discounted basis)**

EXHIBIT 1

**Source: Monthly Operational Report
(thousands of dollars)**

	January	February	March	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Underwriting Revenue:						
Net Premiums Written	\$682	\$739	\$984	\$2,405	\$15,754	\$11,775
Decrease (Increase) in Unearned Premiums	339	190	39	568	(1,855)	(1,161)
Net Premiums Earned	\$1,021	\$929	\$1,023	\$2,973	\$13,899	\$10,614
Claims Incurred:						
Prior Accident Years:						
Undiscounted	(\$5)	(\$5)	(\$63)	(\$73)	(\$73)	(\$340)
Effect of Discounting	46	(86)	(40)	(80)	(212)	(915)
Discounted	\$41	(\$91)	(\$103)	(\$153)	(\$285)	(\$1,255)
Current Accident Year:						
Undiscounted	\$742	\$674	\$789	\$2,205	\$10,201	\$7,958
Effect of Discounting	35	16	32	83	311	256
Discounted	\$777	\$690	\$821	\$2,288	\$10,512	\$8,214
Claims Incurred	\$818	\$599	\$718	\$2,135	\$10,227	\$6,959
Underwriting Expenses:						
Expense Allowance	\$193	\$211	\$280	\$684	\$4,503	\$3,744
Change in UPDR/DPAC:						
Undiscounted	87	49	77	213	(272)	(556)
Effect of Discounting	(13)	(6)	-	(19)	87	(109)
Discounted	74	43	77	194	(185)	(\$665)
Underwriting Expenses	\$267	\$254	\$357	\$878	\$4,318	\$3,079
Net Underwriting Gain (Loss)	(\$64)	\$76	(\$52)	(\$40)	(\$646)	\$576
Administrative Expenses	\$41	\$57	\$59	\$157	\$838	\$603
Operating Result	(\$105)	\$19	(\$111)	(\$197)	(\$1,484)	(\$27)
Ratios:						
Claims & Expenses Incurred (Earned)						
Prior Accident Years	4.0%	-9.8%	-10.1%	-5.1%	-2.1%	-11.8%
Current Accident Year	76.1%	74.3%	80.3%	77.0%	75.6%	77.4%
All Accident Years Combined	80.1%	64.5%	70.2%	71.9%	73.5%	65.6%
Underwriting & Administrative Expenses (Earned)	30.2%	33.5%	40.7%	34.8%	37.1%	34.7%
Combined Operating Ratio	110.3%	98.0%	110.9%	106.7%	110.6%	100.3%

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