

**TO: MEMBERS OF THE FACILITY ASSOCIATION**

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

**BULLETIN NO.: F18 – 045**

**DATE: JUNE 28, 2018**

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

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

Please be advised that the May 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**

#### *Annual Update of Member Sharing Ratios*

The May 2018 Operational Report reflects the annual update of member sharing ratios for Accident Years 2016, 2017, 2018 and 2019. Please refer to Bulletin [F18-050](#) for additional information.

#### *Valuation*

A valuation of the New Brunswick Risk Sharing Pool (“RSP”) as at March 31, 2018 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 **\$0.5 million favourable** impact on the month’s net result from operations, subtracting an estimated 9.4 points from the year-to-date Combined Operating Ratio (ending at 98.3%). The impact is summarized in the tables at the top of the next page<sup>1</sup>.

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<sup>1</sup>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”.

**Bulletin F18-045**
**New Brunswick Risk Sharing Pool – May 2018 Operational Report**

NB	unfav / (fav) for the month and ytd						ytd EP 5,084 (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	(310)	(36)	(346)	(72)	-	(418)	(6.1%)	(0.7%)	(6.8%)	(1.4%)	-	(8.2%)
CAY	(5)	(4)	(9)	(13)	-	(22)	(0.1%)	(0.1%)	(0.2%)	(0.3%)	-	(0.4%)
Prem Def	(5)	(10)	(15)	(25)	-	(40)	(0.1%)	(0.2%)	(0.3%)	(0.5%)	-	(0.8%)
<b>TOTAL</b>	<b>(320)</b>	<b>(50)</b>	<b>(370)</b>	<b>(110)</b>	<b>-</b>	<b>(480)</b>	<b>(6.3%)</b>	<b>(1.0%)</b>	<b>(7.3%)</b>	<b>(2.2%)</b>	<b>-</b>	<b>(9.4%)</b>

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$0.4 million favourable impact – see column [3] in the left table above), partially offset by the impact of an 18 basis point increase in the selected discount rate (from 1.75% to 1.93%, generating a \$0.1 million 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).

Management has observed favourable *total* valuation impacts over the last 12 valuation implementations, 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: 2018 Q1		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LR & exp	APVs @ prior assumptions	updated dsct rate	updated margins	Total Impact	Booked Policy Liabilities	Total Impact as % Book Liabs	Nominal Impact as % Book Liabs
		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
						= sum([1] to [5])		= [5] / [6]	= [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%
2018 Q1	May 2018	(320)	(50)	(110)	-	(480)	23,274	(2.1%)	(1.4%)
12-qtrs	-	(1,265)	(266)	(750)	(538)	(2,819)			
% of total		44.9%	9.4%	26.6%	19.1%	100.0%			
Averages									
12-qtrs		(105)	(22)	(63)	(45)	(235)	23,965	(1.0%)	(0.4%)
2015 Q2 to 2017 Q1		(214)	(32)	(19)	(62)	(327)	24,144	(1.4%)	(0.9%)
2017 Q2 to 2018 Q1		112	(2)	(150)	(12)	(51)	23,606	(0.2%)	0.5%

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 0.4% 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 1/3<sup>rd</sup> of nominal valuation impacts will be unfavourable, and 2/3<sup>rds</sup> 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 6 for additional valuation result detail.

### Summary of Financial Results

The calendar year-to-date Operating Result is \$0.1 million and the incurred loss ratio to the end of 5 months is 63.8%, as summarized in the table below.

Amounts in \$000s	May 2018	May 2017	Year to date May 2018	Year to Date May 2017
Premium Written	1,304	1,125	4,976	3,950
Premium Earned	1,078	876	5,084	4,124
Incurred Losses	350	32	3,240	1,681
Underwriting & Admin Expense	349	435	1,752	1,375
<b>Operating Result</b>	<b>379</b>	<b>409</b>	<b>92</b>	<b>1,068</b>
<i>Ratios:</i>				
<b>Loss ratio</b>				
- Prior Accident Years	(42.0%)	(80.4%)	(12.6%)	(40.5%)
- Current Accident Year	74.5%	84.0%	76.4%	81.3%
<i>Total</i>	<b>32.5%</b>	<b>3.6%</b>	<b>63.8%</b>	<b>40.8%</b>
<i>Underwriting &amp; Admin Expense</i>	<b>32.4%</b>	<b>49.7%</b>	<b>34.5%</b>	<b>33.3%</b>
<i>Combined Operating Ratio</i>	<b>64.9%</b>	<b>53.3%</b>	<b>98.3%</b>	<b>74.1%</b>

*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 -\$0.9 million and the estimated combined operating ratio to December 2018 is 106.4%, as summarized in the table immediately below.

<b>NB RSP 2018 Yr-end Projection</b> Amounts in \$000s	<b>Current</b> (May 2018)	Prior Mth (Apr 2018)	<b>Change</b>	Final 2018 Outlook*
Premium Written	14,981	15,522	(541)	17,486
Premium Earned	13,441	13,701	(260)	15,974
Incurred Losses	9,413	10,092	(679)	11,739
Underwriting & Admin Expense	4,888	5,076	(188)	5,688
<b>Net Result from Operations</b>	<b>(860)</b>	<b>(1,467)</b>	<b>607</b>	<b>(1,453)</b>
<b>Ratios:</b>				
<b>Loss ratio</b> - Prior Accident Years	(5.5%)	(2.2%)	(3.3%)	(1.7%)
- Current Accident Year	75.5%	75.8%	(0.3%)	75.1%
<i>Total</i>	<b>70.0%</b>	<b>73.6%</b>	<b>(3.6%)</b>	<b>73.4%</b>
<b>Underwriting &amp; Admin Expense</b>	<b>36.4%</b>	<b>37.0%</b>	<b>(0.6%)</b>	<b>35.6%</b>
<b>Combined Operating Ratio</b>	<b>106.4%</b>	<b>110.6%</b>	<b>(4.2%)</b>	<b>109.0%</b>

*rounding differences may occur*

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

This updated projection to the end of the year has improved by \$0.6 million from the projection provided last month (-\$1.5 million and 110.6%), mainly due to the \$0.5 million overall favourable impact of the valuation implementation as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 6). 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 13,441 (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		TOTAL	ults & payout patterns		dsct rate	margins		TOTAL
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	(310)	(28)	(338)	(67)	-	(405)	(2.3%)	(0.2%)	(2.5%)	(0.5%)	-	(3.0%)
CAY	(13)	(6)	(19)	(30)	-	(49)	(0.1%)	-	(0.1%)	(0.2%)	-	(0.4%)
Prem Def	-	(13)	(13)	(32)	-	(45)	-	(0.1%)	(0.1%)	(0.2%)	-	(0.3%)
<b>TOTAL</b>	<b>(323)</b>	<b>(47)</b>	<b>(370)</b>	<b>(129)</b>	<b>-</b>	<b>(499)</b>	<b>(2.4%)</b>	<b>(0.3%)</b>	<b>(2.8%)</b>	<b>(1.0%)</b>	<b>-</b>	<b>(3.7%)</b>

Current Month Results

The New Brunswick Risk Sharing Pool produced a \$0.4 million Operating Result in the month of May 2018, a deterioration of \$30 thousand compared with the same month last year. This deterioration is composed of a \$125 thousand unfavourable impact stemming from the overall

increase in the combined ratio (from 53.3% to 64.9% applied to \$1.1 million in earned premium), offset by an approximately \$95 thousand favourable impact associated with the \$0.2 million increase in earned premium (at a combined ratio of 53.3%).

This month's results moved the year-to-date combined operating ratio from 107.2% at the end of 4 months to 98.3% at the end of 5 months. The 8.9 percentage point decrease is composed of a 7.9 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 0.5 percentage point decrease in the Current Accident Years loss ratio, and a 0.5 percentage point decrease in the expense ratio.

### Variations from Projections

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

May 2018	Actual	Projection	Difference	Difference %
Written Premium	1,304	1,592	(288)	(18.1%)
Earned Premium	1,078	1,116	(38)	(3.4%)
Reported Losses				
Paid Losses	512	533	(21)	(3.9%)
Paid Expenses	198	166	32	19.3%
Change in Outstanding Losses	651	(1,085)	1,736	(160.0%)
<b>Total Reported Losses</b>	<b>1,361</b>	<b>(386)</b>	<b>1,747</b>	<b>(452.6%)</b>
Change in IBNR Provision*	(1,011)	1,205	(2,216)	
Change in Premium Deficiency (DPAC)*	(78)	(89)	11	

(Amounts in \$000's)

rounding differences may occur

\*Detailed information is included in [New Brunswick RSP May 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.

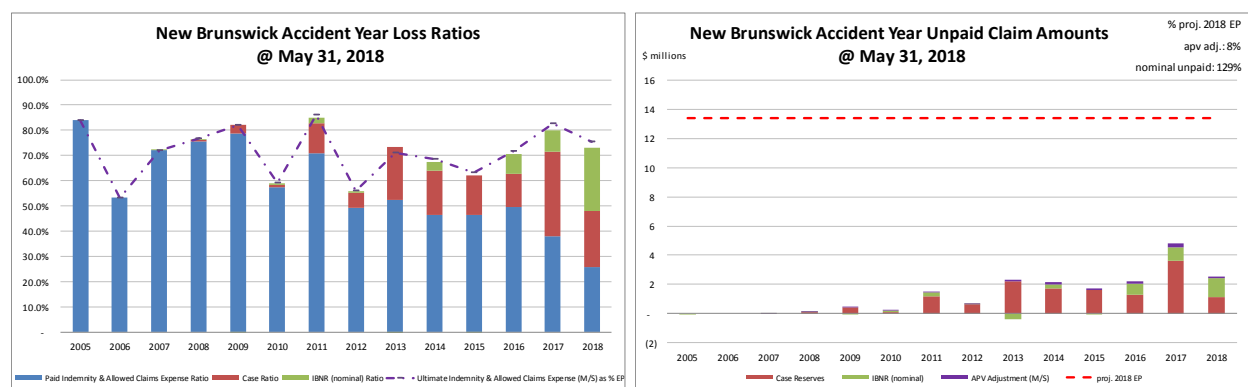
For the month of May 2018, reported losses were \$1.7 million higher than projected. The Current Accident Year had a \$0.1 million favourable variance in reported losses, while the Prior Accident Years had a \$1.8 million unfavourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

Effect of Quarterly Valuation

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

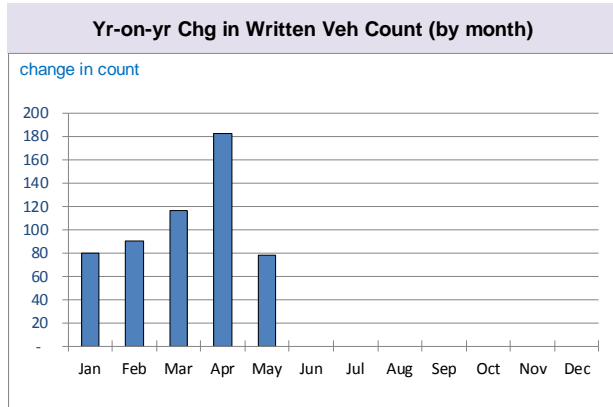
NB	unfav / (fav) for the month and ytd						mth EP 1,078 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ults & payout patterns			dsct rate	margins		ults & payout patterns			dsct rate	margins	
	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	Nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
	[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]
PAYs	(310)	(36)	(346)	(72)	-	(418)	(28.8%)	(3.3%)	(32.1%)	(6.7%)	-	(38.8%)
CAY	(5)	(4)	(9)	(13)	-	(22)	(0.5%)	(0.4%)	(0.8%)	(1.2%)	-	(2.0%)
Prem Def	(5)	(10)	(15)	(25)	-	(40)	(0.5%)	(0.9%)	(1.4%)	(2.3%)	-	(3.7%)
<b>TOTAL</b>	<b>(320)</b>	<b>(50)</b>	<b>(370)</b>	<b>(110)</b>	<b>-</b>	<b>(480)</b>	<b>(29.7%)</b>	<b>(4.6%)</b>	<b>(34.3%)</b>	<b>(10.2%)</b>	<b>-</b>	<b>(44.5%)</b>

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.

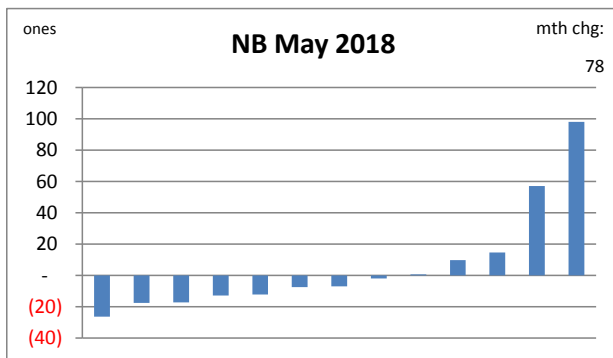


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [New Brunswick RSP May 2018 Operational Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at March 31, 2018 is expected to be posted on or before July 20, 2018. The actuarial valuation will be updated next as at June 30, 2018 and we anticipate the results will be reflected in the August 2018 Operational Report.

Management Comments

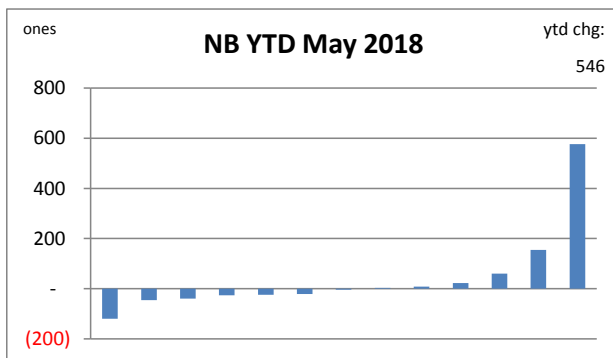


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with May showing an increase of 78 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 305 vehicles, indicating a variance of 227 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the pool in May than projected.



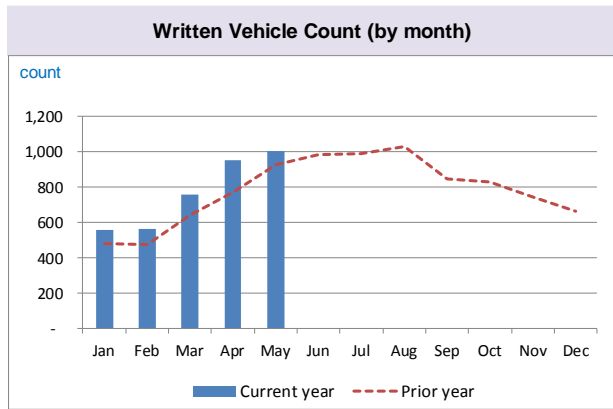
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Eight member company groups transferred fewer vehicles to the pool this month compared with a year ago, while five transferred more. Of the 8 member company groups transferring fewer vehicles, 4 member company groups accounted for 72% of the

total transfer decrease for the “decliner” members. Of the 5 member company groups transferring more vehicles, 2 member company groups accounted for 86% of the total transfer increase for the “grower” members.

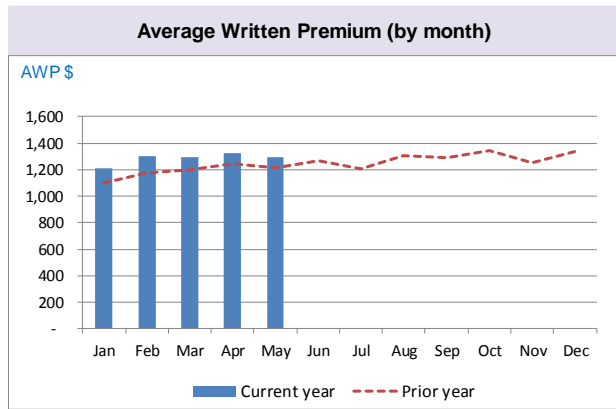


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

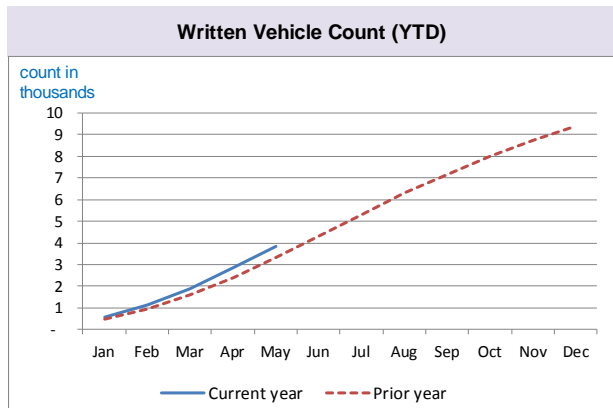
May’s vehicle count transfers to the pool represent an 8.4% increase from May 2017, and counts were up 16.5% year-to-date. Average written premium was up 7.0% in May 2018, and up 8.0% year-to-date (see charts at the top of the next page).



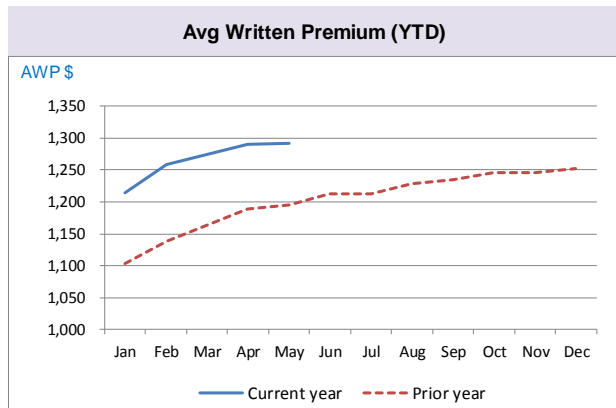
	May-18	May-17	Amt Chg	% Chg
W. Veh curr mth	1,006	928	78	8.4%



	May-18	May-17	Amt Chg	% Chg
AWP curr mth	1,296	1,211	85	7.0%

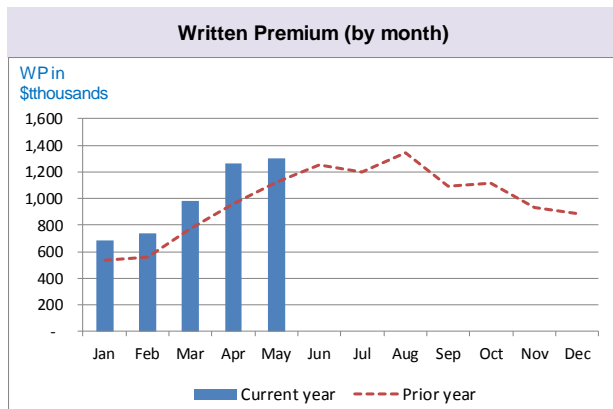


	May-18	May-17	Amt Chg	% Chg
W. Vehicles YTD	3,850	3,303	546	16.5%

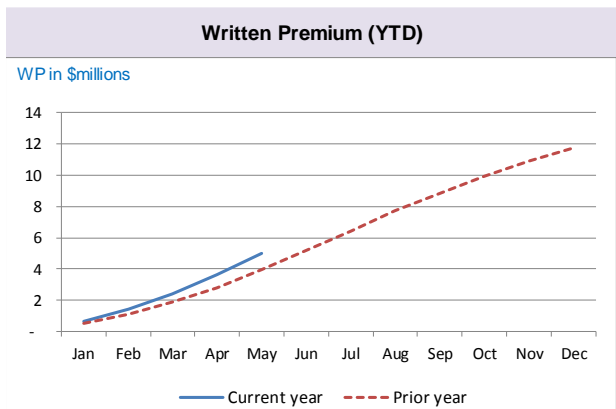


	May-18	May-17	Amt Chg	% Chg
Avg W. Prem YTD	1,292	1,196	96	8.0%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 15.9% for the month compared with the 41.6% increase we projected last month, and was up 26.0% year-to-date (see charts immediately below).



	May-18	May-17	Amt Chg	% Chg
WP (\$000s) curr mth	1,304	1,125	179	15.9%



	May-18	May-17	Amt Chg	% Chg
WP (\$000s) YTD	4,976	3,949	1,026	26.0%



**Bulletin F18-045**

**New Brunswick Risk Sharing Pool – May 2018 Operational Report**

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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 May 2018 Operational Report – Actuarial Highlights](#)

**SUMMARY OF OPERATIONS - CALENDAR YEAR 2018**

Risk Sharing Pool - New Brunswick

Operating Results for the 5 Months Ended May 31, 2018 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	CY2018 YTD	CY2018 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
<b>Underwriting Revenue:</b>								
Net Premiums Written	\$682	\$739	\$984	\$1,267	\$1,304	\$4,976	\$14,981	\$11,775
Decrease (Increase) in Unearned Premiums	339	190	39	(234)	(226)	108	(1,540)	(1,161)
<b>Net Premiums Earned</b>	<b>\$1,021</b>	<b>\$929</b>	<b>\$1,023</b>	<b>\$1,033</b>	<b>\$1,078</b>	<b>\$5,084</b>	<b>\$13,441</b>	<b>\$10,614</b>
<b>Claims Incurred:</b>								
Prior Accident Years:								
Undiscounted	(\$5)	(\$5)	(\$63)	(\$7)	(\$315)	(\$395)	(\$396)	(\$340)
Effect of Discounting	46	(86)	(40)	(30)	(138)	(248)	(338)	(915)
Discounted	\$41	(\$91)	(\$103)	(\$37)	(\$453)	(\$643)	(\$734)	(\$1,255)
Current Accident Year:								
Undiscounted	\$742	\$674	\$789	\$763	\$789	\$3,757	\$9,866	\$7,958
Effect of Discounting	35	16	32	29	14	126	281	256
Discounted	\$777	\$690	\$821	\$792	\$803	\$3,883	\$10,147	\$8,214
<b>Claims Incurred</b>	<b>\$818</b>	<b>\$599</b>	<b>\$718</b>	<b>\$755</b>	<b>\$350</b>	<b>\$3,240</b>	<b>\$9,413</b>	<b>\$6,959</b>
<b>Underwriting Expenses:</b>								
Expense Allowance	\$193	\$211	\$280	\$362	\$372	\$1,418	\$4,280	\$3,744
Change in UPDR/DPAC:								
Undiscounted	87	49	77	(53)	(52)	108	(199)	(556)
Effect of Discounting	(13)	(6)	-	11	(26)	(34)	28	(109)
Discounted	74	43	77	(42)	(78)	74	(171)	(\$665)
<b>Underwriting Expenses</b>	<b>\$267</b>	<b>\$254</b>	<b>\$357</b>	<b>\$320</b>	<b>\$294</b>	<b>\$1,492</b>	<b>\$4,109</b>	<b>\$3,079</b>
<b>Net Underwriting Gain (Loss)</b>	<b>(\$64)</b>	<b>\$76</b>	<b>(\$52)</b>	<b>(\$42)</b>	<b>\$434</b>	<b>\$352</b>	<b>(\$81)</b>	<b>\$576</b>
<b>Administrative Expenses</b>	<b>\$41</b>	<b>\$57</b>	<b>\$59</b>	<b>\$48</b>	<b>\$55</b>	<b>\$260</b>	<b>\$779</b>	<b>\$603</b>
<b>Operating Result</b>	<b>(\$105)</b>	<b>\$19</b>	<b>(\$111)</b>	<b>(\$90)</b>	<b>\$379</b>	<b>\$92</b>	<b>(\$860)</b>	<b>(\$27)</b>
<b>Ratios:</b>								
<b>Claims &amp; Expenses Incurred (Earned)</b>								
Prior Accident Years	4.0%	-9.8%	-10.1%	-3.6%	-42.0%	-12.6%	-5.5%	-11.8%
Current Accident Year	76.1%	74.3%	80.3%	76.7%	74.5%	76.4%	75.5%	77.4%
All Accident Years Combined	80.1%	64.5%	70.2%	73.1%	32.5%	63.8%	70.0%	65.6%
Underwriting & Administrative Expenses (Earned)	30.2%	33.5%	40.7%	35.6%	32.4%	34.5%	36.4%	34.7%
<b>Combined Operating Ratio</b>	<b>110.3%</b>	<b>98.0%</b>	<b>110.9%</b>	<b>108.7%</b>	<b>64.9%</b>	<b>98.3%</b>	<b>106.4%</b>	<b>100.3%</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