

TO: MEMBERS OF THE FACILITY ASSOCIATION

**ATTENTION: CHIEF EXECUTIVE OFFICER
NEW BRUNSWICK RISK SHARING POOL PROJECT MANAGER**

BULLETIN NO.: F2020 – 059

DATE: AUGUST 28, 2020

**SUBJECT: NEW BRUNSWICK RISK SHARING POOL
– JULY 2020 OPERATIONAL REPORT**

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

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

Key Points

- (a) The loss ratios currently being used include an initial assessment of the incurred impacts associated with the COVID-19 pandemic, with a further review and assessment to be included with the RSP 2020 Q2 actuarial valuation update (as at June 2020);
- (b) The **2020 year-to-date net operating deficit was \$4.2 million**, with a COR of 142.4% on earned premium of \$9.9 million; and
- (c) The **projected 2020 year-end net operating deficit is now \$5.3 million**, with a COR at 130.3% on earned premium of \$17.3 million, (our Outlook for 2020 was \$1.7 million of net operating deficit with a COR of 110.4% on earned premium of \$16.2 million).

Summary of Financial Results

The calendar year-to-date Operating Result is -\$4.2 million and the incurred loss ratio to the end of seven months is 101.9% as summarized in the following table.

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

Amounts in \$000s	July 2020	July 2019	Year to date Jul 2020	Year to Date Jul 2019
Premium Written	2,122	1,517	10,365	9,254
Premium Earned	1,488	1,386	9,860	8,899
Incurred Losses	1,153	1,030	10,047	8,174
Underwriting & Admin Expense	673	519	3,993	3,469
Operating Result	(338)	(163)	(4,180)	(2,744)
Ratios:				
Loss ratio - Prior Accident Years	(2.4%)	(4.6%)	21.0%	10.2%
- Current Accident Year	79.8%	78.9%	80.9%	81.7%
<i>Total</i>	77.4%	74.3%	101.9%	91.9%
Underwriting & Admin Expense	45.2%	37.4%	40.5%	39.0%
Combined Operating Ratio	122.6%	111.7%	142.4%	130.9%

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 2020” attached to this bulletin.

Updated Projection to Year-end 2020

The projected calendar year Operating Result to December 2020 is -\$5.3 million and the estimated combined operating ratio to December 2020 is 130.3%, as summarized in the following table. This updated projection to the end of the year has deteriorated by \$0.1 million from the projection provided last month (see the second and third columns in the table). The deterioration is driven by the \$0.8 million increase in the projected written premium for the year and the associated impacts on earned premium, claims, and expense projections.

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

NB RSP 2020 Yr-end Projection	Current	Prior Mth	Change	Final 2020
Amounts in \$000s	(Jul 2020)	(Jun 2020)		Outlook*
Premium Written	17,823	17,061	762	16,178
Premium Earned	17,312	16,956	356	16,215
Incurred Losses	15,614	15,324	290	12,004
Underwriting & Admin Expense	6,951	6,762	188	5,896
Net Result from Operations	(5,253)	(5,130)	(122)	(1,685)
Ratios:				
Loss ratio - Prior Accident Years	10.9%	11.2%	(0.3%)	(1.7%)
- Current Accident Year	79.3%	79.2%	0.1%	75.7%
<i>Total</i>	90.2%	90.4%	(0.2%)	74.0%
Underwriting & Admin Expense	40.1%	39.9%	0.2%	36.4%
Combined Operating Ratio	130.3%	130.3%	-	110.4%

rounding differences may occur

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

Current Month Results

The New Brunswick Risk Sharing Pool produced a -\$0.3 million Operating Result in the month of July 2020, a \$0.2 million deterioration from the same month last year. This deterioration is mainly driven by the overall increase in the combined ratio (from 111.7% to 122.6% applied to \$1.5 million in earned premium).

This month's results moved the year-to-date combined operating ratio from 145.9% at the end of six months to 142.4% at the end of seven months. The 3.5 percentage point decrease is composed of a 4.2 percentage point decrease in Prior Accident Years Loss ratio, coupled with a 0.1 percentage point decrease in the Current Accident Year loss ratio, offset by a 0.8 percentage point increase in the expense ratio.

Variances from Projections

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

NB RSP Summary of Actual vs Projected variances

July 2020	Actual	Projection	Difference	Difference %
Written Premium	2,122	1,360	762	56.0%
Earned Premium	1,488	1,482	6	0.4%
Reported Losses				
Paid Losses	595	641	(46)	(7.2%)
Paid Expenses	66	77	(11)	(14.3%)
Change in Outstanding Losses	825	137	688	502.2%
Total Reported Losses	1,486	855	631	73.8%
Change in IBNR Provision*	(333)	283	(616)	
Change in Premium Deficiency (DPAC)*	(43)	61	(104)	

*(Amounts in \$000's)**rounding differences may occur*

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.

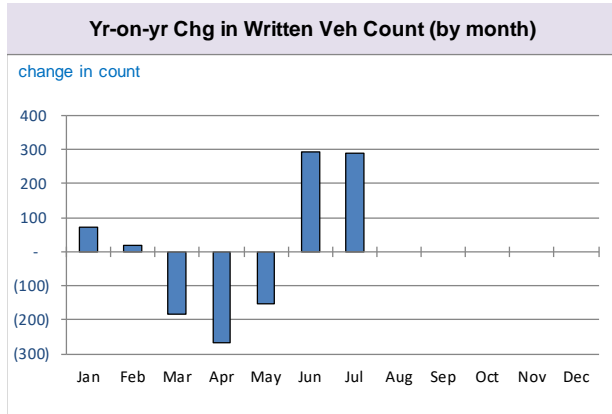
For the month of July 2020, reported losses were \$0.6 million higher than projected. The Current Accident Year had a \$0.1 million unfavourable variance and the Prior Accident Years had a \$0.5 million unfavourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for some specific individual Accident Years for the month. Management investigated paid 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.

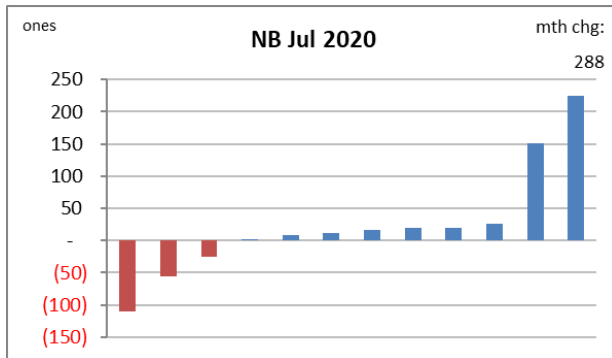
Booking IBNR

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.

Management Comments

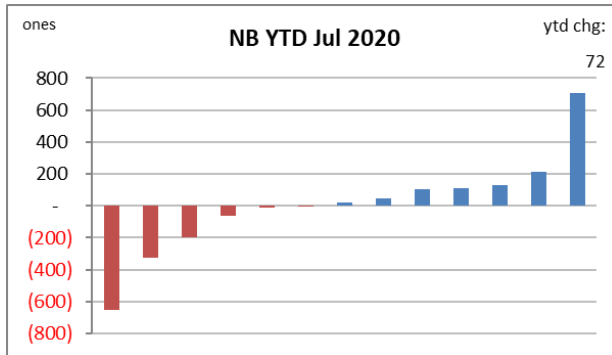


The chart on the left shows the year-on-year change in the vehicles transferred to the RSP by month, with July showing an increase of 288 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 124 vehicles, indicating a variance of 412 from the actual transfers. This variance was mainly due to two member company groups transferring a higher number of vehicles to the RSP in July than projected.



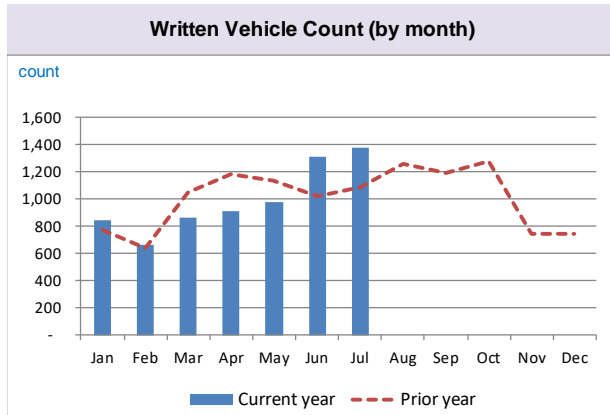
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Three member company groups transferred fewer vehicles to the RSP this month compared with a year ago, while nine transferred more. Of the 3 member company groups transferring fewer vehicles, 1 member company group accounted

for 58% of the total transfer decrease for the “decliner” members. Of the 9 member company groups transferring more vehicles, 2 member company groups accounted for 78% of the total transfer increase for the “grower” members.

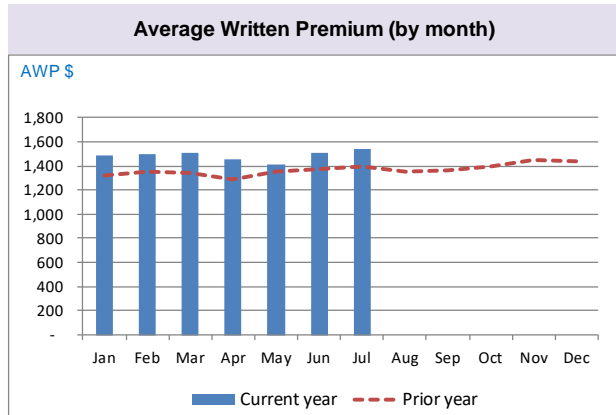


The chart on the left presents the same information as the previous chart, but on a **year-to-date** basis. That is, it shows the overall change in transfer counts year-to-date, broken down by member company group changes (each blue or red bar represents the change for a single member company group),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

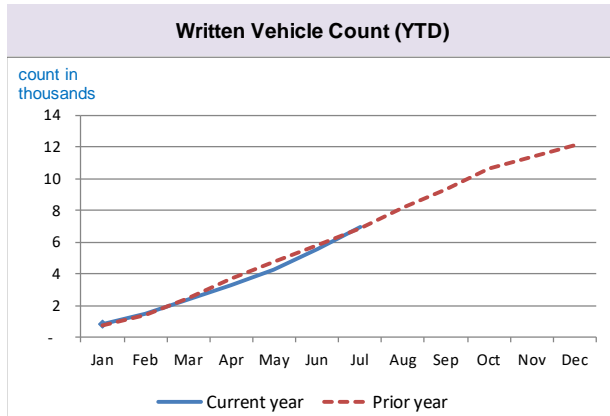
July’s vehicle count transfers to the RSP represent a 26.5% increase from July 2019, and counts were up 1.0% year-to-date. Average written premium was up 10.6% in July 2020, and up 10.9% year-to-date (see the following charts).



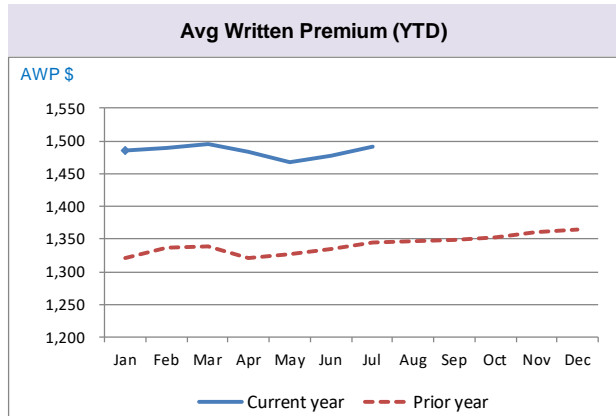
	Jul-20	Jul-19	Amt Chg	% Chg
W. Veh curr mth	1,375	1,087	288	26.5%



	Jul-20	Jul-19	Amt Chg	% Chg
AWP curr mth	1,544	1,396	148	10.6%

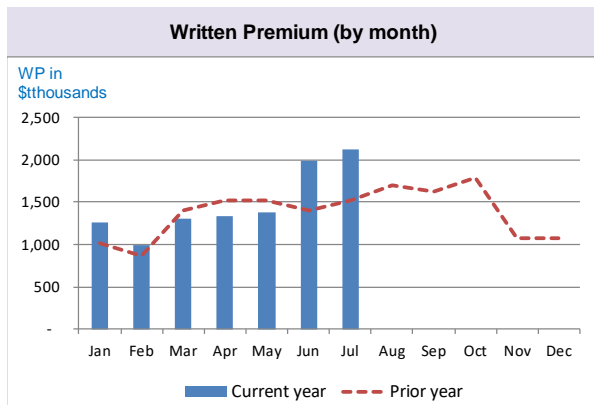


	Jul-20	Jul-19	Amt Chg	% Chg
W. Vehicles YTD	6,954	6,883	72	1.0%

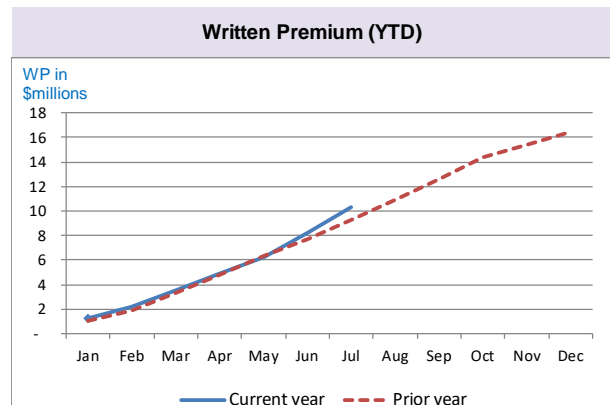


	Jul-20	Jul-19	Amt Chg	% Chg
Avg W. Prem YTD	1,491	1,345	146	10.9%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was up 39.9% for the month compared with the 10.3% decrease we projected last month, and was up 12.0% year-to-date (see the following charts).



	Jul-20	Jul-19	Amt Chg	% Chg
WP (\$000s) curr mth	2,122	1,517	605	39.9%



	Jul-20	Jul-19	Amt Chg	% Chg
WP (\$000s) YTD	10,366	9,255	1,111	12.0%

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New Brunswick Risk Sharing Pool – July 2020 Operational Report

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

Saskia Matheson
President & CEO

Related links:

[New Brunswick RSP July 2020 Operational Report – Actuarial Highlights](#)

*For additional details on Actual vs Projected variances, IBNR, and valuation (if applicable)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2020

Risk Sharing Pool - New Brunswick

EXHIBIT 1

Operating Results for the 7 Months Ended July 31, 2020 (Discounted basis)

Source: Monthly Operational Report

(thousands of dollars)

	January	February	March	April	May	June	July	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:										
Net Premiums Written	\$1,255	\$986	\$1,304	\$1,333	\$1,377	\$1,988	\$2,122	\$10,365	\$17,823	\$16,518
Decrease (Increase) in Unearned Premiums	177	339	109	51	53	(600)	(634)	(505)	(511)	(735)
Net Premiums Earned	\$1,432	\$1,325	\$1,413	\$1,384	\$1,430	\$1,388	\$1,488	\$9,860	\$17,312	\$15,783
Claims Incurred:										
Prior Accident Years:										
Undiscounted	(\$14)	(\$30)	\$878	(\$11)	\$886	(\$14)	(\$18)	\$1,677	\$1,678	\$435
Effect of Discounting	(31)	(61)	(24)	(19)	623	(73)	(17)	398	208	173
Discounted	(\$45)	(\$91)	\$854	(\$30)	\$1,509	(\$87)	(\$35)	\$2,075	\$1,886	\$608
Current Accident Year:										
Undiscounted	\$1,057	\$997	\$1,159	\$1,054	\$1,021	\$1,046	\$1,127	\$7,461	\$13,011	\$11,886
Effect of Discounting	58	45	32	52	194	69	61	511	717	392
Discounted	\$1,115	\$1,042	\$1,191	\$1,106	\$1,215	\$1,115	\$1,188	\$7,972	\$13,728	\$12,278
Claims Incurred	\$1,070	\$951	\$2,045	\$1,076	\$2,724	\$1,028	\$1,153	\$10,047	\$15,614	\$12,886
Underwriting Expenses:										
Expense Allowance	\$379	\$298	\$393	\$403	\$416	\$601	\$641	\$3,131	\$5,385	\$4,974
Change in UPDR/DPAC:										
Undiscounted	45	85	229	20	(11)	(94)	(86)	188	481	(309)
Effect of Discounting	(8)	(13)	(19)	(5)	148	42	43	188	213	144
Discounted	37	72	210	15	137	(52)	(43)	376	694	(165)
Underwriting Expenses	\$416	\$370	\$603	\$418	\$553	\$549	\$598	\$3,507	\$6,079	\$4,809
Net Underwriting Gain (Loss)	(\$54)	\$4	(\$1,235)	(\$110)	(\$1,847)	(\$189)	(\$263)	(\$3,694)	(\$4,381)	(\$1,912)
Administrative Expenses	\$59	\$85	\$61	\$70	\$68	\$68	\$75	\$486	\$872	\$849
Operating Result	(\$113)	(\$81)	(\$1,296)	(\$180)	(\$1,915)	(\$257)	(\$338)	(\$4,180)	(\$5,253)	(\$2,761)
Ratios:										
Claims & Expenses Incurred (Earned)										
Prior Accident Years	-3.1%	-6.9%	60.4%	-2.2%	105.5%	-6.3%	-2.4%	21.0%	10.9%	3.9%
Current Accident Year	77.9%	78.6%	84.3%	79.9%	85.0%	80.3%	79.8%	80.9%	79.3%	77.8%
All Accident Years Combined	74.8%	71.7%	144.7%	77.7%	190.5%	74.0%	77.4%	101.9%	90.2%	81.7%
Underwriting & Administrative Expenses (Earned)	33.2%	34.3%	47.0%	35.3%	43.4%	44.5%	45.2%	40.5%	40.2%	35.8%
Combined Operating Ratio	108.0%	106.0%	191.7%	113.0%	233.9%	118.5%	122.6%	142.4%	130.4%	117.5%

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