

TO: MEMBERS OF THE FACILITY ASSOCIATION

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

BULLETIN NO.: F2020 – 030

DATE: APRIL 29, 2020

**SUBJECT: NOVA SCOTIA RISK SHARING POOL
– MARCH 2020 OPERATIONAL REPORT**

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

Please be advised that the March 2020 Nova Scotia Risk Sharing Pool Operational Report is available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Key Points

- (a) The updated valuation loss ratios do NOT include any incurred impacts or adjustments related to COVID-19; any associated impacts and changes will be initially reflected in our March 31, 2020 valuation which we anticipate will be implemented in the May 2020 Operational Reports;
- (b) The **2020 year-to-date net operating deficit was \$4.4 million**, with a COR of 152.9% on earned premium of \$8.2 million;
- (c) This month's results include the implementation of the 2019 Q4 valuation, resulting in an estimated \$1.7 million unfavourable impact; and
- (d) The **projected 2020 year-end net operating deficit is now \$18.6 million**, with a COR at 151.2% on earned premium of \$36.4 million (our Outlook for 2020 was \$14.5 million of net operating deficit with a COR of 140.5% on earned premium of \$35.8 million). However, our projections do NOT take into account any specific impacts that might arise due to the COVID-19 pandemic (FA is still in the process of considering impacts, which will be reflected in future projections, as deemed appropriate).

New This Month

Valuation

A valuation of the Nova Scotia Risk Sharing Pool ("RSP") as at December 31, 2019 has been completed since last month's Operational Report and the results of that valuation have been incorporated into this month's Operational Report. The valuation was completed by the Facility Association's internal staff in conjunction with, and reviewed and approved by, the Appointed

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Actuary.

The implementation of the new valuation resulted in an estimated overall **\$1.7 million unfavourable** impact on the month’s net result from operations, adding an estimated 20.4 points to the year-to-date Combined Operating Ratio (ending at 152.9%). The impact is summarized in the tables below¹.

NS	unfav / (fav) for the month and ytd						ytd EP 8,228 (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	693	86	779	(209)	-	570	8.4%	1.0%	9.5%	(2.5%)	-	6.9%
CAY	378	22	400	(38)	-	362	4.6%	0.3%	4.9%	(0.5%)	-	4.4%
Prem Def	771	53	824	(76)	-	748	9.4%	0.6%	10.0%	(0.9%)	-	9.1%
TOTAL	1,842	161	2,003	(323)	-	1,680	22.4%	2.0%	24.3%	(3.9%)	-	20.4%

Please see “Effect of Quarterly Valuation” on page 4 for additional valuation result detail.

Summary of Financial Results

The calendar year-to-date Operating Result is -\$4.4 million and the incurred loss ratio to the end of 3 months is 114.3%, as summarized in the table below.

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

Amounts in \$000s	March 2020	March 2019	Year to date Mar 2020	Year to Date Mar 2019
Premium Written	2,731	2,462	7,111	6,357
Premium Earned	2,727	2,521	8,228	7,263
Incurred Losses	3,564	1,949	9,407	6,804
Underwriting & Admin Expense	1,700	896	3,174	2,199
Operating Result	(2,537)	(324)	(4,353)	(1,740)
Ratios:				
Loss ratio - Prior Accident Years	10.1%	(24.0%)	3.5%	(7.6%)
- Current Accident Year	120.6%	101.3%	110.8%	101.3%
<i>Total</i>	130.7%	77.3%	114.3%	93.7%
Underwriting & Admin Expense	62.3%	35.5%	38.6%	30.3%
Combined Operating Ratio	193.0%	112.8%	152.9%	124.0%

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 2020”

¹In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cash flows of claims payments; “dsct rate” refers to the impact of changes in the selected discount rate applied to projected cash flows; and “apv adj.” refers to “actuarial present value adjustments”.

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attached to this bulletin.

Updated Projection to Year-end 2020

PLEASE NOTE: our projections have NOT been adjusted in any way to reflect COVID-19 pandemic impacts. Such impacts are under investigation and will be reflected in future projections as deemed appropriate.

The projected calendar year Operating Result to December 2020 is -\$18.6 million and the estimated combined operating ratio to December 2020 is 151.2%, as summarized in the below.

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

NS RSP 2020 Yr-end Projection Amounts in \$000s	Current (Mar 2020)	Prior Mth (Feb 2020)	Change	Final 2020 Outlook*
Premium Written	39,729	40,051	(322)	38,176
Premium Earned	36,353	36,848	(495)	35,830
Incurred Losses	39,214	37,658	1,556	36,407
Underwriting & Admin Expense	15,733	14,829	904	13,949
Net Result from Operations	(18,594)	(15,639)	(2,955)	(14,526)
Ratios:				
Loss ratio - Prior Accident Years	(0.8%)	(1.9%)	1.1%	(2.1%)
- Current Accident Year	108.7%	104.1%	4.6%	103.7%
<i>Total</i>	107.9%	102.2%	5.7%	101.6%
Underwriting & Admin Expense	43.3%	40.2%	3.1%	38.9%
Combined Operating Ratio	151.2%	142.4%	8.8%	140.5%

rounding differences may occur

*as posted to FA's website Nov. 5, 2019

This updated projection to the end of the year has deteriorated by \$3.0 million from the projection provided last month (see the second and third columns in the table). The update includes the overall \$3.1 million unfavourable impact of the December 31, 2019 valuation, as summarized in the table below (see also the "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.

NS	unfav / (fav) projected for full year						year EP 18,832 (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	693	73	766	(177)	-	589	3.7%	0.4%	4.1%	(0.9%)	-	3.1%
CAY	1,643	63	1,706	(152)	-	1,554	8.7%	0.3%	9.1%	(0.8%)	-	8.3%
Prem Def	1,015	71	1,086	(102)	-	984	5.4%	0.4%	5.8%	(0.5%)	-	5.2%
TOTAL	3,351	207	3,558	(431)	-	3,127	17.8%	1.1%	18.9%	(2.3%)	-	16.6%

Current Month Results

The Nova Scotia Risk Sharing Pool produced a -\$2.5 million Operating Result in the month of

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March 2020, a \$2.2 million deterioration from the same month last year. This deterioration is mainly driven by the overall increase in the combined ratio (from 112.8% to 193.0% applied to \$2.7 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 133.1% at the end of 2 months to 152.9% at the end of 3 months. The 19.8 percentage point increase is composed of a 3.2 percentage point increase in the Prior Accident Years loss ratio, a 4.8 percentage point increase in the Current Accident Year loss ratio, and a 11.8 percentage point increase 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.

NS RSP Summary of Actual vs Projected variances

March 2020	Actual	Projection	Difference	Difference %
Written Premium	2,731	3,052	(321)	(10.5%)
Earned Premium	2,727	2,929	(202)	(6.9%)
Reported Losses				
Paid Losses	2,872	1,570	1,302	82.9%
Paid Expenses	288	96	192	200.0%
Change in Outstanding Losses	(864)	633	(1,497)	(236.5%)
Total Reported Losses	2,296	2,299	(3)	(0.1%)
Change in IBNR Provision *	1,268	673	595	
Change in Premium Deficiency (DPAC) *	772	31	741	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included at [Nova Scotia RSP March 2020 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 March 2020, reported losses were consistent with projected. No single 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.

Effect of Quarterly Valuation

The March 2020 Nova Scotia Risk Sharing Pool Operational Report reflects the results of an

updated valuation as at December 31, 2019, with the associated impacts in relation to the results for March 2020 summarized in the table below.

NS	unfav / (fav) for the month and ytd						mth EP 2,727 (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	693	86	779	(209)	-	570	25.4%	3.2%	28.6%	(7.7%)	-	20.9%
CAY	378	22	400	(38)	-	362	13.9%	0.8%	14.7%	(1.4%)	-	13.3%
Prem Def	771	53	824	(76)	-	748	28.3%	1.9%	30.2%	(2.8%)	-	27.4%
TOTAL	1,842	161	2,003	(323)	-	1,680	67.5%	5.9%	73.5%	(11.8%)	-	61.6%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$2.0 million unfavourable impact – see column [3] in the left table above). This was partially offset by the impact due to an 18 basis point increase in the selected discount rate (from 1.46% to 1.64% generating a \$0.3 million favourable impact – see column [4] in the left table above).

There was no change in the margin for adverse deviation in investment yield (25 basis points). As well, the margins for adverse deviation for claims development as selected at the coverage / accident year level were left unchanged with this valuation. Our usual practice is to review / update margins for investment yield and claims development at the June 30 valuations. As a result, column [5] in the left table above shows \$0 impact for margin changes with this valuation.

Management has observed unfavourable total valuation impacts over the last 12 valuation implementations as shown in column [5] of the table at the top of the next page (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).

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RSP: Nova Scotia, as at: 2019 Q4		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LR's & 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]
2017 Q1	May 2017	103	10	92	-	205	45,635	0.4%	0.2%
2017 Q2	Aug 2017	(3,429)	(363)	(286)	(87)	(4,165)	47,893	(8.7%)	(7.2%)
2017 Q3	Oct 2017	1,696	89	(760)	-	1,025	52,341	2.0%	3.2%
2017 Q4	Mar 2018	(2,038)	26	-	-	(2,012)	52,371	(3.8%)	(3.9%)
2018 Q1	May 2018	1,505	96	(256)	-	1,345	56,182	2.4%	2.7%
2018 Q2	Aug 2018	68	(50)	95	(51)	62	59,463	0.1%	0.1%
2018 Q3	Oct 2018	869	137	(635)	-	371	62,791	0.6%	1.4%
2018 Q4	Mar 2019	(869)	(2)	504	-	(367)	62,820	(0.6%)	(1.4%)
2019 Q1	May 2019	1,524	70	797	-	2,391	66,991	3.6%	2.3%
2019 Q2	Aug 2019	(835)	(32)	24	(71)	(914)	70,580	(1.3%)	(1.2%)
2019 Q3	Oct 2019	816	66	(84)	-	798	75,355	1.1%	1.1%
2019 Q4	Mar 2020	1,842	161	(323)	-	1,680	80,737	2.1%	2.3%
12-qtrs	-	1,252	208	(832)	(209)	419			
% of total		298.8%	49.6%	(198.6%)	(49.9%)	100.0%			
		8 unfavourable (nominal) valuations					4 impacts were outside of 2.5%		
Averages									
12-qtrs		104	17	(69)	(17)	35	61,097	0.1%	0.2%
2017 Q1 to 2018 Q4		(262)	(7)	(156)	(17)	(442)	54,937	(0.8%)	(0.5%)
2019 Q1 to 2019 Q4		837	66	104	(18)	989	73,416	1.3%	1.1%

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:

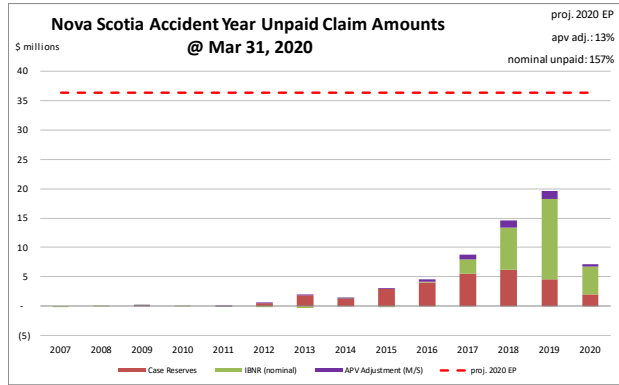
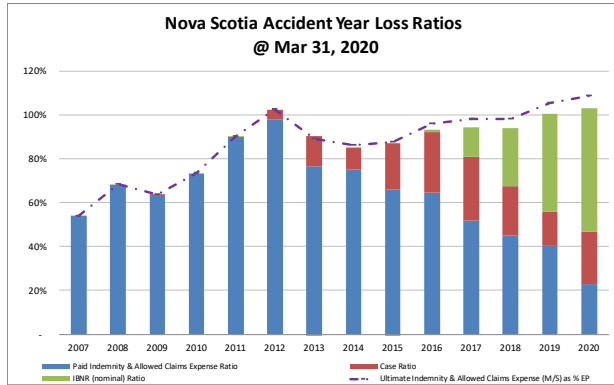
- (i) **Best estimate measurement: This objective has not been met**, as the 12-quarter nominal change in column [1] is \$1.3 million unfavourable. That said, the average unfavourable impact over the 12 quarters at \$0.1 million (nominal only) represents 0.2% of ending policy liabilities per column [8] which we do not view as significant. We also note that the latest 4 valuations have been on average more unfavourable than the earlier 8 valuations were favourable.
- (ii) **Nominal size measurement: This objective has not been met**, with 4 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).
- (iii) **Bias evidence measurement: This objective has not been met**, as 8 of 12 valuations show unfavourable changes (column [1] of the table above), higher than our expectation (3 to 5 of 12).

In summary, while challenging as a small RSP, we believe the nominal valuation impacts are

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.

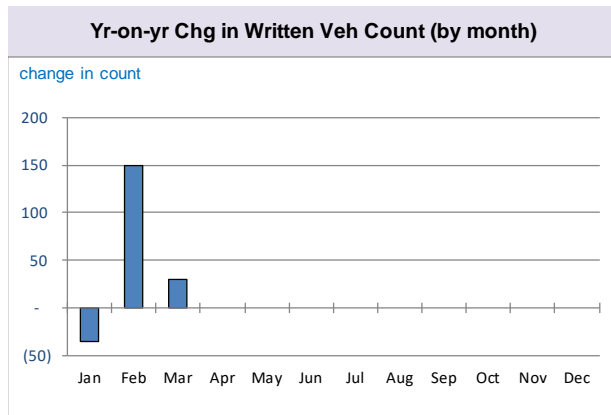
moving toward our target impacts (long term zero impact; individual valuation impact of no more than 2.5% of policy liabilities; no bias evident).

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

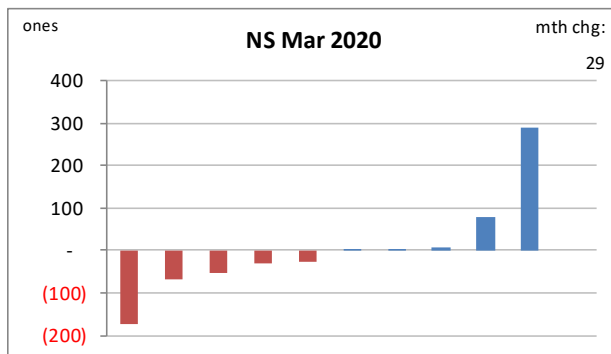


The preceding charts, latest valuation results, and related actuarial present value assumption updates are discussed in more detail in the [Nova Scotia RSP March 2020 Operational Report – Actuarial Highlights](#). The Actuarial Quarterly Valuation Highlights for Risk Sharing Pools as at December 31, 2019 is expected to be posted in June 2020. The actuarial valuation will be updated next as at March 31, 2020 and we anticipate that the results will be reflected in the May 2020 Operational Report.

Management Comments

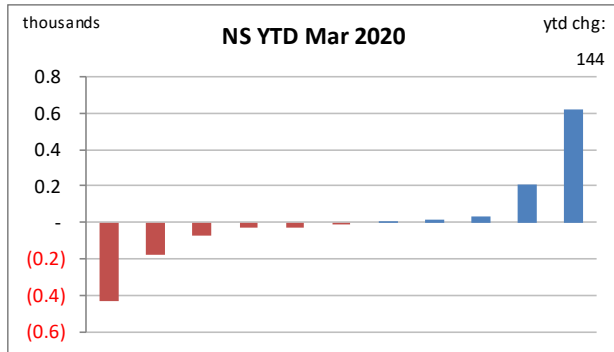


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with March showing an increase of 29 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 248 vehicles, indicating a variance of 219 from the actual transfers. This variance was mainly due to one member company group transferring a lower number of vehicles to the RSP in March than projected.



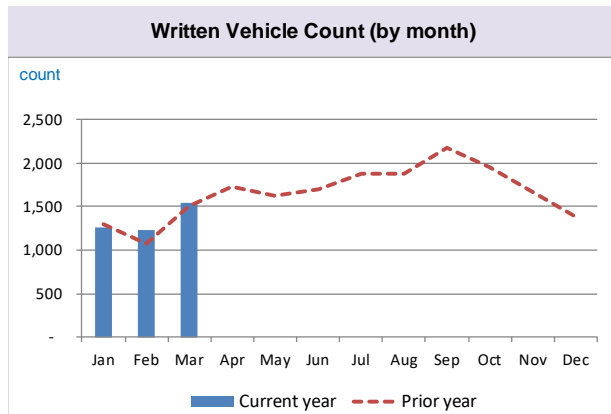
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Five member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while five transferred more. Of the 5 member company groups transferring fewer vehicles, 1 member company

group accounted for 50% of the total transfer decrease for these “decliner” members. Of the 5 member company groups transferring more vehicles, 1 member company group accounted for 76% of the total transfer increase for these “grower” members.

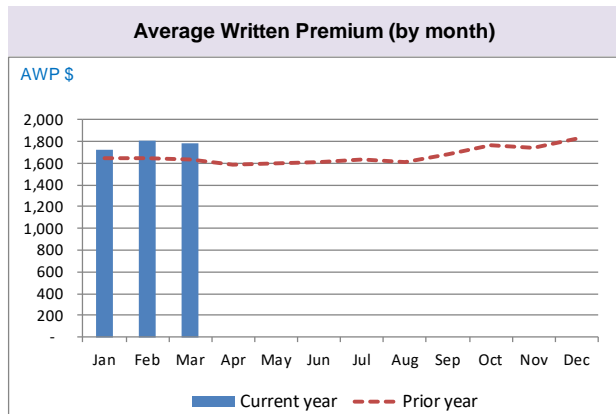


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

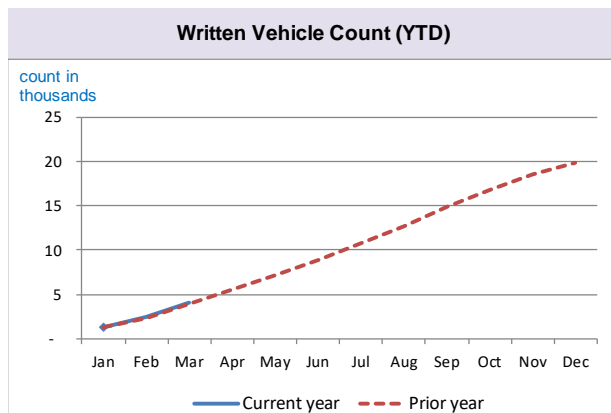
March’s vehicle count transfers to the RSP represent an increase from March 2019 at 1.9%, and counts were up 3.7% year-to-date. Average written premium was up 8.8% in March 2020, and up 7.9% year-to date (see charts below).



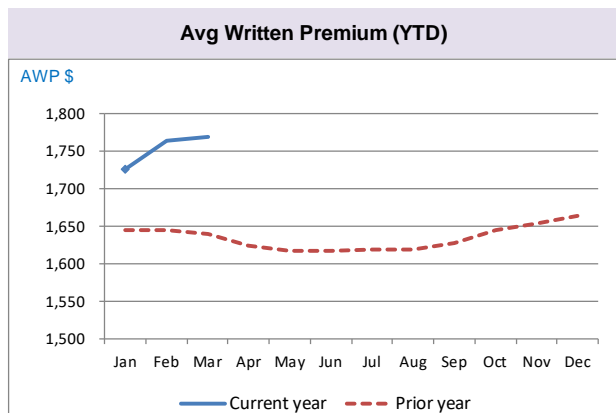
	Mar-20	Mar-19	Amt Chg	% Chg
W. Veh curr mth	1,537	1,507	29	1.9%



	Mar-20	Mar-19	Amt Chg	% Chg
AWP curr mth	1,777	1,633	144	8.8%



	Mar-20	Mar-19	Amt Chg	% Chg
W. Vehicles YTD	4,019	3,876	144	3.7%

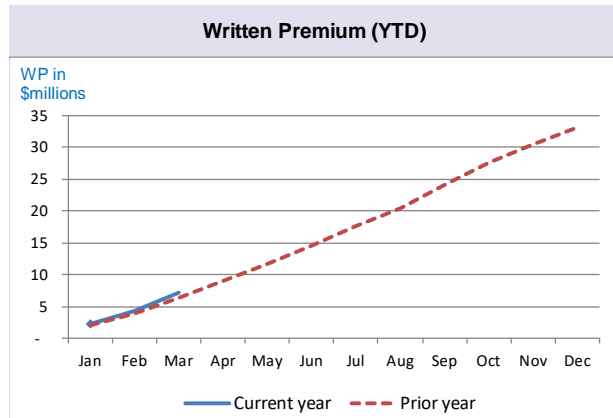
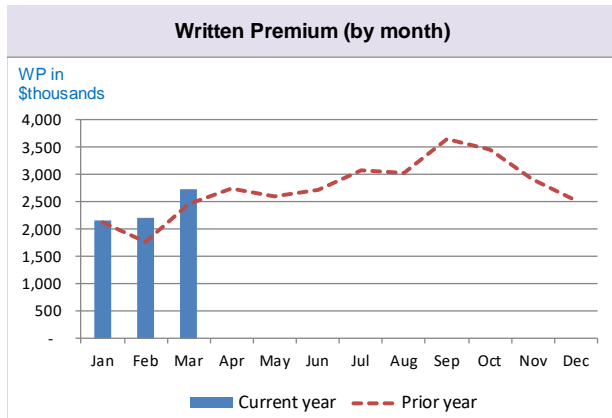


	Mar-20	Mar-19	Amt Chg	% Chg
Avg W. Prem YTD	1,769	1,640	129	7.9%

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As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 10.9% for the month compared with the 24.0% increase we projected last month, and was up 11.9% year-to-date (see chart below).



	Mar-20	Mar-19	Amt Chg	% Chg
WP (\$000s) curr mth	2,731	2,462	269	10.9%

	Mar-20	Mar-19	Amt Chg	% Chg
WP (\$000s) YTD	7,112	6,356	755	11.9%

Should you require any further information, please call Aidan Chen, AVP Data & Analytics at (416) 863-1750 x4804.

Saskia Matheson
President & CEO

Related links:

[Nova Scotia RSP March 2020 Operational Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2020

Risk Sharing Pool - Nova Scotia

Operating Results for the 3 Months Ended March 31, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

EXHIBIT 1

	January	February	March	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:						
Net Premiums Written	\$2,168	\$2,212	\$2,731	\$7,111	\$39,729	\$33,046
Decrease (Increase) in Unearned Premiums	657	464	(4)	1,117	(3,376)	(2,781)
Net Premiums Earned	\$2,825	\$2,676	\$2,727	\$8,228	\$36,353	\$30,265
Claims Incurred:						
Prior Accident Years:						
Undiscounted	(\$17)	(\$11)	\$567	\$539	\$539	\$107
Effect of Discounting	92	(50)	(292)	(250)	(839)	249
Discounted	\$75	(\$61)	\$275	\$289	(\$300)	\$356
Current Accident Year:						
Undiscounted	\$2,802	\$2,651	\$3,195	\$8,648	\$37,644	\$29,858
Effect of Discounting	200	176	94	470	1,870	1,505
Discounted	\$3,002	\$2,827	\$3,289	\$9,118	\$39,514	\$31,363
Claims Incurred	\$3,077	\$2,766	\$3,564	\$9,407	\$39,214	\$31,719
Underwriting Expenses:						
Expense Allowance	\$689	\$701	\$867	\$2,257	\$12,597	\$10,247
Change in UPDR/DPAC:						
Undiscounted	3	11	792	806	1,767	279
Effect of Discounting	(42)	(33)	(20)	(95)	245	504
Discounted	(39)	(22)	772	711	2,012	783
Underwriting Expenses	\$650	\$679	\$1,639	\$2,968	\$14,609	\$11,030
Net Underwriting Gain (Loss)	(\$902)	(\$769)	(\$2,476)	(\$4,147)	(\$17,470)	(\$12,484)
Administrative Expenses	\$60	\$85	\$61	\$206	\$1,124	\$753
Operating Result	(\$962)	(\$854)	(\$2,537)	(\$4,353)	(\$18,594)	(\$13,237)
Ratios:						
Claims & Expenses Incurred (Earned)						
Prior Accident Years	2.7%	-2.3%	10.1%	3.5%	-0.8%	1.2%
Current Accident Year	106.3%	105.6%	120.6%	110.8%	108.7%	103.6%
All Accident Years Combined	109.0%	103.3%	130.7%	114.3%	107.9%	104.8%
Underwriting & Administrative Expenses (Earned)	25.1%	28.6%	62.3%	38.6%	43.3%	38.9%
Combined Operating Ratio	134.1%	131.9%	193.0%	152.9%	151.2%	143.7%

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