

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 008

DATE: JANUARY 30, 2019

**SUBJECT: NOVA SCOTIA RISK SHARING POOL
– DECEMBER 2018 OPERATIONAL REPORT**

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

Please be advised that the December 2018 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 -\$8.3 million and the incurred loss ratio to the end of 12 months is 94.7%, as summarized in the table below.

Amounts in \$000s	December 2018	December 2017	Year to date Dec 2018	Year to Date Dec 2017
Premium Written	1,673	1,978	28,869	25,298
Premium Earned	2,442	2,256	27,656	18,963
Incurred Losses	2,301	2,124	26,203	14,682
Underwriting & Admin Expense	631	656	9,773	7,693
Operating Result	(490)	(524)	(8,320)	(3,412)
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(2.0%)	(2.4%)	(1.8%)	(20.9%)
- Current Accident Year	96.2%	96.6%	96.5%	98.4%
<i>Total</i>	94.2%	94.2%	94.7%	77.5%
<i>Underwriting & Admin Expense</i>	25.8%	29.1%	35.3%	40.6%
<i>Combined Operating Ratio</i>	120.0%	123.3%	130.0%	118.1%

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 2018”

Bulletin F19-008**Nova Scotia Risk Sharing Pool – December 2018 Operational Report**

attached to this bulletin.

Compared with the Risk Sharing Pools' Final Outlook for 2018 ([F17-078](#) posted Oct. 3, 2017), 2018 finished with written premium \$10.7 million (27.1%) lower than expected, and earned premium \$7.6 million (21.5%) lower than expected. The net operating deficit at \$8.3 million was \$4.3 million (34.3%) lower than expected and the combined ratio was 6.0 points lower than expected (see table below).

NS RSP 2018 Yr-end Projection Amounts in \$000s	Current (Dec 2018)	Prior Mth (Nov 2018)	Change	Final 2018 Outlook*
Premium Written	28,870	29,441	(571)	39,593
Premium Earned	27,657	27,744	(87)	35,242
Incurred Losses	26,205	26,266	(61)	33,944
Underwriting & Admin Expense	9,814	10,061	(247)	13,954
Net Result from Operations	(8,362)	(8,583)	221	(12,656)
Ratios:				
Loss ratio - Prior Accident Years	(1.8%)	(1.8%)	0.0%	(1.6%)
- Current Accident Year	96.5%	96.5%	0.0%	98.0%
<i>Total</i>	94.7%	94.7%	0.0%	96.4%
Underwriting & Admin Expense	35.5%	36.3%	(0.8%)	39.6%
Combined Operating Ratio	130.2%	131.0%	(0.8%)	136.0%

rounding differences may occur

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

Updated Projection to Year-end 2019

An Outlook had been prepared to provide Members with an estimate of Nova Scotia RSP operating results for calendar year 2019 based on the actuarial valuation at June 30, 2018, and reflecting actual experience to date as detailed in the August 2018 Operational Report. This Outlook was posted on October 18, 2018 (please refer to Bulletin [F18-077](#)), and projected a Net Result from Operations for 2019 of -\$10.9 million, and a combined operating ratio of 136.0%. Projections for 2019 have been updated each month since as per our usual practice (although until this month, the bulletins have focused on projections to the end of 2018).

The projected calendar year Operating Result to December 2019 is now -\$11.6 million (a \$0.7 million deterioration relative to the Outlook) and the estimated combined operating ratio to December 2019 is 136.3% (a 0.3 point deterioration relative to the Outlook). The deterioration is composed of an estimated \$0.6 million unfavourable impact associated with the \$1.6 million increase in projected earned premium (at a combined ratio of 136.0%), with the remaining \$0.1 million unfavourable impact stemming from the overall increase in the combined ratio (from 136.0% to 136.3% applied to \$31.9 million in projected earned premium).

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$0.5 million Operating Result in the month of December 2018, a \$34 thousand improvement from the same month last year. This improvement

is composed of a \$81 thousand favourable impact stemming from the overall decrease in the combined ratio (from 123.3% to 120.0% applied to \$2.4 million in earned premium), offset by a \$43 thousand unfavourable impact associated with the \$0.2 million increase in earned premium (at a combined ratio of 123.3%). The remaining \$4 thousand difference is due to other updates.

This month's results moved the year-to-date combined operating ratio from 131.1% at the end of 11 months to 130.0% at the end of 12 months. The 1.1 percentage point decrease is composed of a 0.1 percentage point decrease in the Prior Accident Years loss ratio, and a 1.0 percentage point decrease in the expense ratio.

Variances from Projections

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

December 2018	Actual	Projection	Difference	Difference %
Written Premium	1,673	2,244	(571)	(25.4%)
Earned Premium	2,442	2,529	(87)	(3.4%)
Reported Losses				
Paid Losses	1,294	1,773	(479)	(27.0%)
Paid Expenses	52	89	(37)	(41.6%)
Change in Outstanding Losses	152	65	87	133.8%
Total Reported Losses	1,498	1,927	(429)	(22.3%)
Change in IBNR Provision *	803	436	367	
Change in Premium Deficiency (DPAC) *	67	104	(37)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP December 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 December 2018, reported losses were \$0.4 million lower than projected. The Current Accident Year had a \$0.1 million favourable variance in reported losses, and the Prior Accident Years had a \$0.3 million favourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

Booking IBNR

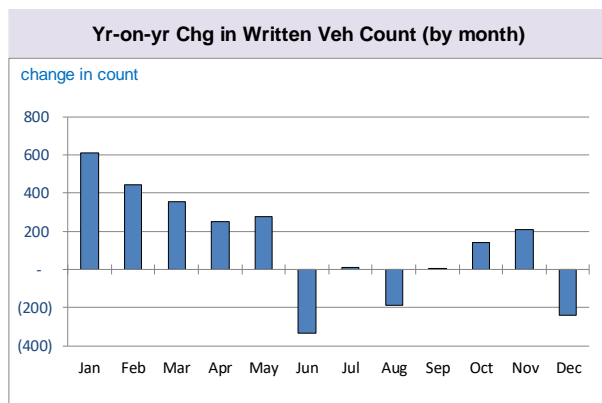
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium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

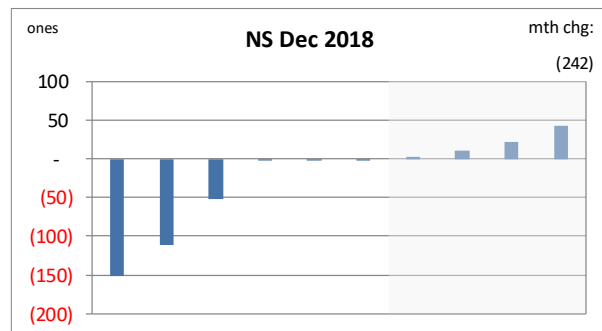
Effect of Quarterly Valuation

The December 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, 2018). The actuarial valuation will be updated next as at December 31, 2018 and we anticipate that the results will be reflected in the March 2019 Operational Report.

Management Comments

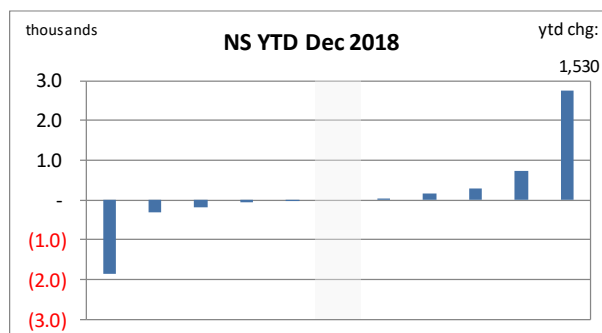


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with December showing a decrease of 242 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 155 vehicles, indicating a variance of 397 from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the pool in December than projected.



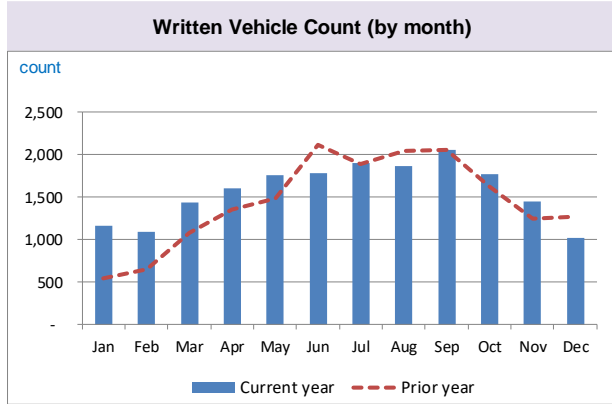
The chart on the left shows the overall change in the month, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Six member company groups transferred fewer vehicles to the pool this month compared with a year ago, while four transferred more. Of the 6 member company groups transferring fewer vehicles, 2 member

company group accounted for 82% of the total transfer decrease for these “decliner” members. Of the 4 member company groups transferring more vehicles, 1 member company groups accounted for 56% of the total transfer increase for these “grower” members.

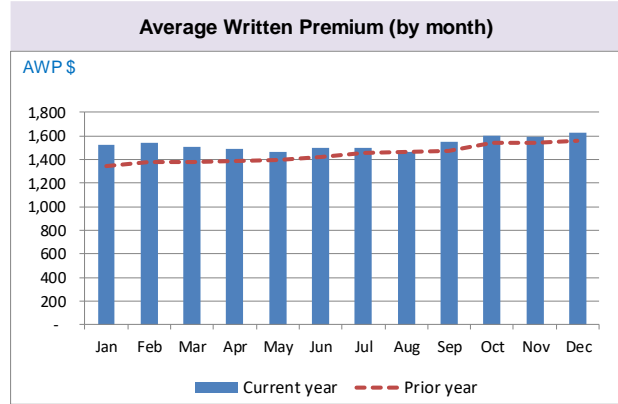


The chart on the left presents the same information as the previous chart, but on a year-to-date basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by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

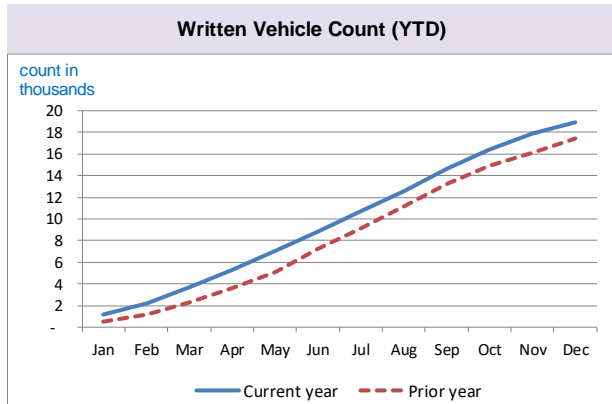
December’s vehicle count transfers to the pool represent a 19.1% decrease from December 2017, but vehicle counts were up 8.8% year-to-date. Average written premium was up 4.5% in December 2018, and was up 4.9% year-to-date (see charts immediately below).



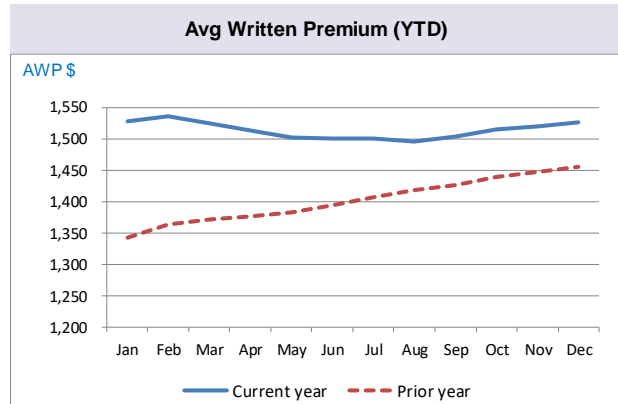
	Dec-18	Dec-17	Amt Chg	% Chg
W. Veh curr mth	1,026	1,268	(242)	-19.1%



	Dec-18	Dec-17	Amt Chg	% Chg
AWP curr mth	1,630	1,560	70	4.5%

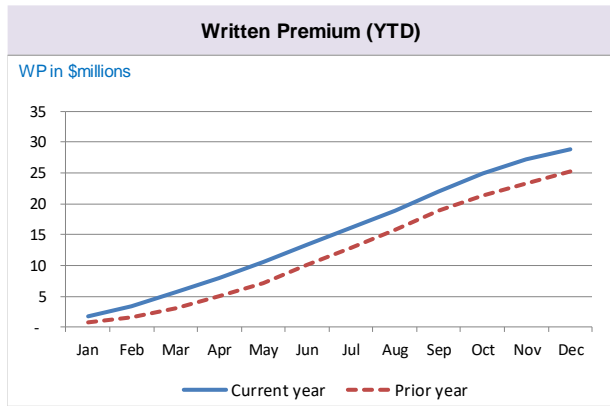
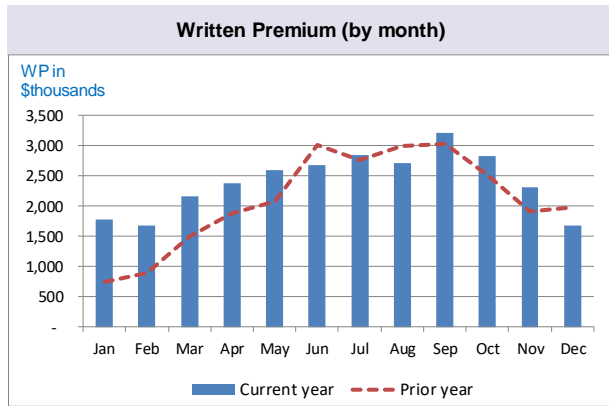


	Dec-18	Dec-17	Amt Chg	% Chg
W. Vehicles YTD	18,918	17,388	1,530	8.8%



	Dec-18	Dec-17	Amt Chg	% Chg
Avg W. Prem YTD	1,526	1,455	71	4.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 15.4% for the month compared with the 13.5% increase we projected last month, but was up 14.1% year-to-date (see charts at the top of the next page).



	Dec-18	Dec-17	Amt Chg	% Chg
WP (\$000s) curr mth	1,673	1,978	(305)	-15.4%

	Dec-18	Dec-17	Amt Chg	% Chg
WP (\$000s) YTD	28,871	25,297	3,574	14.1%

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 2018 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018

Risk Sharing Pool - Nova Scotia

Operating Results for the 12 Months Ended December 31, 2018 (Discounted basis)

Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	October	November	December	CY2018 YTD	CY2019 12 MONTHS Updated Projection	CY2017 12 MONTHS Actual
Underwriting Revenue:															
Net Premiums Written	\$1,773	\$1,686	\$2,164	\$2,385	\$2,593	\$2,674	\$2,844	\$2,722	\$3,209	\$2,834	\$2,312	\$1,673	\$28,869	\$33,659	\$25,298
Decrease (Increase) in Unearned Premiums	389	337	118	(124)	(232)	(373)	(449)	(418)	(898)	(407)	75	769	(1,213)	(1,790)	(6,335)
Net Premiums Earned	\$2,162	\$2,023	\$2,282	\$2,261	\$2,361	\$2,301	\$2,395	\$2,304	\$2,311	\$2,427	\$2,387	\$2,442	\$27,656	\$31,869	\$18,963
Claims Incurred:															
Prior Accident Years:															
Undiscounted	(\$29)	(\$8)	(\$2,276)	\$0	\$1,366	(\$10)	(\$6)	\$104	(\$7)	\$1,061	\$3	(\$3)	\$195	\$0	(\$2,136)
Effect of Discounting	90	(39)	(48)	(32)	(79)	(23)	(63)	(122)	(53)	(208)	(61)	(45)	(683)	(318)	(1,836)
Discounted	\$61	(\$47)	(\$2,324)	(\$32)	\$1,287	(\$33)	(\$69)	(\$18)	(\$60)	\$853	(\$58)	(\$48)	(\$488)	(\$318)	(\$3,972)
Current Accident Year:															
Undiscounted	\$2,026	\$1,877	\$2,194	\$2,118	\$2,283	\$2,177	\$2,262	\$2,112	\$2,169	\$2,113	\$2,218	\$2,270	\$25,819	\$30,755	\$17,837
Effect of Discounting	117	92	108	100	50	87	89	87	92	(103)	74	79	872	1,048	817
Discounted	\$2,143	\$1,969	\$2,302	\$2,218	\$2,333	\$2,264	\$2,351	\$2,199	\$2,261	\$2,010	\$2,292	\$2,349	\$26,691	\$31,803	\$18,654
Claims Incurred	\$2,204	\$1,922	(\$22)	\$2,186	\$3,620	\$2,231	\$2,282	\$2,181	\$2,201	\$2,863	\$2,234	\$2,301	\$26,203	\$31,485	\$14,682
Underwriting Expenses:															
Expense Allowance	\$534	\$509	\$653	\$720	\$783	\$807	\$859	\$821	\$969	\$856	\$698	\$505	\$8,714	\$10,164	\$7,829
Change in UPDR/DPAC:															
Undiscounted	25	24	173	8	72	(2)	1	29	22	13	73	99	537	508	(773)
Effect of Discounting	(21)	(18)	17	8	(55)	21	23	40	53	(123)	1	(32)	(86)	108	37
Discounted	\$4	\$6	\$190	\$16	\$17	\$19	\$24	\$69	\$75	(\$110)	\$74	\$67	451	616	(\$736)
Underwriting Expenses	\$538	\$515	\$843	\$736	\$800	\$826	\$883	\$890	\$1,044	\$746	\$772	\$572	\$9,165	\$10,780	\$7,093
Net Underwriting Gain (Loss)	(\$580)	(\$414)	\$1,461	(\$661)	(\$2,059)	(\$756)	(\$770)	(\$767)	(\$934)	(\$1,182)	(\$619)	(\$431)	(\$7,712)	(\$10,396)	(\$2,812)
Administrative Expenses	\$40	\$56	\$59	\$48	\$55	\$47	\$48	\$56	\$45	\$56	\$39	\$59	\$608	\$1,180	\$600
Operating Result	(\$620)	(\$470)	\$1,402	(\$709)	(\$2,114)	(\$803)	(\$818)	(\$823)	(\$979)	(\$1,238)	(\$658)	(\$490)	(\$8,320)	(\$11,576)	(\$3,412)
Ratios:															
Claims & Expenses Incurred (Earned)															
Prior Accident Years	2.8%	-2.3%	-101.8%	-1.4%	54.5%	-1.4%	-2.9%	-0.8%	-2.6%	35.1%	-2.4%	-2.0%	-1.8%	-1.0%	-20.9%
Current Accident Year	99.1%	97.3%	100.9%	98.1%	98.8%	98.4%	98.2%	95.4%	97.8%	82.8%	96.0%	96.2%	96.5%	99.8%	98.4%
All Accident Years Combined	101.9%	95.0%	-0.9%	96.7%	153.3%	97.0%	95.3%	94.6%	95.2%	117.9%	93.6%	94.2%	94.7%	98.8%	77.5%
Underwriting & Administrative Expenses (Earned)	26.7%	28.2%	39.5%	34.7%	36.2%	37.9%	38.9%	41.1%	47.1%	33.0%	34.0%	25.8%	35.3%	37.5%	40.6%
Combined Operating Ratio	128.6%	123.2%	38.6%	131.4%	189.5%	134.9%	134.2%	135.7%	142.3%	150.9%	127.6%	120.0%	130.0%	136.3%	118.1%

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