

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 016

DATE: FEBRUARY 27, 2019

**SUBJECT: NOVA SCOTIA RISK SHARING POOL
– JANUARY 2019 OPERATIONAL REPORT**

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

Please be advised that the January 2019 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 -\$0.9 million and the incurred loss ratio to the end of 1 month is 107.3%, as summarized in the table below.

Amounts in \$000s	January 2019	January 2018	Year to date Jan 2019	Year to Date Jan 2018
Premium Written	2,126	1,773	2,126	1,773
Premium Earned	2,494	2,162	2,494	2,162
Incurred Losses	2,676	2,204	2,676	2,204
Underwriting & Admin Expense	702	578	702	578
Operating Result	(884)	(620)	(884)	(620)
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	5.6%	2.8%	5.6%	2.8%
- Current Accident Year	101.7%	99.1%	101.7%	99.1%
<i>Total</i>	107.3%	101.9%	107.3%	101.9%
<i>Underwriting & Admin Expense</i>	28.1%	26.7%	28.1%	26.7%
<i>Combined Operating Ratio</i>	135.4%	128.6%	135.4%	128.6%

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 2019”

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attached to this bulletin.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is now -\$11.7 million and the estimated combined operating ratio to December 2018 is 136.8%, as summarized in the table below. This updated projection to the end of the year has deteriorated by \$0.1 million from the projection provided last month (-\$11.6 million and 136.3%). This deterioration is driven by a correction to the calendar year 2019 RSP expense factors (see below), offsetting the favourable impact of a \$0.1 million decrease in the projected written premium for the year.

The change in underwriting & admin expense in the table below is impacted by the correction to the calendar year 2019 RSP expense factors used in the projection model, which resulted in an overall \$0.1 million unfavourable impact in projected year-end results. The updated calendar year 2019 RSP expense factors did not affect the current and prior month's (December 2018) actual results.

NS RSP 2019 Yr-end Projection Amounts in \$000s	Current (Jan 2019)	Prior Mth (Dec 2018)	Change	Final 2019 Outlook*
Premium Written	33,603	33,659	(56)	31,089
Premium Earned	31,746	31,869	(123)	30,272
Incurred Losses	31,303	31,485	(182)	30,014
Underwriting & Admin Expense	12,117	11,960	157	11,148
Net Result from Operations	(11,674)	(11,576)	(98)	(10,890)
Ratios:				
Loss ratio - Prior Accident Years	(1.2%)	(1.0%)	(0.2%)	(1.5%)
- Current Accident Year	99.8%	99.8%	0.0%	100.7%
<i>Total</i>	98.6%	98.8%	(0.2%)	99.2%
Underwriting & Admin Expense	38.2%	37.5%	0.7%	36.8%
Combined Operating Ratio	136.8%	136.3%	0.5%	136.0%

rounding differences may occur

*as posted to FA's website Oct. 18, 2018

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$0.9 million Operating Result in the month of January 2019, a \$0.3 million deterioration from the same month last year. This deterioration is composed of a \$0.1 million unfavourable impact associated with the \$0.3 million increase in earned premium (at a combined ratio of 128.6%), with the remaining \$0.2 million deterioration stemming from the overall increase in the combined ratio (from 128.6% to 135.4% applied to \$2.5 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.

January 2019	Actual	Projection	Difference	Difference %
Written Premium	2,126	2,182	(56)	(2.6%)
Earned Premium	2,494	2,526	(32)	(1.3%)
Reported Losses				
Paid Losses	2,607	1,511	1,096	72.5%
Paid Expenses	60	150	(90)	(60.0%)
Change in Outstanding Losses	(742)	897	(1,639)	(182.7%)
Total Reported Losses	1,925	2,558	(633)	(24.7%)
Change in IBNR Provision *	751	217	534	
Change in Premium Deficiency (DPAC) *	(6)	13	(19)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP January 2019 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 2019, reported losses were \$0.6 million lower than projected. The Current Accident Year had a \$0.5 million favourable variance in reported losses, and the Prior Accident Years had an approximately \$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 some specific individual Accident Years for the month. Management investigated 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.

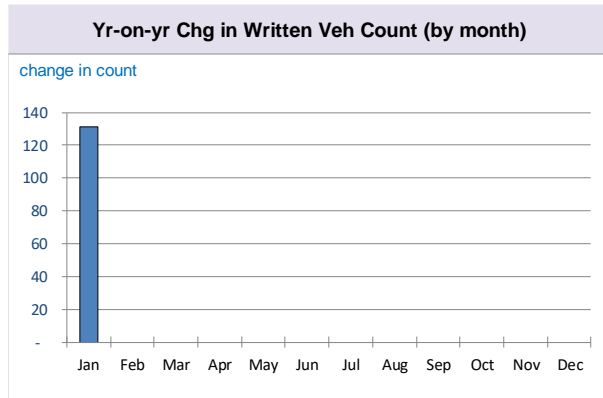
Booking IBNR

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 2019 Operational Report – Actuarial Highlights](#).

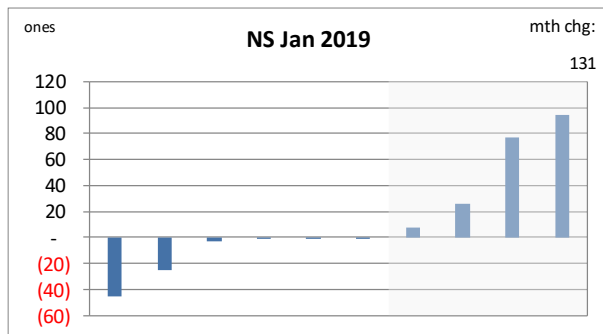
Effect of Quarterly Valuation

The January 2019 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

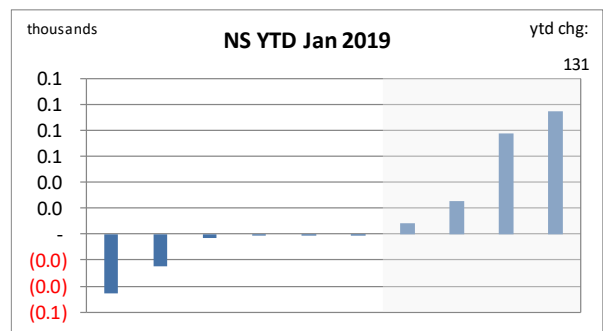


The chart on the left shows the year-on-year change in the vehicles transferred to the pool by month, with January showing an increase of 131 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 210 vehicles, indicating a variance of 79 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. 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 95% of

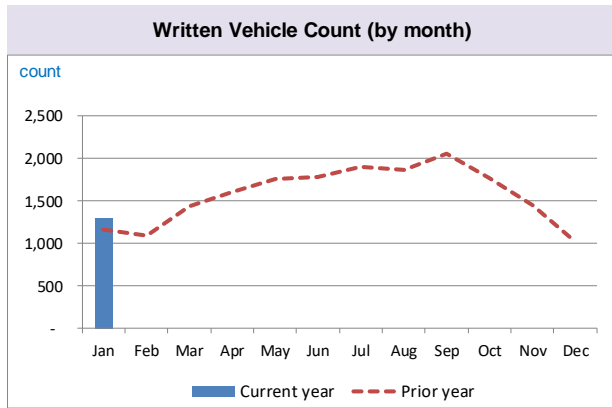
the total transfer decrease for these “decliner” members. Of the 4 member company groups transferring more vehicles, 2 member company groups accounted for 84% of the total transfer increase for these “grower” members.



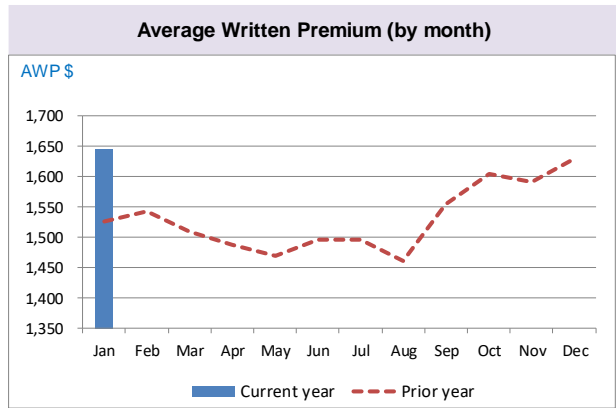
The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

January’s vehicle count transfers to the pool represent an 11.3% increase from January 2018. Average written premium was up 7.7% in January 2019 (see charts at the top of the next page).

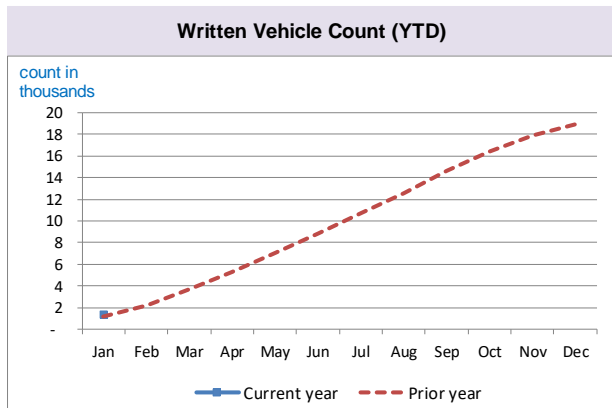
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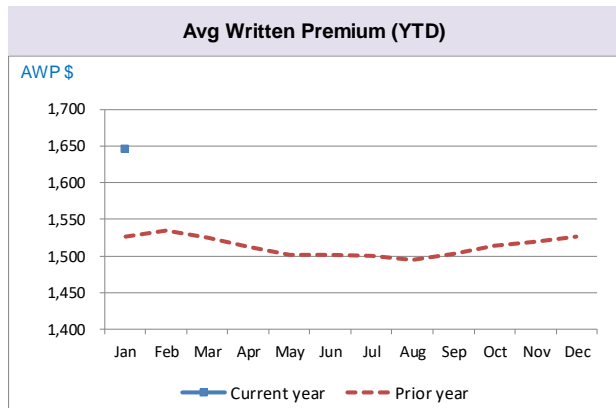
	Jan-19	Jan-18	Amt Chg	% Chg
W. Veh curr mth	1,292	1,161	131	11.3%



	Jan-19	Jan-18	Amt Chg	% Chg
AWP curr mth	1,645	1,527	118	7.7%

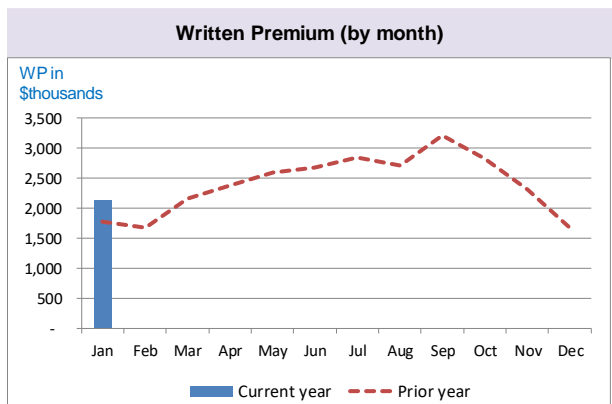


	Jan-19	Jan-18	Amt Chg	% Chg
W. Vehicles YTD	1,292	1,161	131	11.3%

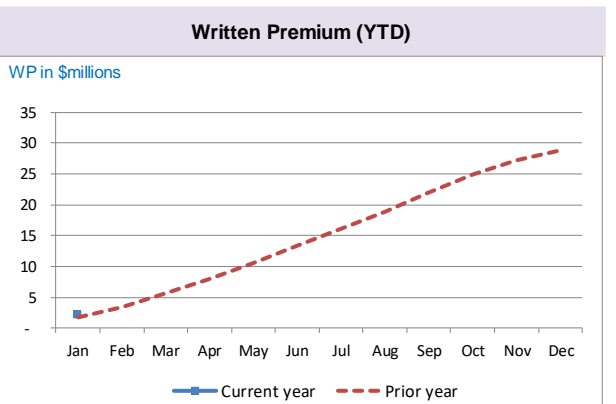


	Jan-19	Jan-18	Amt Chg	% Chg
Avg W. Prem YTD	1,645	1,527	118	7.7%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 19.9% for the month compared with the 23.1% increase we projected last month (see charts immediately below).



	Jan-19	Jan-18	Amt Chg	% Chg
WP (\$000s) curr mth	2,126	1,773	352	19.9%



	Jan-19	Jan-18	Amt Chg	% Chg
WP (\$000s) YTD	2,126	1,773	352	19.9%

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

Saskia Matheson
President & CEO

Related links:

[Nova Scotia RSP January 2019 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - Nova Scotia

EXHIBIT 1

Operating Results for the 1 Month Ended January 31, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

	January	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Underwriting Revenue:				
Net Premiums Written	\$2,126	\$2,126	\$33,603	\$28,869
Decrease (Increase) in Unearned Premiums	368	368	(1,857)	(1,213)
Net Premiums Earned	\$2,494	\$2,494	\$31,746	\$27,656
Claims Incurred:				
Prior Accident Years:				
Undiscounted	(\$14)	(\$14)	(\$14)	\$195
Effect of Discounting	153	153	(377)	(683)
Discounted	\$139	\$139	(\$391)	(\$488)
Current Accident Year:				
Undiscounted	\$2,422	\$2,422	\$30,650	\$25,819
Effect of Discounting	115	115	1,044	872
Discounted	\$2,537	\$2,537	\$31,694	\$26,691
Claims Incurred	\$2,676	\$2,676	\$31,303	\$26,203
Underwriting Expenses:				
Expense Allowance	\$659	\$659	\$10,418	\$8,714
Change in UPDR/DPAC:				
Undiscounted	10	10	483	537
Effect of Discounting	(16)	(16)	109	(86)
Discounted	(6)	(6)	592	451
Underwriting Expenses	\$653	\$653	\$11,010	\$9,165
Net Underwriting Gain (Loss)	(\$835)	(\$835)	(\$10,567)	(\$7,712)
Administrative Expenses	\$49	\$49	\$1,107	\$608
Operating Result	(\$884)	(\$884)	(\$11,674)	(\$8,320)
Ratios:				
Claims & Expenses Incurred (Earned)				
Prior Accident Years	5.6%	5.6%	-1.2%	-1.8%
Current Accident Year	101.7%	101.7%	99.8%	96.5%
All Accident Years Combined	107.3%	107.3%	98.6%	94.7%
Underwriting & Administrative Expenses (Earned)	28.1%	28.1%	38.2%	35.3%
Combined Operating Ratio	135.4%	135.4%	136.8%	130.0%

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