

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
 ALBERTA RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F19 – 073

DATE: SEPTEMBER 27, 2019

SUBJECT: ALBERTA RISK SHARING POOLS
 – AUGUST 2019 OPERATIONAL REPORT

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

Please be advised that the August 2019 Alberta Risk Sharing Pools Operational Reports are now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

New This Month

Valuation

Valuations of the Alberta Grid Risk Sharing Pool (“RSP”) and Non-Grid RSP as at June 30, 2019 have been completed since last month’s Operational Reports and the results of these valuations have been incorporated into this month’s Operational Reports. The valuations were completed by the Facility Association’s internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

For the **Alberta Grid RSP**, the implementation of the new valuation resulted in an estimated overall **\$21.1 million favourable** impact on the month’s net result from operations, subtracting an estimated 18.5 points to the year-to-date Combined Operating Ratio (ending at 105.1%). The impact is summarized in the tables below ¹.

AB Grid	unfav / (fav) for the month and ytd						ytd EP 113,980 (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	(13,393)	(1,086)	(14,479)	243	(925)	(15,161)	(11.8%)	(1.0%)	(12.7%)	0.2%	(0.8%)	(13.3%)
CAY	(3,358)	(176)	(3,534)	87	-	(3,447)	(2.9%)	(0.2%)	(3.1%)	0.1%	-	(3.0%)
Prem Def	(2,466)	(166)	(2,632)	102	-	(2,530)	(2.2%)	(0.1%)	(2.3%)	0.1%	-	(2.2%)
TOTAL	(19,217)	(1,428)	(20,645)	432	(925)	(21,138)	(16.9%)	(1.3%)	(18.1%)	0.4%	(0.8%)	(18.5%)

¹In 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”.

For the **Alberta Non-Grid RSP**, the implementation of the new valuation resulted in an estimated overall **\$19.2 million favourable** impact on the month's net result from operations, subtracting an estimated 25.3 points to the year-to-date Combined Operating Ratio (ending at 115.5%). The impact is summarized in the tables below.

AB Non-Grid	unfav / (fav) for the month and ytd						ytd EP 75,946 (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	(12,044)	(953)	(12,997)	100	(519)	(13,416)	(15.9%)	(1.3%)	(17.1%)	0.1%	(0.7%)	(17.7%)
CAY	(3,057)	(332)	(3,389)	-	-	(3,389)	(4.0%)	(0.4%)	(4.5%)	-	-	(4.5%)
Prem Def	(2,337)	(150)	(2,487)	70	-	(2,417)	(3.1%)	(0.2%)	(3.3%)	0.1%	-	(3.2%)
TOTAL	(17,438)	(1,435)	(18,873)	170	(519)	(19,222)	(23.0%)	(1.9%)	(24.9%)	0.2%	(0.7%)	(25.3%)

Please see “Effect of Quarterly Valuation” sections for additional valuation result detail (page 4 for Grid and page 9 for Non-Grid).

Alberta Grid RSP - Summary of Financial Results

The calendar year-to-date Operating Result is -\$5.8 million and the incurred loss ratio to the end of 8 months is 69.1%, as summarized in the table below.

*AB-G RSP Summary of **Financial Results** (for month and year-to-date)*

Amounts in \$000s		August 2019	August 2018	Year to date Aug 2019	Year to Date Aug 2018
Premium Written		20,204	14,265	129,313	98,675
Premium Earned		15,933	13,635	113,980	107,997
Incurred Losses		(3,726)	11,034	78,770	106,004
Underwriting & Admin Expense		3,881	3,767	40,999	35,373
Operating Result		15,778	(1,166)	(5,789)	(33,380)
Ratios:					
Loss ratio	- Prior Accident Years	(96.6%)	(15.0%)	(24.5%)	1.1%
	- Current Accident Year	73.2%	95.9%	93.6%	97.1%
<i>Total</i>		(23.4%)	80.9%	69.1%	98.2%
Underwriting & Admin Expense		24.4%	27.6%	36.0%	32.8%
Combined Operating Ratio		1.0%	108.5%	105.1%	131.0%

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 2019 for Risk Sharing Pool - Alberta Grid” attached to this bulletin.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$23.5 million and the estimated combined operating ratio to December 2019 is 113.1%, as summarized in the table

below.

*AB-G RSP Summary of **Projected Year-end Financial Results** (current month's projection, prior month's projection, and Outlook posted last fall)*

AB Grid RSP 2019 Yr-end Projection	Current	Prior Mth	Change	Final 2019
Amounts in \$000s	(Aug 2019)	(Jul 2019)		Outlook*
Premium Written	208,396	198,423	9,973	158,031
Premium Earned	180,713	179,198	1,515	158,085
Incurred Losses	137,075	156,379	(19,304)	144,374
Underwriting & Admin Expense	67,180	66,346	835	51,933
Net Result from Operations	(23,542)	(43,527)	19,984	(38,222)
Ratios:				
Loss ratio - Prior Accident Years	(16.5%)	(8.3%)	(8.2%)	(3.1%)
- Current Accident Year	92.4%	95.6%	(3.2%)	94.4%
<i>Total</i>	75.9%	87.3%	(11.4%)	91.3%
Underwriting & Admin Expense	37.2%	37.0%	0.2%	32.9%
Combined Operating Ratio	113.1%	124.3%	(11.2%)	124.2%

rounding differences may occur

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

This updated projection to the end of the year has improved by \$20.0 million from the projection provided last month (see the second and third columns in the table), and included the overall \$23.5 million favourable impact of the valuation as at June 30, 2019, as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 4). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

AB Grid	unfav / (fav) projected for full year						year EP 180,713 (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	(13,393)	(1,061)	(14,454)	223	(838)	(15,069)	(7.4%)	(0.6%)	(8.0%)	0.1%	(0.5%)	(8.3%)
CAY	(5,293)	(1,179)	(6,472)	119	-	(6,353)	(2.9%)	(0.7%)	(3.6%)	0.1%	-	(3.5%)
Prem Def	(2,090)	(142)	(2,232)	115	-	(2,117)	(1.2%)	(0.1%)	(1.2%)	0.1%	-	(1.2%)
TOTAL	(20,776)	(2,382)	(23,158)	457	(838)	(23,539)	(11.5%)	(1.3%)	(12.8%)	0.3%	(0.5%)	(13.0%)

Current Month Results

The Alberta Grid Risk Sharing Pool produced a \$15.8 million Operating Result in the month of August 2019, an improvement of \$16.9 million compared with the same month last year. This improvement is composed of a \$17.1 million improvement stemming from the overall decrease in the combined ratio (from 108.5% to 1.0% applied to \$15.9 million in earned premium), offset by a \$0.2 million deterioration associated with the \$2.3 million increase in earned premium (at a combined ratio of 108.5%). 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 122.0% at the end of

7 months to 105.1% at the end of 8 months. The 16.9 percentage point decrease is composed of a 11.7 percentage point decrease in the Prior Accident Years loss ratio, coupled with a 3.3 percentage point decrease in the Current Accident Year loss ratio, and a 1.9 percentage point decrease in the expense ratio,.

Variances from Projections

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

AB-G RSP Summary of Actual vs Projected variances

August 2019	Actual	Projection	Difference	Difference %
Written Premium	20,204	19,531	673	3.4%
Earned Premium	15,933	16,040	(107)	(0.7%)
Reported Losses				
Paid Losses	6,270	8,248	(1,978)	(24.0%)
Paid Expenses	332	558	(226)	(40.5%)
Change in Outstanding Losses	5,995	1,593	4,402	276.3%
Total Reported Losses	12,597	10,399	2,198	21.1%
Change in IBNR Provision*	(16,323)	4,402	(20,725)	
Change in Premium Deficiency (DPAC)*	(2,474)	75	(2,549)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Alberta Grid RSP August 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 August 2019, reported losses were \$2.2 million higher than projected. The Current Accident Year reported an unfavourable variance of \$1.4 million, and the Prior Accident Years reported an unfavourable variance of \$0.8 million. No single Prior Accident Year had a variance in excess of \$1.0 million.

Effect of Quarterly Valuation

The August 2019 Alberta Grid Risk Sharing Pool Operational Report reflects the results of an updated valuation as at June 30, 2019, with the associated impacts in relation to the results for August 2019 summarized in the table at the top of the next page.

Bulletin F19-073
Alberta Risk Sharing Pools – August 2019 Operational Reports

AB Grid	unfav / (fav) for the month and ytd						mth EP 15,933 (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	(13,393)	(1,086)	(14,479)	243	(925)	(15,161)	(84.1%)	(6.8%)	(90.9%)	1.5%	(5.8%)	(95.2%)
CAY	(3,358)	(176)	(3,534)	87	-	(3,447)	(21.1%)	(1.1%)	(22.2%)	0.5%	-	(21.6%)
Prem Def	(2,466)	(166)	(2,632)	102	-	(2,530)	(15.5%)	(1.0%)	(16.5%)	0.6%	-	(15.9%)
TOTAL	(19,217)	(1,428)	(20,645)	432	(925)	(21,138)	(120.6%)	(9.0%)	(129.6%)	2.7%	(5.8%)	(132.7%)

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$20.6 million favourable impact – see column [3] in the left table above), partially offset by the impact due to a 3 basis point decrease in the selected discount rate (from 1.44% to 1.41% generating a \$0.4 million unfavourable impact – see column [4] in the left table above). While there was no change in the margin for adverse deviation in investment yield (remains at 25 basis points), as per our usual practice with the June 30 valuations, the margins for adverse deviation for claims development as selected at the coverage / accident year level were updated with this valuation (generating a \$0.9 million favourable impact – see column [5] in the left table above).

Management has observed unfavourable *total* valuation impacts over the last 12 valuation implementations as shown in column [5] of the table below (summarizing the same information as provided in the left table above as relates to the most recent 12 valuation implementations). 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: Alberta Grid, as at: 2019 Q2		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LR's & exp	APV's @ prior assumptions	updated dsct rate	updated margins	Total Impact	Booked Policy Liabilities	Total Impact as % Book Liab	Nominal Impact as % Book Liab
		[1]	[2]	[3]	[4]	[5] = sum([1] to [4])	[6]	[7] = [5] / [6]	[8] = [1] / [6]
2016 Q3	Oct 2016	4,867	406	603	-	5,876	384,652	1.5%	1.3%
2016 Q4	Mar 2017	19,370	2,700	(5,507)	-	16,563	383,713	4.3%	5.0%
2017 Q1	May 2017	7,217	455	934	-	8,606	395,177	2.2%	1.8%
2017 Q2	Aug 2017	10,704	914	(2,369)	(941)	8,308	410,268	2.0%	2.6%
2017 Q3	Oct 2017	(1,685)	119	(6,466)	-	(8,032)	412,971	(1.9%)	(0.4%)
2017 Q4	Mar 2018	14,787	2,697	26	-	17,510	419,351	4.2%	3.5%
2018 Q1	May 2018	(157)	(184)	(1,804)	-	(2,145)	419,196	(0.5%)	-
2018 Q2	Aug 2018	(1,555)	(151)	514	(1,093)	(2,285)	421,922	(0.5%)	(0.4%)
2018 Q3	Oct 2018	(8,623)	(412)	(4,596)	-	(13,631)	416,479	(3.3%)	(2.1%)
2018 Q4	Mar 2019	(15,773)	(233)	3,631	-	(12,375)	414,703	(3.0%)	(3.8%)
2019 Q1	May 2019	1,865	58	5,395	-	7,318	434,451	1.7%	0.4%
2019 Q2	Aug 2019	(19,217)	(1,428)	432	(925)	(21,138)	442,053	(4.8%)	(4.3%)
12-qtrs		11,800	4,941	(9,207)	(2,959)	4,575			
% of total		257.9%	108.0%	(201.2%)	(64.7%)	100.0%			
6 unfavourable (nominal) valuations							5 impacts were outside of 2.5%		
Averages									
12-qtrs		983	412	(767)	(247)	381	412,911	0.1%	0.2%
2016 Q3 to 2018 Q2		6,694	870	(1,759)	(254)	5,550	405,906	1.4%	1.6%
2018 Q3 to 2019 Q2		(10,437)	(504)	1,216	(231)	(9,957)	426,922	(2.3%)	(2.4%)

The FA valuation approach is focused on providing (i) best estimates on a nominal basis (i.e. the longer term average of nominal changes in column [1] should be close-to-zero); (ii) the nominal

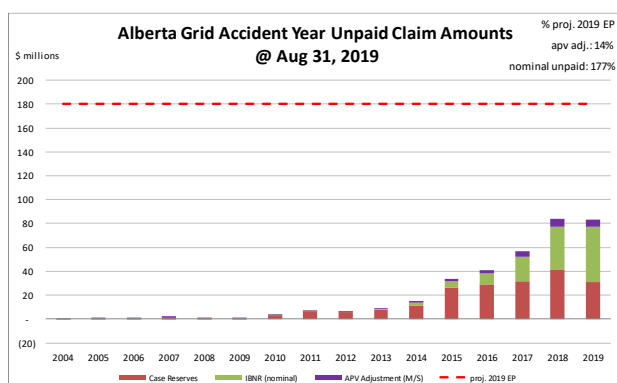
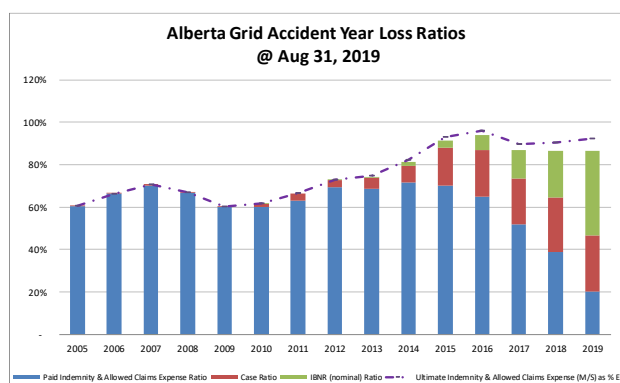
changes of any one valuation in relation to policy liabilities², should be “small” (less than 2.5%); and (iii) the valuation results should not indicate bias – that is, we generally anticipate approximately 1/3rd of nominal valuation impacts will be unfavourable, and 2/3rds will be favourable (due to the skewness of the development). On these 3 measures:

- (i) **Best estimate measurement:** This objective has not been met, as the 12-quarter nominal change in column [1] is \$11.8 million unfavourable. That said, the average unfavourable impact over the 12 quarters at \$1.0 million (nominal only) represents 0.2% of ending policy liabilities per column [8], which we would view as not significant. We do note that the latest 4 valuations have been on average more favourable than the earlier 8 valuations were unfavourable, mainly due to the favourable impacts of the 2018 Q4 and 2019 Q2 valuation, both of which generated favourable results that exceeded our 2.5% target (next point).
- (ii) **Nominal size measurement:** This objective has not been met, with 5 individual valuations showing nominal changes in excess of 2.5% of ending policy liabilities per column [8] in the table above, being higher than our expectation (0). At 4.3%, the current valuation is the second highest in absolute magnitude (2016 Q4 at 5.0% was higher). With this and the 2018 Q4 favourable review, we have reviewed our valuation process, but did not find evidence of bias (the results of this valuation are more related to specific issues like data quality issues being resolved, and experience simply performing better than expected). We are, nonetheless, initiating a review of the valuation process (including how assumptions are struck, the accuracy of various valuation methodologies, and our default selections). We expect this review to occur over the next 3-6 months.
- (iii) **Bias evidence measurement:** This objective has not been met, as 6 of 12 valuations show unfavourable changes (column [1] of the table above), higher than our expectation (3 to 5 of 12).

In summary, we believe the nominal valuation impacts had been moving toward our target impacts (long term zero impact; individual valuation impact of no more than 2.5% of policy liabilities; no bias evident), but all objectives indicate improvement needed, and the latest valuation suggests some reflection on our processes is warranted, so we are taking action in response.

The charts at the top of the next page summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.

²We also consider changes in nominal estimates relative to beginning claims liabilities, with this metric also ideally being small, but in this case, less than 5.0%. Over time, our view of “small” for each of these metrics may change.



The preceding charts, latest valuation results, and related actuarial present value assumptions are discussed in more detail in the [Alberta Grid RSP August 2019 Operational Report - Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at June 30, 2019 is expected to be posted in October 2019. The actuarial valuation will be updated next as at September 30, 2019 and we anticipate that the results will be reflected in the October 2019 Operational Report.

Alberta Non-Grid RSP - Summary of Financial Results

The calendar year-to-date Operating Result is -\$11.7 million and the incurred loss ratio to the end of 8 months is 81.1%, as summarized in the table below.

*AB-N RSP Summary of **Financial Results** (for month and year-to-date)*

Amounts in \$000s	August 2019	August 2018	Year to date Aug 2019	Year to Date Aug 2018
Premium Written	9,505	9,741	79,548	77,715
Premium Earned	9,953	9,312	75,946	68,595
Incurred Losses	(5,567)	5,475	61,598	67,001
Underwriting & Admin Expense	655	2,953	26,092	27,819
Operating Result	14,865	884	(11,744)	(26,225)
Ratios:				
Loss ratio				
- Prior Accident Years	(136.4%)	(64.8%)	(32.7%)	(19.7%)
- Current Accident Year	80.5%	123.6%	113.8%	117.3%
Total	(55.9%)	58.8%	81.1%	97.6%
Underwriting & Admin Expense	6.6%	31.7%	34.4%	40.6%
Combined Operating Ratio	(49.3%)	90.5%	115.5%	138.2%

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 2 “Summary of Operations for Calendar Year 2019 for Risk Sharing Pool - Alberta Non-Grid” attached to this bulletin.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$34.6 million and the estimated combined operating ratio to December 2019 is 129.3%, as summarized in the table below.

*AB-N RSP Summary of **Projected Year-end Financial Results** (current month's projection, prior month's projection, and Outlook posted last fall)*

AB Non-Grid RSP 2019 Yr-end Proj. Amounts in \$000s	Current (Aug 2019)	Prior Mth (Jul 2019)	Change	Final 2019 Outlook*
Premium Written	134,103	133,340	763	141,592
Premium Earned	118,275	119,291	(1,016)	124,625
Incurred Losses	106,807	126,457	(19,650)	137,538
Underwriting & Admin Expense	46,088	48,323	(2,235)	50,104
Net Result from Operations	(34,620)	(55,489)	20,869	(63,017)
Ratios:				
Loss ratio - Prior Accident Years	(21.7%)	(10.4%)	(11.3%)	(2.6%)
- Current Accident Year	112.0%	116.4%	(4.4%)	113.0%
<i>Total</i>	90.3%	106.0%	(15.7%)	110.4%
Underwriting & Admin Expense	39.0%	40.5%	(1.5%)	40.2%
Combined Operating Ratio	129.3%	146.5%	(17.2%)	150.6%

rounding differences may occur

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

This updated projection to the end of the year has improved by \$20.9 million from the projection provided last month (see the second and third columns in the table), and included the overall \$21.4 million favourable impact of the valuation as at June 30, 2019, as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 9). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

AB Non-Grid	unfav / (fav) projected for full year						year EP 118,275 (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	(12,044)	(871)	(12,915)	89	(468)	(13,294)	(10.2%)	(0.7%)	(10.9%)	0.1%	(0.4%)	(11.2%)
CAY	(4,708)	(557)	(5,265)	-	-	(5,265)	(4.0%)	(0.5%)	(4.5%)	-	-	(4.5%)
Prem Def	(2,712)	(176)	(2,888)	85	-	(2,803)	(2.3%)	(0.1%)	(2.4%)	0.1%	-	(2.4%)
TOTAL	(19,464)	(1,604)	(21,068)	174	(468)	(21,362)	(16.5%)	(1.4%)	(17.8%)	0.1%	(0.4%)	(18.1%)

Current month results

The Alberta Non-Grid Risk Sharing Pool produced a \$14.9 million Operating Result in the month of August 2019, an improvement of \$14.0 million compared with the same month last year. This improvement mainly stems from the overall decrease in the combined ratio (from 90.5% to -49.3% applied to \$10.0 million in earned premium). 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 140.3% at the end of 7 months to 115.5% at the end of 8 months. The 24.8 percentage point decrease is composed of a 15.7 percentage point decrease in the Prior Accident loss ratio, coupled with a 5.0 percentage point decrease in the Current Accident Years loss ratio, and a 4.1 percentage point decrease in the expense loss 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.

AB-N RSP Summary of Actual vs Projected variances

August 2019	Actual	Projection	Difference	Difference %
Written Premium	9,505	13,323	(3,818)	(28.7%)
Earned Premium	9,953	10,297	(344)	(3.3%)
Reported Losses				
Paid Losses	5,379	6,029	(650)	(10.8%)
Paid Expenses	200	270	(70)	(25.9%)
Change in Outstanding Losses	2,700	2,773	(73)	(2.6%)
Total Reported Losses	8,279	9,072	(793)	(8.7%)
Change in IBNR Provision*	(13,846)	2,516	(16,362)	
Change in Premium Deficiency (DPAC)*	(2,379)	646	(3,025)	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [Alberta Non-Grid RSP August 2019 Operational Report - Actuarial Highlights](#).

As discussed in relation to the Alberta Grid RSP, 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 August 2019, reported losses were \$0.8 million lower than projected. The Current Accident Year had a \$2.7 million favourable variance in reported losses, while the Prior Accident Years had a \$1.9 million unfavourable variance. Of the Prior Accident Years, 2018 had the largest variance in reported losses at \$1.1 million unfavourable. No other 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 Prior 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.

Effect of Quarterly Valuation

The August 2019 Alberta Non-Grid Risk Sharing Pool Operational Report reflects the results of

an updated valuation as at June 30, 2019, with the associated impacts in relation to the results for August 2019 summarized in the tables below.

AB Non-Grid	unfav / (fav) for the month and ytd						mth EP 9,953 (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 [1]	apv adj. [2]	sub-tot [3]	apv adj. [4]	apv adj. [5]	TOTAL [6]	Nominal [1]	apv adj. [2]	sub-tot [3]	apv adj. [4]	apv adj. [5]	TOTAL [6]
PAYS	(12,044)	(953)	(12,997)	100	(519)	(13,416)	(121.0%)	(9.6%)	(130.6%)	1.0%	(5.2%)	(134.8%)
CAY	(3,057)	(332)	(3,389)	-	-	(3,389)	(30.7%)	(3.3%)	(34.1%)	-	-	(34.1%)
Prem Def	(2,337)	(150)	(2,487)	70	-	(2,417)	(23.5%)	(1.5%)	(25.0%)	0.7%	-	(24.3%)
TOTAL	(17,438)	(1,435)	(18,873)	170	(519)	(19,222)	(175.2%)	(14.4%)	(189.6%)	1.7%	(5.2%)	(193.1%)

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating an \$18.9 million favourable impact – see column [3] in the left table above), augmented by the impact due to a 3 basis point decrease in the selected discount rate (from 1.46% to 1.43% generating a \$0.2 million unfavourable impact – see column [4] in the left table above). While there was no change in the margin for adverse deviation in investment yield (remains at 25 basis points), as per our usual practice with the June 30 valuations, the margins for adverse deviation for claims development as selected at the coverage / accident year level were updated with this valuation (generating a \$0.5 million favourable impact – see column [5] in the left table above).

Management has observed favourable *total* valuation impacts over the last 12 valuation implementations as shown in column [5] of the table below (summarizing the same information as provided in the left table above as relates to the most recent 12 valuation implementations). 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: Alberta Non-Grid, as at: 2019 Q2		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LR & exp [1]	APVs @ prior assumptions [2]	updated dsct rate [3]	updated margins [4]	Total Impact [5] = sum([1] to [4])	Booked Policy Liabilities [6]	Total Impact as % Book Liabs [7] = [5] / [6]	Nominal Impact as % Book Liabs [8] = [1] / [6]
2016 Q3	Oct 2016	7,041	888	452	-	8,381	245,539	3.4%	2.9%
2016 Q4	Mar 2017	3,188	682	(3,361)	-	509	234,950	0.2%	1.4%
2017 Q1	May 2017	5,516	280	645	-	6,441	242,689	2.7%	2.3%
2017 Q2	Aug 2017	7,100	687	(1,376)	(550)	5,861	251,367	2.3%	2.8%
2017 Q3	Oct 2017	3,358	497	(3,737)	-	118	251,978	-	1.3%
2017 Q4	Mar 2018	(4,409)	69	-	-	(4,340)	247,518	(1.8%)	(1.8%)
2018 Q1	May 2018	4,158	66	(1,063)	-	3,161	263,797	1.2%	1.6%
2018 Q2	Aug 2018	(4,771)	(248)	325	(495)	(5,189)	270,140	(1.9%)	(1.8%)
2018 Q3	Oct 2018	(8,099)	(75)	(2,704)	-	(10,878)	264,348	(4.1%)	(3.1%)
2018 Q4	Mar 2019	(9,148)	39	2,211	-	(6,898)	258,566	(2.7%)	(3.5%)
2019 Q1	May 2019	246	17	3,116	-	3,379	271,962	1.2%	0.1%
2019 Q2	Aug 2019	(17,438)	(1,435)	170	(519)	(19,222)	268,613	(7.2%)	(6.5%)
12-qtrs	-	(13,258)	1,467	(5,322)	(1,564)	(18,677)			
% of total		71.0%	(7.9%)	28.5%	8.4%	100.0%			
7 unfavourable (nominal) valuations							5 impacts were outside of 2.5%		
Averages									
12-qtrs		(1,105)	122	(444)	(130)	(1,556)	255,956	(0.6%)	(0.4%)
2016 Q3 to 2018 Q2		2,648	365	(1,014)	(131)	1,868	250,997	0.7%	1.1%
2018 Q3 to 2019 Q2		(8,610)	(364)	698	(130)	(8,405)	265,872	(3.2%)	(3.2%)

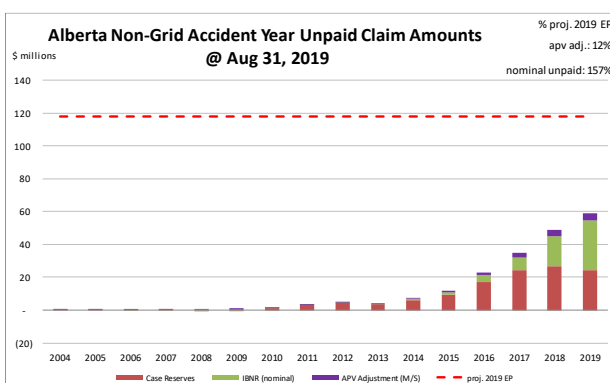
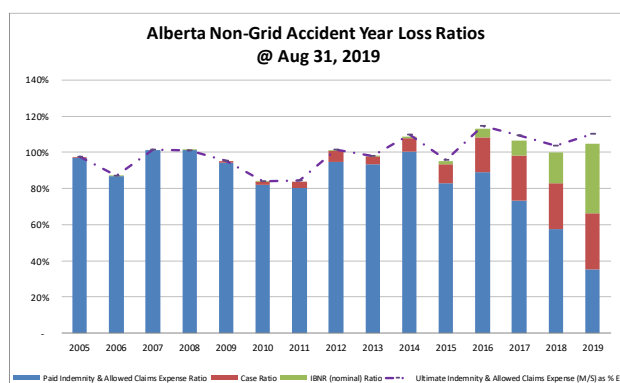
The FA valuation approach is focused on providing (i) best estimates on a nominal basis (i.e. the longer term average of nominal changes in column [1] should be close-to-zero); (ii) the nominal changes of any one valuation in relation to policy liabilities³, should be “small” (less than 2.5%); and (iii) the valuation results should not indicate bias – that is, we generally anticipate approximately 1/3rd of nominal valuation impacts will be unfavourable, and 2/3rds will be favourable (due to the skewness of the development). On these 3 measures:

- (i) **Best estimate measurement: This objective has not been met**, as the 12-quarter nominal change in column [1] is \$13.3 million favourable. That said, the average favourable impact over the 12 quarters at \$1.1 million (nominal only) represents 0.4% of ending policy liabilities, which we would view as not significant. We do note that the latest 4 valuations have been on average more favourable than the earlier 8 valuations were unfavourable.
- (ii) **Nominal size measurement: This objective has not been met**, with 5 individual valuations (including the current valuation) showing nominal changes in excess of 2.5% of ending policy liabilities per column [8] in the table above, being higher than our expectation (0). At 6.5%, the current valuation is more than twice the 2.5% top end criteria we have set. As a result, we have reviewed our valuation process, but did not find evidence of bias (the results of this valuation are more related to specific issues like data quality issues being resolved, and experience simply performing better than expected). We are, nonetheless, initiating a review of the valuation process (including how assumptions are struck, the accuracy of various valuation methodologies, and our default selections). We expect this review to occur over the next 3-6 months.
- (iii) **Bias evidence measurement: This objective not has been met**, as 7 of 12 valuations show unfavourable changes (column [1] of the table above), higher than our expectation (3 to 5 of 12).

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), but all objectives indicate improvement needed and the latest valuation suggests some reflection on our processes is warranted, so we are taking action in response.

The charts at the top of the next page summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.

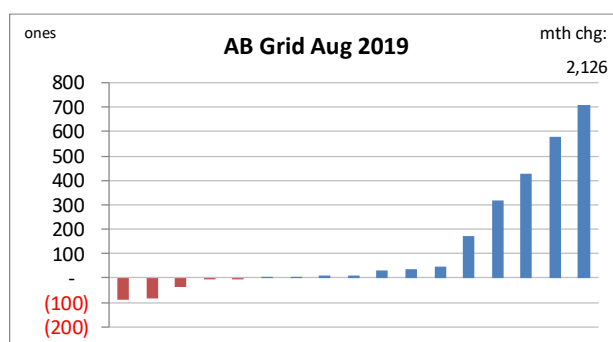
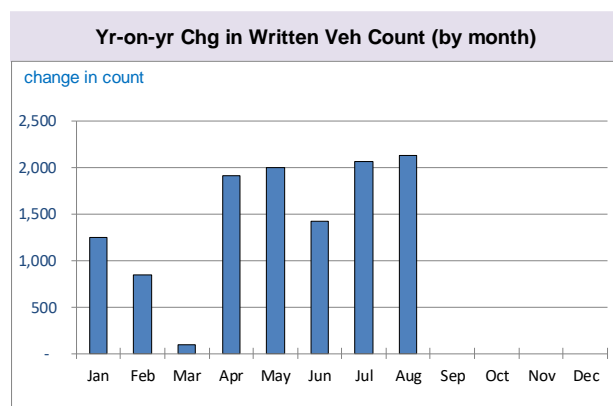
³We also consider changes in nominal estimates relative to beginning claims liabilities, with this metric also ideally being small, but in this case, less than 5.0%. Over time, our view of “small” for each of these metrics may change.



The preceding charts, latest valuation results and related discounting assumptions are discussed in more detail in the [Alberta Non-Grid RSP August 2019 Operational Report - Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at June 30, 2019 is expected to be posted in October 2019. The actuarial valuation will be updated next as at September 30, 2019 and we anticipate that the results will be reflected in the October 2019 Operational Report.

Management Comments

Alberta Grid

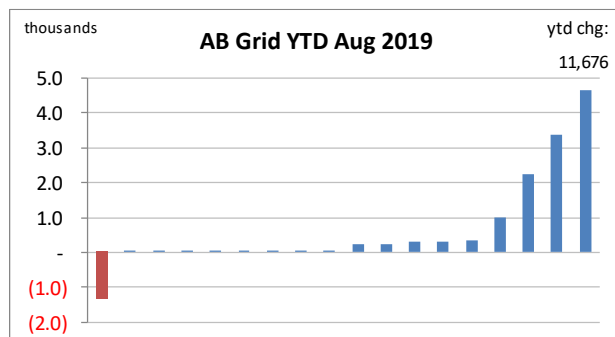


The chart on the left shows the year-on-year change in the vehicles transferred to the Alberta Grid RSP by month, with August showing an increase of 2,126 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 1,531 vehicles, indicating a variance of 595 vehicles from the actual transfers. This variance was mainly due to two member company group transferring a greater number of vehicles to the RSP in August 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 RSP this month compared with a year ago, while twelve transferred more. Of the 5 member company groups transferring fewer vehicles, 2 member company groups accounted for 78% of

the total transfer decrease for these “decliner” members. Of the 12 member company groups transferring more vehicles, 3 member company groups accounted for 73% of the total transfer

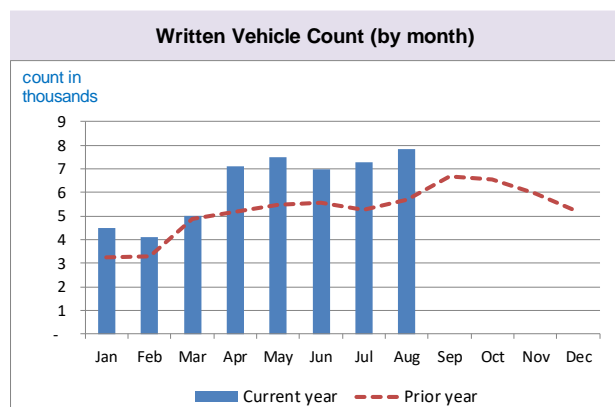
increases for these “grower” members.



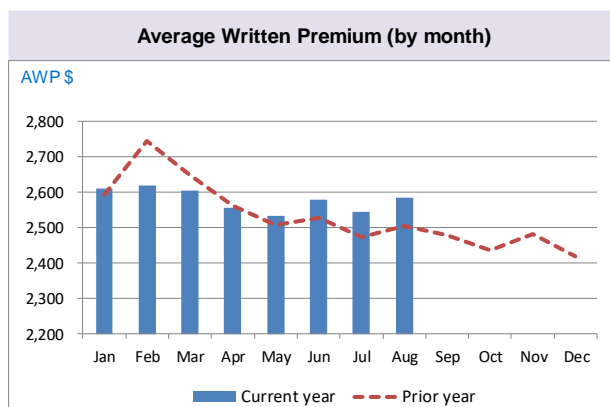
The chart on the left presents the same information as the previous chart, but on a year-to-date basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Not that only a single member company group decreased their transfers to the RSP – all other member company groups that

use the RSP have increased their transfers year-to-date.

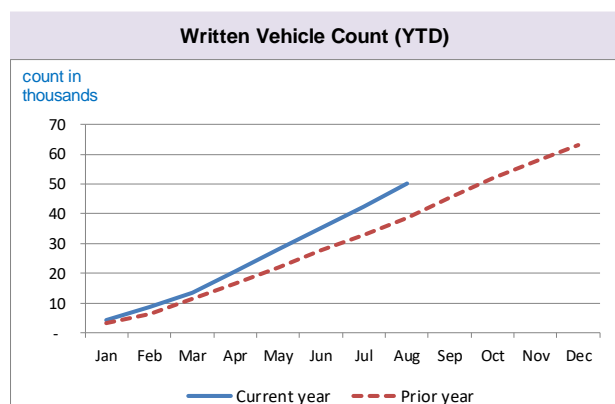
August's vehicle count transfers to the RSP represent a 37.3% increase from August 2018, and counts were up 30.3% year-to-date. Average written premium was up 3.2% in August 2019 compared with the same month in 2018, and up 0.6% year-to-date (see charts immediately below).



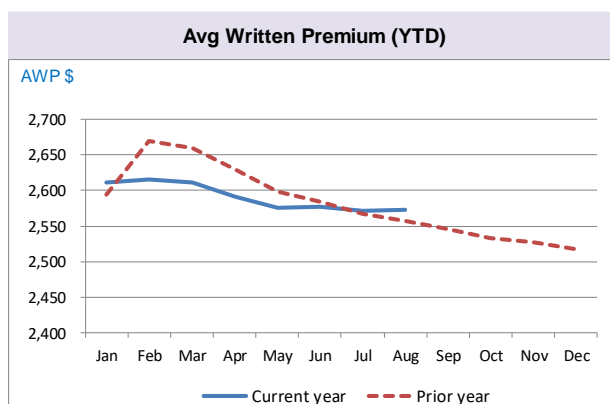
	Aug-19	Aug-18	Amt Chg	% Chg
W. Veh curr mth	7,820	5,694	2,126	37.3%



	Aug-19	Aug-18	Amt Chg	% Chg
AWP curr mth	2,584	2,505	79	3.2%



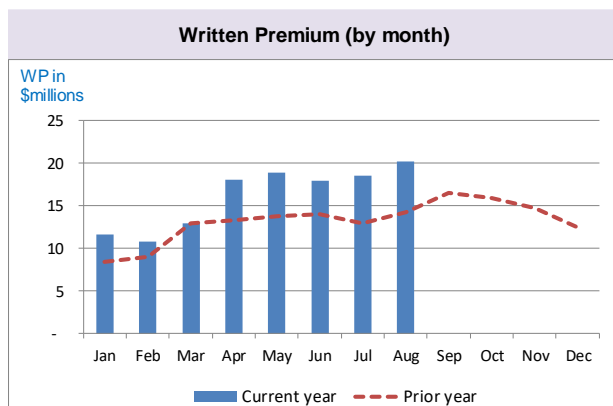
	Aug-19	Aug-18	Amt Chg	% Chg
W. Vehicles YTD	50,251	38,574	11,676	30.3%



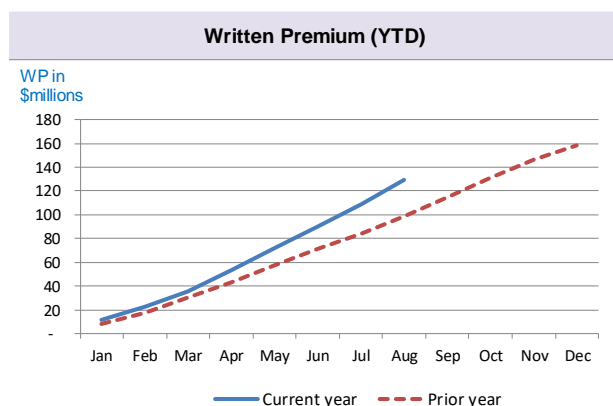
	Aug-19	Aug-18	Amt Chg	% Chg
Avg W. Prem YTD	2,573	2,558	15	0.6%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 41.6% for the month compared with the 36.9% increase we projected

last month, and was up 31.0% year-to-date (see charts below).



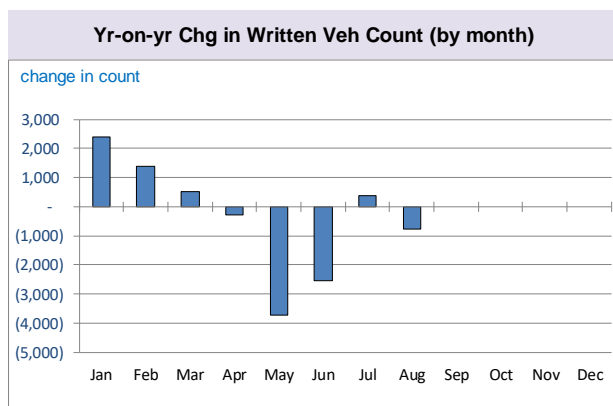
	Aug-19	Aug-18	Amt Chg	% Chg
WP (\$000s) curr mth	20,204	14,265	5,939	41.6%



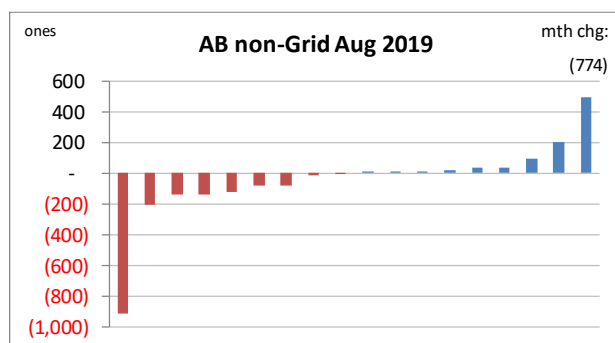
	Aug-19	Aug-18	Amt Chg	% Chg
WP (\$000s) YTD	129,312	98,675	30,637	31.0%

Alberta Non-Grid

For the Alberta Non-Grid RSP, the transfer limit is 4.0% of Non-Grid exposures written in the prior year at the member company group level (that is, within a group under common management or ownership, a single member can transfer the entire transfer limit for the group). System programming prevents member groups from exceeding their transfer limits during a calendar year. However, member groups can transfer their entire limit for a given year at any time throughout the year including, for example, the last day of that year. **Our current projection has the 2019 vehicle count up 9.2% from 2018**, being 2.9% of the 2018 industry private passenger vehicle count (including farmers). There is the potential for the transferred vehicle count to change dramatically and quickly if member companies choose to take full advantage of their transfer limits.

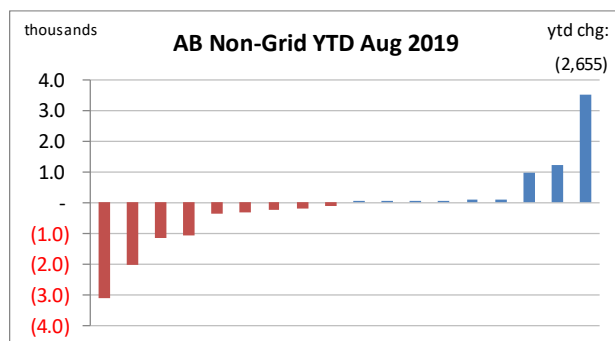


The chart on the left shows the year-on-year change in the vehicles transferred to the Alberta Non-Grid RSP by month, with August showing a decrease of 774 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 1,503 vehicles, indicating a variance of 2,277 vehicles from the actual transfers. This variance was mainly due to two member company groups transferring a lower number of vehicles to the RSP in August than projected.



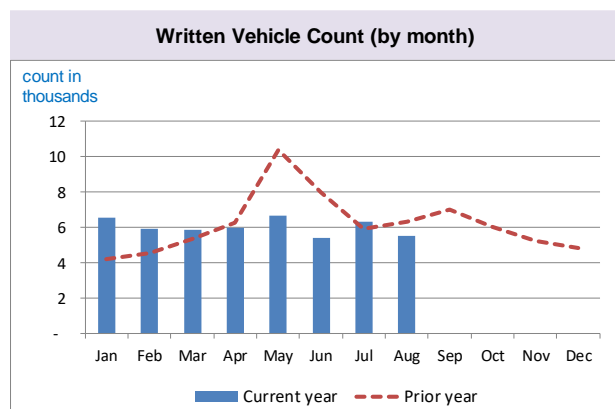
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Nine member company groups transferred fewer vehicles to the RSP this month compared to a year ago, while nine transferred more. Of the 9 member company groups transferring fewer vehicles, 1 member company

group accounted for 54% of the total transfer decrease for these “decliner” members. Of the 9 member company groups transferring more vehicles, 1 member company group accounted for 55% of the total transfers increase for these “grower” members.

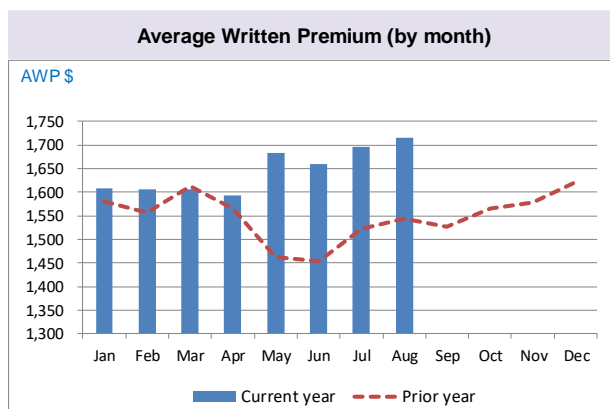


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted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

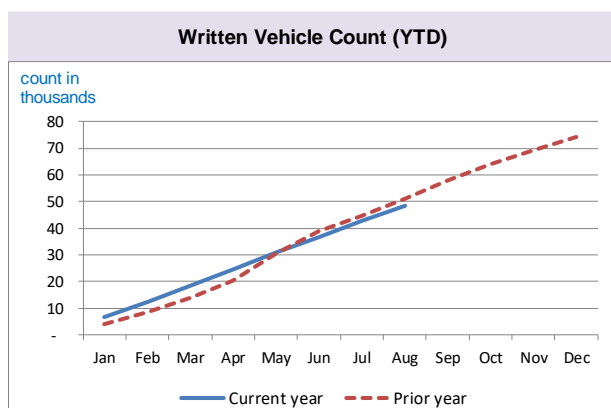
August’s vehicle count transfers to the RSP represent a 12.3% decrease from August 2018, and counts were down 5.2% year-to-date. Average written premium was up 11.2% in August 2019 compared with the same month in 2018, and were up 7.9% year-to-date (see charts below and at the top of the next page).



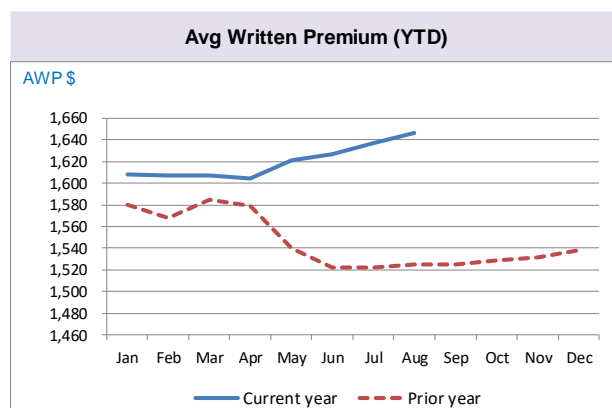
	Aug-19	Aug-18	Amt Chg	% Chg
W. Veh curr mth	5,538	6,312	(774)	-12.3%



	Aug-19	Aug-18	Amt Chg	% Chg
AWP curr mth	1,716	1,543	173	11.2%

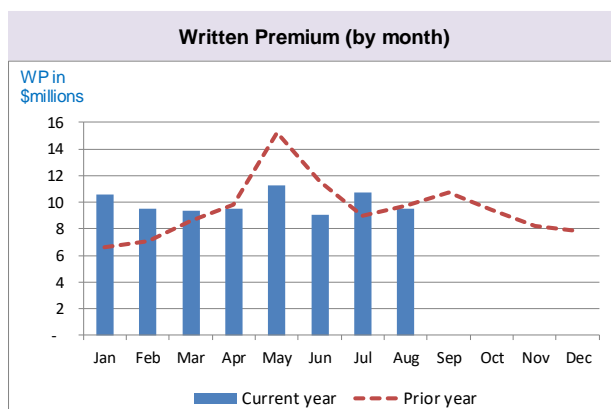


	Aug-19	Aug-18	Amt Chg	% Chg
W. Vehicles YTD	48,322	50,977	(2,655)	-5.2%

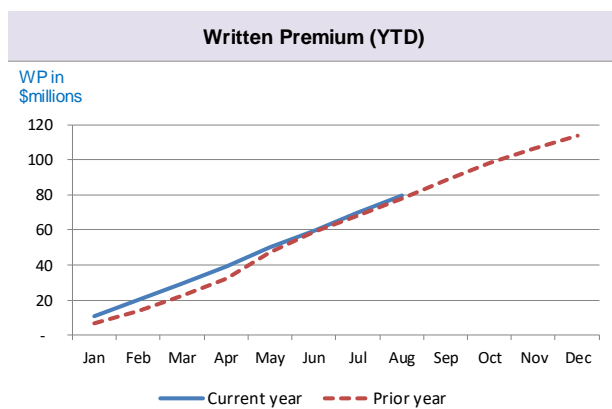


	Aug-19	Aug-18	Amt Chg	% Chg
Avg W. Prem YTD	1,646	1,525	121	7.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 2.4% for the month compared with the 36.8% increase we projected last month, but was up 2.4% year-to-date (see charts at the top of the next page).



	Aug-19	Aug-18	Amt Chg	% Chg
WP (\$000s) curr mth	9,505	9,741	(236)	-2.4%



	Aug-19	Aug-18	Amt Chg	% Chg
WP (\$000s) YTD	79,547	77,715	1,832	2.4%

Should you require any further information, please call Shawn Doherty, Senior Vice President Actuarial & CFO at (416) 644-4968.

Saskia Matheson
President & CEO

Related Links:

Alberta Grid RSP:

[Alberta Grid RSP August 2019 Operational Report - Actuarial Highlights](#)

Alberta Non-Grid RSP:

[Alberta Non-Grid RSP August 2019 Operational Report - Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - Alberta (Grid)

Operating Results for the 8 Months Ended August 31, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Underwriting Revenue:											
Net Premiums Written	\$11,700	\$10,771	\$13,009	\$18,131	\$18,933	\$17,983	\$18,582	\$20,204	\$129,313	\$208,396	\$158,547
Decrease (Increase) in Unearned Premiums	1,935	1,482	893	(4,247)	(3,980)	(3,986)	(3,159)	(4,271)	(15,333)	(27,683)	3,021
Net Premiums Earned	\$13,635	\$12,253	\$13,902	\$13,884	\$14,953	\$13,997	\$15,423	\$15,933	\$113,980	\$180,713	\$161,568
Claims Incurred:											
Prior Accident Years:											
Undiscounted	(\$336)	(\$453)	(\$15,477)	(\$157)	\$554	(\$565)	(\$61)	(\$13,394)	(\$29,889)	(\$29,889)	\$555
Effect of Discounting	779	(315)	1,873	(506)	3,132	(567)	(437)	(1,991)	\$1,968	35	(8,142)
Discounted	\$443	(\$768)	(\$13,604)	(\$663)	\$3,686	(\$1,132)	(\$498)	(\$15,385)	(\$27,921)	(\$29,854)	(\$7,587)
Current Accident Year:											
Undiscounted	\$12,482	\$11,366	\$12,301	\$12,485	\$13,919	\$13,111	\$13,898	\$10,934	\$100,496	\$158,425	\$146,295
Effect of Discounting	593	484	834	565	1,403	762	829	725	\$6,195	8,504	4,993
Discounted	\$13,075	\$11,850	\$13,135	\$13,050	\$15,322	\$13,873	\$14,727	\$11,659	\$106,691	\$166,929	\$151,288
Claims Incurred	\$13,518	\$11,082	(\$469)	\$12,387	\$19,008	\$12,741	\$14,229	(\$3,726)	\$78,770	\$137,075	\$143,701
Underwriting Expenses:											
Expense Allowance	\$3,644	\$3,360	\$4,049	\$5,645	\$5,889	\$5,605	\$5,781	\$6,284	\$40,257	\$64,852	\$47,116
Change in UPDR/DPAC:											
Undiscounted	213	178	(66)	(328)	424	(251)	(146)	(2,683)	(2,659)	(2,462)	3,348
Effect of Discounting	(76)	(61)	703	213	1,342	254	205	209	2,789	3,652	(1,135)
Discounted	137	117	637	(115)	1,766	3	59	(2,474)	130	1,190	2,213
Underwriting Expenses	\$3,781	\$3,477	\$4,686	\$5,530	\$7,655	\$5,608	\$5,840	\$3,810	\$40,387	66,042	\$49,329
Net Underwriting Gain (Loss)	(\$3,664)	(\$2,306)	\$9,685	(\$4,033)	(\$11,710)	(\$4,352)	(\$4,646)	\$15,849	(\$5,177)	(\$22,404)	(\$31,462)
Administrative Expenses	\$69	\$92	\$61	\$79	\$79	\$69	\$92	\$71	\$612	\$1,138	\$1,039
Operating Result	(\$3,733)	(\$2,398)	\$9,624	(\$4,112)	(\$11,789)	(\$4,421)	(\$4,738)	\$15,778	(\$5,789)	(\$23,542)	(\$32,501)
Ratios:											
Claims & Expenses Incurred (Earned)											
Prior Accident Years	3.2%	-6.3%	-97.9%	-4.8%	24.7%	-8.1%	-3.2%	-96.6%	-24.5%	-16.5%	-4.7%
Current Accident Year	95.9%	96.7%	94.5%	94.0%	102.5%	99.1%	95.5%	73.2%	93.6%	92.4%	93.6%
All Accident Years Combined (Earned)	99.1%	90.4%	-3.4%	89.2%	127.2%	91.0%	92.3%	-23.4%	69.1%	75.9%	88.9%
Underwriting & Administrative Expenses (Earned)	28.2%	29.1%	34.1%	40.4%	51.7%	40.6%	38.5%	24.4%	36.0%	37.2%	31.2%
Combined Operating Ratio	127.3%	119.5%	30.7%	129.6%	178.9%	131.6%	130.8%	1.0%	105.1%	113.1%	120.1%

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - Alberta (Non-Grid)

Operating Results for the 8 Months Ended August 31, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 2

	January	February	March	April	May	June	July	August	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Underwriting Revenue:											
Net Premiums Written	\$10,569	\$9,549	\$9,397	\$9,521	\$11,278	\$9,022	\$10,707	\$9,505	\$79,548	\$134,103	\$113,977
Decrease (Increase) in Unearned Premiums	(729)	(477)	695	(291)	(1,330)	(1,072)	(846)	448	(3,602)	(15,828)	(7,273)
Net Premiums Earned	\$9,840	\$9,072	\$10,092	\$9,230	\$9,948	\$7,950	\$9,861	\$9,953	\$75,946	\$118,275	\$106,704
Claims Incurred:											
Prior Accident Years:											
Undiscounted	(\$92)	(\$79)	(\$10,395)	(\$587)	(\$39)	(\$1,670)	(\$60)	(\$12,051)	(\$24,973)	(\$24,973)	(\$14,506)
Effect of Discounting	(301)	(372)	1,181	(229)	1,855	(297)	(147)	(1,525)	165	(637)	(5,786)
Discounted	(\$393)	(\$451)	(\$9,214)	(\$816)	\$1,816	(\$1,967)	(\$207)	(\$13,576)	(\$24,808)	(\$25,610)	(\$20,292)
Current Accident Year:											
Undiscounted	\$10,631	\$9,795	\$11,262	\$10,623	\$10,983	\$10,310	\$10,778	\$7,771	\$82,153	\$126,511	\$117,039
Effect of Discounting	548	409	612	417	976	498	555	238	4,253	5,906	3,698
Discounted	\$11,179	\$10,204	\$11,874	\$11,040	\$11,959	\$10,808	\$11,333	\$8,009	\$86,406	\$132,417	\$120,737
Claims Incurred	\$10,786	\$9,753	\$2,660	\$10,224	\$13,775	\$8,841	\$11,126	(\$5,567)	\$61,598	\$106,807	\$100,445
Underwriting Expenses:											
Expense Allowance	\$3,286	\$2,970	\$2,924	\$2,973	\$3,510	\$2,833	\$3,331	\$2,957	\$24,784	\$41,751	\$33,858
Change in UPDR/DPAC:											
Undiscounted	65	66	787	81	301	185	179	(2,274)	(610)	911	1,227
Effect of Discounting	38	27	488	21	676	80	67	(105)	1,292	2,198	(63)
Discounted	103	93	1,275	102	977	265	246	(2,379)	682	3,109	1,164
Underwriting Expenses	\$3,389	\$3,063	\$4,199	\$3,075	\$4,487	\$3,098	\$3,577	\$578	\$25,466	\$44,860	\$35,022
Net Underwriting Gain (Loss)	(\$4,335)	(\$3,744)	\$3,233	(\$4,069)	(\$8,314)	(\$3,989)	(\$4,842)	\$14,942	(\$11,118)	(\$33,392)	(\$28,763)
Administrative Expenses	\$69	\$92	\$62	\$79	\$80	\$71	\$96	\$77	\$626	\$1,228	\$1,054
Operating Result	(\$4,404)	(\$3,836)	\$3,171	(\$4,148)	(\$8,394)	(\$4,060)	(\$4,938)	\$14,865	(\$11,744)	(\$34,620)	(\$29,817)
Ratios:											
Claims & Expenses Incurred (Earned)											
Prior Accident Years	-4.0%	-5.0%	-91.3%	-8.8%	18.3%	-24.7%	-2.1%	-136.4%	-32.7%	-21.7%	-19.0%
Current Accident Year	113.6%	112.5%	117.7%	119.6%	120.2%	135.9%	114.9%	80.5%	113.8%	112.0%	113.2%
All Accident Years Combined	109.6%	107.5%	26.4%	110.8%	138.5%	111.2%	112.8%	-55.9%	81.1%	90.3%	94.2%
Underwriting & Administrative Expenses (Earned)	35.1%	34.8%	42.2%	34.2%	45.9%	39.9%	37.2%	6.6%	34.4%	39.0%	33.8%
Combined Operating Ratio	144.7%	142.3%	68.6%	145.0%	184.4%	151.1%	150.0%	-49.3%	115.5%	129.3%	128.0%

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