

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F19 – 081

DATE: OCTOBER 30, 2019

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

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

Please be advised that the September 2019 Nova Scotia Risk Sharing Pool Operational Report is now available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Key Points

- (a) Liam McFarlane has resigned as the Facility Association's Appointed Actuary; Mr. Cosimo Pantaleo of Ernst & Young LLP has assumed the Appointed Actuary's role (effective as of October 24, 2019), pending formal appointment by the Facility Association Board (expected at its December 12, 2019 meeting); and
- (b) With premium for the month \$0.4 million (13%) higher than expected, the operating deficit for the month was \$0.1 million (12%) worse than expected, moving the year-end projected net operating deficit to \$12.1 million with an associated COR of 140.2%.

New This Month

Appointed Actuary

Liam McFarlane of Ernst & Young LLP was Facility Association's Appointed Actuary (effective as of June 1, 2013). Mr. McFarlane has resigned his Appointment to take on a role at a different organization. Mr. Cosimo Pantaleo of Ernst & Young LLP has assumed the Appointed Actuary's role (effective as of October 24, 2019), pending formal appointment by the Facility Association Board (expected at its December 12, 2019 meeting).

Summary of Financial Results

The calendar year-to-date Operating Result is -\$9.3 million and the incurred loss ratio to the end of 9 months is 103.0%, as summarized in the table at the top of the next page.

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Nova Scotia Risk Sharing Pool – September 2019 Operational Report

NS RSP Summary of Financial Results (for month and year-to-date)

Amounts in \$000s	September 2019	September 2018	Year to date Sep 2019	Year to Date Sep 2018
Premium Written	3,643	3,209	24,158	22,050
Premium Earned	2,546	2,311	22,144	20,400
Incurred Losses	2,544	2,201	22,809	18,805
Underwriting & Admin Expense	1,280	1,089	8,608	7,529
Operating Result	(1,278)	(979)	(9,273)	(5,934)
Ratios:				
Loss ratio - <i>Prior Accident Years</i>	(1.1%)	(2.6%)	0.0%	(6.1%)
- <i>Current Accident Year</i>	101.1%	97.8%	103.0%	98.2%
<i>Total</i>	100.0%	95.2%	103.0%	92.1%
Underwriting & Admin Expense	50.3%	47.1%	38.9%	36.9%
Combined Operating Ratio	150.3%	142.3%	141.9%	129.0%

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” attached to this bulletin.

Updated Projection to Year-end 2019

The projected calendar year Operating Result to December 2019 is -\$12.1 million and the estimated combined operating ratio to December 2019 is 140.2%, as summarized in the table at the top of the next page. This updated projection to the end of the year has not changed significantly from the projection provided last month as shown in the table at the top of the next page.

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

NS RSP 2019 Yr-end Projection Amounts in \$000s	Current (Sep 2019)	Prior Mth (Aug 2019)	Change	Final 2019 Outlook*
Premium Written	31,970	31,560	410	31,089
Premium Earned	30,109	29,995	114	30,272
Incurred Losses	30,727	30,585	142	30,014
Underwriting & Admin Expense	11,483	11,395	88	11,148
Net Result from Operations	(12,101)	(11,985)	(116)	(10,890)
Ratios:				
Loss ratio - Prior Accident Years	(0.6%)	(0.8%)	0.2%	(1.5%)
- Current Accident Year	102.7%	102.7%	0.0%	100.7%
<i>Total</i>	102.1%	101.9%	0.2%	99.2%
Underwriting & Admin Expense	38.1%	38.0%	0.1%	36.8%
Combined Operating Ratio	140.2%	139.9%	0.3%	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 -\$1.3 million Operating Result in the month of September 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 \$0.2 million increase in earned premium (at a combined ratio of 142.3%), with the remaining \$0.2 million stemming from the overall increase in the combined ratio (from 142.3% to 150.3% applied to \$2.5 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 140.8% at the end of 8 months to 141.9% at the end of 9 months. The 1.1 percentage point increase is composed of a 1.5 percentage point increase in the expense ratio, offset by a 0.1 percentage point decrease in the Prior Accident Years loss ratio, and a 0.3 percentage point decrease in the Current Accident Year loss ratio.

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.

NS RSP Summary of Actual vs Projected variances

September 2019	Actual	Projection	Difference	Difference %
Written Premium	3,643	3,233	410	12.7%
Earned Premium	2,546	2,557	(11)	(0.4%)
Reported Losses				
Paid Losses	1,300	1,434	(134)	(9.3%)
Paid Expenses	81	82	(1)	(1.2%)
Change in Outstanding Losses	795	(3)	798	<-999.9%
Total Reported Losses	2,176	1,513	663	43.8%
Change in IBNR Provision *	368	1,026	(658)	
Change in Premium Deficiency (DPAC) *	101	98	3	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP September 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 September 2019, reported losses were \$0.7 million higher than projected. The Current Accident Year had a \$0.2 million unfavourable variance in reported losses, and the Prior Accident Years had a \$0.5 million unfavourable 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 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.

Booking IBNR

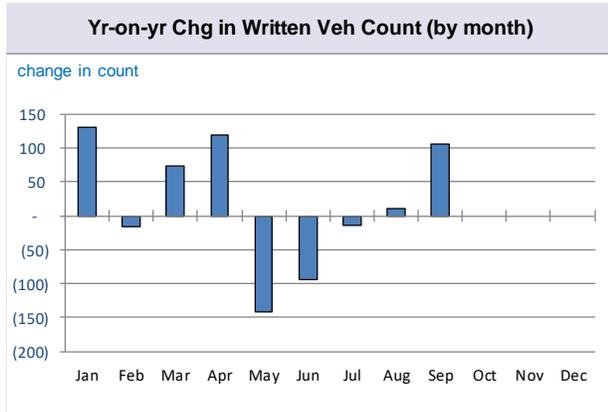
The IBNR booking process this month allowed the nominal IBNR (i.e. before the impact of discounting and changes in provisions for adverse deviation) to vary from projected in order to offset the Prior Accident Years and Current Accident Year variances from projected, including the impact of earned premium 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 September 2019 Operational Report – Actuarial Highlights](#).

Effect of Quarterly Valuation

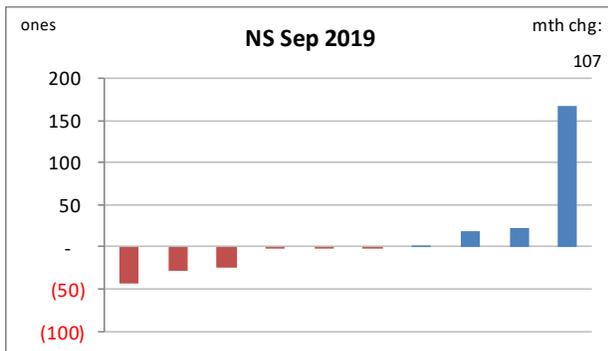
The September 2019 Nova Scotia Risk Sharing Pool Operational Report does not reflect the results of an updated valuation (the most recent valuation is as at Jun 30, 2019). The actuarial valuation

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

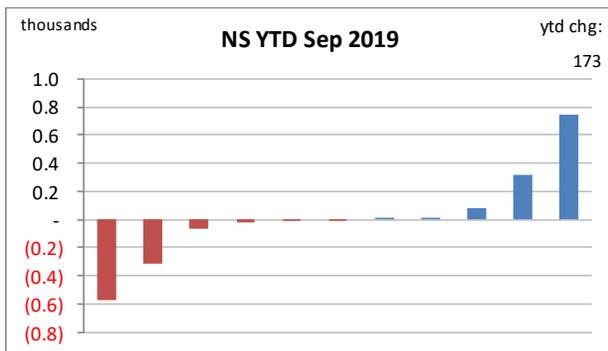


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with September showing an increase of 107 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 42 vehicles, indicating a variance of 149 from the actual transfers. This variance was mainly due to one member company group transferring a greater number of vehicles to the RSP in September than projected.



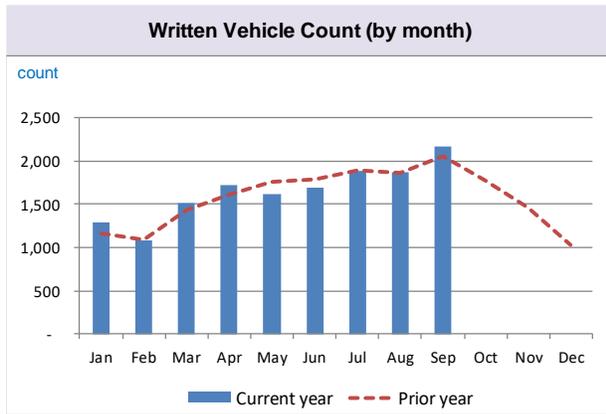
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue bar represents the change for a single member company group), sorted by magnitude of change. Six member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while four transferred more. Of the 6 member company groups transferring fewer vehicles, 1 member company group accounted for 42% of the total transfer decrease for these “decliner” members.

Of the 4 member company groups transferring more vehicles, 1 member company group accounted for 80% 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.

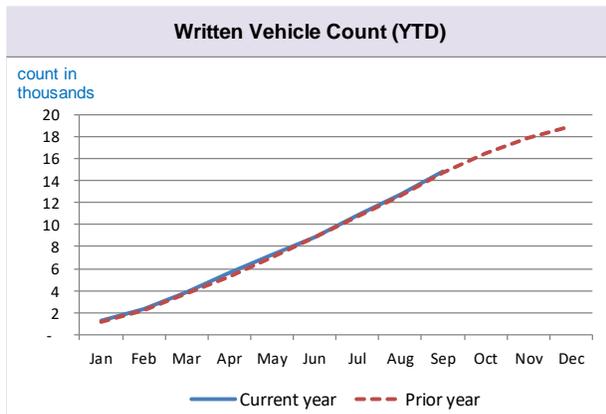
September’s vehicle count transfers to the RSP represent a 5.2% increase from September 2018, and vehicle counts were up 1.2% year-to-date. Average written premium was up 8.0% in September 2019, and was up 8.3% year-to-date (see charts at the top of the next page).



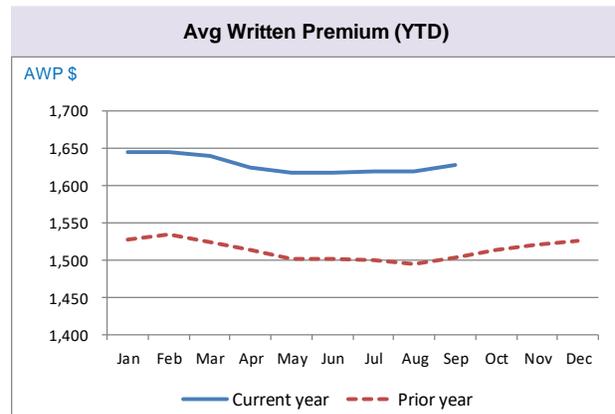
	Sep-19	Sep-18	Amt Chg	% Chg
W. Veh curr mth	2,170	2,064	107	5.2%



	Sep-19	Sep-18	Amt Chg	% Chg
AWP curr mth	1,679	1,555	124	8.0%



	Sep-19	Sep-18	Amt Chg	% Chg
W. Vehicles YTD	14,844	14,671	173	1.2%

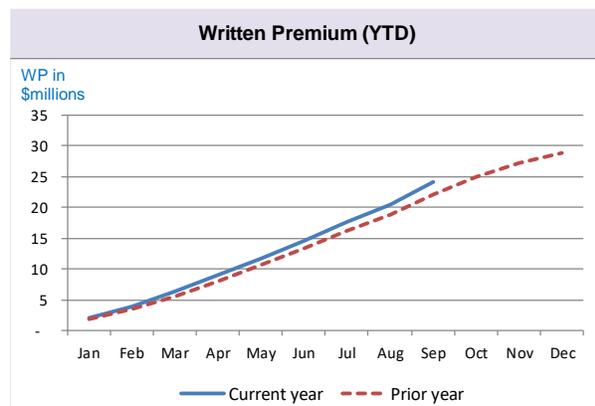


	Sep-19	Sep-18	Amt Chg	% Chg
Avg W. Prem YTD	1,627	1,503	124	8.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 13.5% for the month compared with the 0.8% increase we projected last month, and was up 9.5% year-to-date (see charts immediately below).



	Sep-19	Sep-18	Amt Chg	% Chg
WP (\$000s) curr mth	3,643	3,209	434	13.5%



	Sep-19	Sep-18	Amt Chg	% Chg
WP (\$000s) YTD	24,157	22,051	2,105	9.5%

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Nova Scotia Risk Sharing Pool – September 2019 Operational Report

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:

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

SUMMARY OF OPERATIONS - CALENDAR YEAR 2019

Risk Sharing Pool - Nova Scotia

Operating Results for the 9 Months Ended September 30, 2019 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	September	CY2019 YTD	CY2019 12 MONTHS Updated Projection	CY2018 12 MONTHS Actual
Underwriting Revenue:												
Net Premiums Written	\$2,126	\$1,769	\$2,462	\$2,738	\$2,593	\$2,729	\$3,074	\$3,024	\$3,643	\$24,158	\$31,970	\$28,869
Decrease (Increase) in Unearned Premiums	368	479	59	(271)	(246)	(377)	(501)	(428)	(1,097)	(2,014)	(1,861)	(1,213)
Net Premiums Earned	\$2,494	\$2,248	\$2,521	\$2,467	\$2,347	\$2,352	\$2,573	\$2,596	\$2,546	\$22,144	\$30,109	\$27,656
Claims Incurred:												
Prior Accident Years:												
Undiscounted	(\$14)	(\$17)	(\$834)	(\$5)	\$1,030	(\$48)	(\$3)	(\$512)	\$7	(\$396)	(\$396)	\$195
Effect of Discounting	153	(70)	228	(50)	452	(92)	(35)	(157)	(36)	393	202	(683)
Discounted	\$139	(\$87)	(\$606)	(\$55)	\$1,482	(\$140)	(\$38)	(\$669)	(\$29)	(\$3)	(\$194)	(\$488)
Current Accident Year:												
Undiscounted	\$2,422	\$2,185	\$2,429	\$2,381	\$2,586	\$2,344	\$2,517	\$2,356	\$2,458	\$21,678	\$29,388	\$25,819
Effect of Discounting	115	81	126	86	225	123	125	138	115	1,134	1,533	872
Discounted	\$2,537	\$2,266	\$2,555	\$2,467	\$2,811	\$2,467	\$2,642	\$2,494	\$2,573	\$22,812	\$30,921	\$26,691
Claims Incurred	\$2,676	\$2,179	\$1,949	\$2,412	\$4,293	\$2,327	\$2,604	\$1,825	\$2,544	\$22,809	\$30,727	\$26,203
Underwriting Expenses:												
Expense Allowance	\$659	\$549	\$763	\$849	\$805	\$847	\$953	\$938	\$1,129	\$7,492	\$9,913	\$8,714
Change in UPDR/DPAC:												
Undiscounted	10	15	(13)	17	200	18	22	(118)	23	174	328	537
Effect of Discounting	(16)	(22)	105	15	214	28	35	39	78	476	473	(86)
Discounted	(6)	(7)	92	32	414	46	57	(79)	101	650	801	451
Underwriting Expenses	\$653	\$542	\$855	\$881	\$1,219	\$893	\$1,010	\$859	\$1,230	\$8,142	\$10,714	\$9,165
Net Underwriting Gain (Loss)	(\$835)	(\$473)	(\$283)	(\$826)	(\$3,165)	(\$868)	(\$1,041)	(\$88)	(\$1,228)	(\$8,807)	(\$11,332)	(\$7,712)
Administrative Expenses	\$49	\$59	\$41	\$50	\$51	\$53	\$65	\$48	\$50	\$466	\$769	\$608
Operating Result	(\$884)	(\$532)	(\$324)	(\$876)	(\$3,216)	(\$921)	(\$1,106)	(\$136)	(\$1,278)	(\$9,273)	(\$12,101)	(\$8,320)
Ratios:												
Claims & Expenses Incurred (Earned)												
Prior Accident Years	5.6%	-3.9%	-24.0%	-2.2%	63.1%	-6.0%	-1.5%	-25.8%	-1.1%	0.0%	-0.6%	-1.8%
Current Accident Year	101.7%	100.8%	101.3%	100.0%	119.8%	104.9%	102.7%	96.1%	101.1%	103.0%	102.7%	96.5%
All Accident Years Combined	107.3%	96.9%	77.3%	97.8%	182.9%	98.9%	101.2%	70.3%	100.0%	103.0%	102.1%	94.7%
Underwriting & Administrative Expenses (Earned)	28.1%	26.7%	35.5%	37.7%	54.1%	40.2%	41.8%	34.9%	50.3%	38.9%	38.1%	35.3%
Combined Operating Ratio	135.4%	123.6%	112.8%	135.5%	237.0%	139.1%	143.0%	105.2%	150.3%	141.9%	140.2%	130.0%

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