

TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER
ALBERTA RISK SHARING POOL PROJECT MANAGER

BULLETIN NO.: F2020 – 071

DATE: SEPTEMBER 29, 2020

SUBJECT: ALBERTA RISK SHARING POOLS
– AUGUST 2020 OPERATIONAL REPORT

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

Please be advised that the August 2020 Alberta Risk Sharing Pools Operational Reports are available on the Facility Association (FA) Portal at <https://portal.facilityassociation.com>.

Key Points

- (a) The updated valuation loss ratios include a review and assessment of the incurred impacts associated with the COVID-19 pandemic;
- (b) This month's results include the *implementation of the 2020 Q2 valuation*, resulting in an estimated *\$7.9 million favourable impact for Alberta Grid*, and an estimated *\$4.6 million unfavourable impact for Alberta Non-Grid*, FA Management in conjunction with FA's Appointed Actuary will be scheduling a member call mid-October to provide further discussion of the 2020 Q2 valuation impact;
- (c) The *Alberta Grid 2020 year-to-date net operating surplus was \$7.6 million*, with a COR of 94.3% on earned premium of \$131.7 million;
- (d) The *Alberta Non-Grid 2020 year-to-date net operating deficit was \$25.3 million*, with a COR of 130.4% on earned premium of \$83.3 million;
- (e) The *projected Alberta Grid 2020 year-end net operating deficit is now \$1.4 million*, with a COR at 100.7% on earned premium of \$197 million (our Outlook for 2020 was \$59 million of net operating deficit with a COR of 125.3% on earned premium of \$234 million); this update reflects current assumptions under the 2020 Q2 valuation as well as updated written premium projections received from certain members; and
- (f) The *projected Alberta Non-Grid 2020 year-end net operating deficit is now \$48.6 million*, with a COR at 138.1% on earned premium of \$127.6 million (our Outlook for 2020 was \$66 million of net operating deficit with a COR of 143.8% on earned premium of \$151 million (projection comment above for Alberta Grid applies here as well).

New This Month

Valuation

Valuations of the Alberta Grid Risk Sharing Pool (“RSP”) and Non-Grid RSP as at June 30, 2020 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 **\$7.9 million favourable** impact on the month’s net result from operations, subtracting an estimated 6.0 points to the year-to-date Combined Operating Ratio (ending at 94.3%). The impact is summarized in the following tables ¹.

	unfav / (fav) for the month and ytd						ytd EP 131,676 (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	(6,875)	(765)	(7,640)	2,618	(864)	(5,886)	(5.2%)	(0.6%)	(5.8%)	2.0%	(0.7%)	(4.5%)
CAY	(2,129)	(221)	(2,350)	934	-	(1,416)	(1.6%)	(0.2%)	(1.8%)	0.7%	-	(1.1%)
Prem Def	(1,433)	(135)	(1,568)	972	-	(596)	(1.1%)	(0.1%)	(1.2%)	0.7%	-	(0.5%)
TOTAL	(10,437)	(1,121)	(11,558)	4,524	(864)	(7,898)	(7.9%)	(0.9%)	(8.8%)	3.4%	(0.7%)	(6.0%)

For the **Alberta Non-Grid RSP**, the implementation of the new valuation resulted in an estimated overall **\$4.6 million unfavourable** impact on the month’s net result from operations, adding an estimated 5.5 points from the year-to-date Combined Operating Ratio (ending at 130.4%). The impact is summarized in the following tables.

	unfav / (fav) for the month and ytd						ytd EP 83,295 (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	(1,750)	(240)	(1,990)	1,725	(655)	(920)	(2.1%)	(0.3%)	(2.4%)	2.1%	(0.8%)	(1.1%)
CAY	3,142	200	3,342	495	-	3,837	3.8%	0.2%	4.0%	0.6%	-	4.6%
Prem Def	1,004	144	1,148	549	-	1,697	1.2%	0.2%	1.4%	0.7%	-	2.0%
TOTAL	2,396	104	2,500	2,769	(655)	4,614	2.9%	0.1%	3.0%	3.3%	(0.8%)	5.5%

Please see “Effect of Quarterly Valuation” sections for additional valuation result detail (page 6 for Grid and page 11 for Non-Grid).

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”.

Alberta Grid RSP - Summary of Financial Results

The calendar year-to-date Operating Result is \$7.6 million and the incurred loss ratio to the end of eight months is 73.3% as summarized in the following table.

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

Amounts in \$000s	August 2020	August 2019	Year to date Aug 2020	Year to Date Aug 2019
Premium Written	20,061	20,204	118,588	129,313
Premium Earned	16,473	15,933	131,676	113,980
Incurred Losses	5,953	(3,726)	96,485	78,770
Underwriting & Admin Expense	5,376	3,881	27,635	40,999
Operating Result	5,144	15,778	7,556	(5,789)
Ratios:				
Loss ratio - Prior Accident Years	(39.1%)	(96.6%)	(11.1%)	(24.5%)
- Current Accident Year	75.3%	73.2%	84.4%	93.6%
<i>Total</i>	36.2%	(23.4%)	73.3%	69.1%
<i>Underwriting & Admin Expense</i>	32.6%	24.4%	21.0%	36.0%
<i>Combined Operating Ratio</i>	68.8%	1.0%	94.3%	105.1%

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

Updated Projection to Year-end 2020 (Alberta Grid RSP)

The projected calendar year Operating Result to December 2020 is -\$1.4 million and the estimated combined operating ratio to December 2020 is 100.7%, as summarized in the following table for the Alberta Grid RSP.

*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 2020 Yr-end Projection Amounts in \$000s	Current (Aug 2020)	Prior Mth (Jul 2020)	Change	Final 2020 Outlook*
Premium Written	189,907	190,828	(921)	247,866
Premium Earned	197,043	196,896	147	234,333
Incurred Losses	147,984	155,974	(7,990)	215,198
Underwriting & Admin Expense	50,485	51,033	(548)	78,403
Net Result from Operations	(1,426)	(10,111)	8,685	(59,268)
Ratios:				
Loss ratio - Prior Accident Years	(8.8%)	(5.7%)	(3.1%)	(2.7%)
- Current Accident Year	83.9%	84.9%	(1.0%)	94.5%
Total	75.1%	79.2%	(4.1%)	91.8%
Underwriting & Admin Expense	25.6%	25.9%	(0.3%)	33.5%
Combined Operating Ratio	100.7%	105.1%	(4.4%)	125.3%

rounding differences may occur

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

This updated projection in Net Result from Operations to the end of the year has improved by \$8.7 million from the projection provided last month (see the second and third columns in the table). The updated projection includes the overall \$8.4 million favourable impact of the valuation, as at June 30, 2020, as summarized in the following table (see more information under “Effect of Quarterly Valuation” on page 6). The remaining difference was driven by the overall decrease in projected written premium and the associated impacts on earned premium, claims, and expense projections.

AB Grid	unfav / (fav) projected for full year						year EP 197,043 (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	(6,875)	(695)	(7,570)	2,371	(776)	(5,975)	(3.5%)	(0.4%)	(3.8%)	1.2%	(0.4%)	(3.0%)
CAY	(3,174)	(234)	(3,408)	1,345	-	(2,063)	(1.6%)	(0.1%)	(1.7%)	0.7%	-	(1.0%)
Prem Def	(1,299)	(122)	(1,421)	1,045	-	(376)	(0.7%)	(0.1%)	(0.7%)	0.5%	-	(0.2%)
TOTAL	(11,348)	(1,051)	(12,399)	4,761	(776)	(8,414)	(5.8%)	(0.5%)	(6.3%)	2.4%	(0.4%)	(4.3%)

Current Month Results (Alberta Grid RSP)

The Alberta Grid Risk Sharing Pool produced a \$5.1 million Operating Result in the month of August 2020, a \$10.6 million deterioration compared with the same month last year. This deterioration is associated with an \$11.2 million unfavourable impact from the overall increase in the combined ratio (from 1.0% to 68.8% applied to \$16.5 million in earned premium), offset by an approximately \$0.6 million favourable impact associated with the \$0.5 million increase in earned premium (at a prior combined ratio of 1.0%).

This month's results moved the year-to-date combined operating ratio from 97.9% at the end of seven months to 94.3% at the end of eight months. The 3.6 percentage point decrease is composed of a 4.0 percentage point decrease in the Prior Accident Years loss ratio, coupled with a

1.3 percentage point decrease in the Current Accident Year loss ratio, offset by a 1.7 percentage point increase in the expense ratio.

Variances from Projections (Alberta Grid RSP)

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

Alberta Grid RSP Summary of Actual vs Projected variances

August 2020	Actual	Projection	Difference	Difference %
Written Premium	20,061	19,345	716	3.7%
Earned Premium	16,473	16,968	(495)	(2.9%)
Reported Losses				
Paid Losses	9,825	9,854	(29)	(0.3%)
Paid Expenses	299	446	(147)	(33.0%)
Change in Outstanding Losses	(865)	3,368	(4,233)	(125.7%)
Total Reported Losses	9,259	13,668	(4,409)	(32.3%)
Change in IBNR Provision*	(3,306)	(34)	(3,272)	
Change in Premium Deficiency (DPAC)*	(813)	(61)	(752)	

(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 August 2020, the reported losses were \$4.4 million lower than projected. The Current Accident Year had an approximately \$3.7 million favourable variance in reported losses, and the Prior Accident Years had a \$0.7 million favourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for some specific individual Accident Years for the month. Management investigated the 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 (AB-G RSP)

The August 2020 Alberta Grid Risk Sharing Pool Operational Report reflects the results of an updated valuation as at June 30, 2020, with the associated impacts in relation to the results for August 2020 summarized in the following tables.

AB Grid	unfav / (fav) for the month and ytd						mth EP 16,473 (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	(6,875)	(765)	(7,640)	2,618	(864)	(5,886)	(41.7%)	(4.6%)	(46.4%)	15.9%	(5.2%)	(35.7%)
CAY	(2,129)	(221)	(2,350)	934	-	(1,416)	(12.9%)	(1.3%)	(14.3%)	5.7%	-	(8.6%)
Prem Def	(1,433)	(135)	(1,568)	972	-	(596)	(8.7%)	(0.8%)	(9.5%)	5.9%	-	(3.6%)
TOTAL	(10,437)	(1,121)	(11,558)	4,524	(864)	(7,898)	(63.4%)	(6.8%)	(70.2%)	27.5%	(5.2%)	(47.9%)

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$11.6 million favourable impact – see column [3] in the preceding table on the left), offset by the impact due to a 39 basis point decrease in the selected discount rate from 0.63% to 0.24% (generating a \$4.5 million unfavourable impact – see column [4] in the preceding table on the left).

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 favourable *total* valuation impacts over the last 12 valuation implementations as shown in column [5] of the following table (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: 2020 Q2		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LR & exp	APVs @ prior assumptions	updated dsct rate	updated margins	Total Impact	Booked Policy Liabilities	Total Impact as % Book Liabs	Nominal Impact as % Book Liabs
		[1]	[2]	[3]	[4]	[5] = sum([1] to [4])	[6]	[7] = [5] / [6]	[8] = [1] / [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%)
2019 Q3	Oct 2019	(3,453)	(132)	(355)	-	(3,940)	454,938	(0.9%)	(0.8%)
2019 Q4	Mar 2020	(20,899)	(1,105)	(2,177)	-	(24,181)	437,311	(5.5%)	(4.8%)
2020 Q1	May 2020	(5,255)	(312)	11,462	-	5,895	438,655	1.3%	(1.2%)
2020 Q2	Aug 2020	(10,437)	(1,121)	4,524	(864)	(7,898)	442,144	(1.8%)	(2.4%)
12-qtrs		(70,402)	(2,204)	10,586	(2,882)	(64,902)			
% of total		108.5%	3.4%	(16.3%)	4.4%	100.0%			
		2 unfavourable (nominal) valuations					4 impacts were outside of 2.5%		
Averages									
12-qtrs		(5,867)	(184)	882	(240)	(5,409)	429,515	(1.3%)	(1.4%)
2017 Q3 to 2019 Q2		(3,795)	58	(359)	(252)	(4,347)	422,641	(1.0%)	(0.9%)
2019 Q3 to 2020 Q2		(10,011)	(668)	3,364	(216)	(7,531)	443,262	(1.7%)	(2.3%)

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:

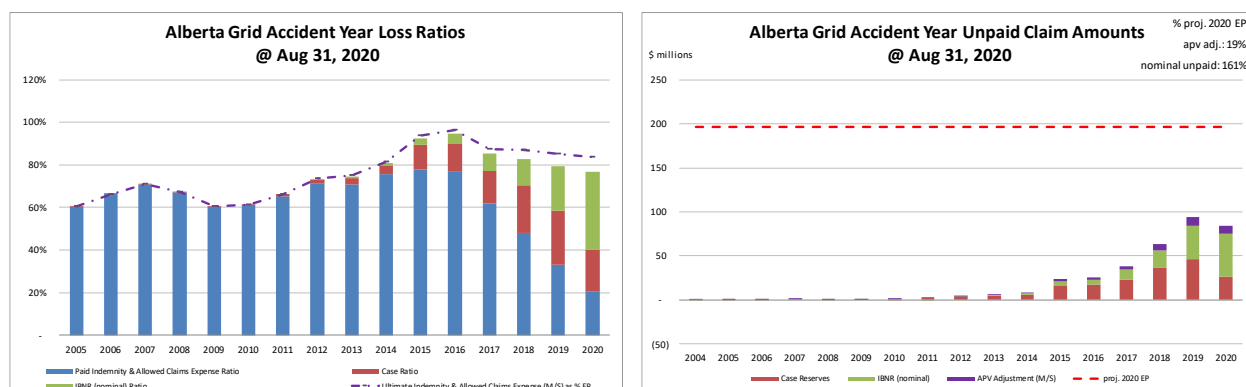
- (i) **Best estimate measurement:** This objective has not been met, as the 12-quarter nominal change in column [1] is \$70.4 million favourable. We note that the average impact of the most recent 6 valuations is significantly more favourable than the earlier 6 valuations. That said, the average favourable impact over the 12 quarters at \$5.9 million (nominal only) represents 1.4% of ending policy liabilities per column [8], which we would view as not significant.
- (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 preceding table, being higher than our expectation (0). We are currently in the process of reviewing the valuation process (including how assumptions are struck, the accuracy of various valuation methodologies, and our default selections), impacting the current 2020 Q2 valuation result. We expect this review to continue over the next 2-5 months.

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.

- (iii) **Bias evidence measurement:** This objective has not been met, as only 2 of 12 valuations show unfavourable changes (column [1] of the preceding table), less 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 the recent valuations suggest some reflection on our processes is warranted, so we are taking action in response.

The following charts 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 actuarial valuation will be updated next as at September 30, 2020 and we anticipate that the results will be reflected in the October 2020 Operational Report.

Alberta Non-Grid RSP - Summary of Financial Results

The calendar year-to-date Operating Result is -\$25.3 million and the incurred loss ratio to the end of eight months is 103.5%, as summarized in the following table.

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

Amounts in \$000s	August 2020	August 2019	Year to date Aug 2020	Year to Date Aug 2019
Premium Written	8,628	9,505	82,194	79,548
Premium Earned	10,421	9,953	83,295	75,946
Incurred Losses	12,737	(5,567)	86,184	61,598
Underwriting & Admin Expense	4,581	655	22,399	26,092
Operating Result	(6,897)	14,865	(25,288)	(11,744)
Ratios:				
Loss ratio - Prior Accident Years	(13.8%)	(136.4%)	(4.3%)	(32.7%)
- Current Accident Year	136.1%	80.5%	107.8%	113.8%
<i>Total</i>	122.3%	(55.9%)	103.5%	81.1%
<i>Underwriting & Admin Expense</i>	44.0%	6.6%	26.9%	34.4%
<i>Combined Operating Ratio</i>	166.3%	(49.3%)	130.4%	115.5%

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 2020 for Risk Sharing Pool - Alberta Non-Grid” attached to this bulletin.

Updated Projection to Year-end 2020 (Alberta Non-Grid RSP)

The projected calendar year Operating Result to December 2020 is -\$48.6 million and the estimated combined operating ratio to December 2020 is 138.1%, as summarized in the following table for Alberta Non-Grid RSP.

*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 2020 Yr-end Proj.	Current	Prior Mth	Change	Final 2020
Amounts in \$000s	(Aug 2020)	(Jul 2020)		Outlook*
Premium Written	145,627	148,885	(3,258)	159,575
Premium Earned	127,576	131,368	(3,792)	151,437
Incurred Losses	132,526	131,888	638	164,961
Underwriting & Admin Expense	43,609	44,750	(1,141)	52,911
Net Result from Operations	(48,559)	(45,270)	(3,289)	(66,435)
Ratios:				
Loss ratio - Prior Accident Years	(3.9%)	(2.9%)	(1.0%)	(2.6%)
- Current Accident Year	107.8%	103.3%	4.5%	111.5%
<i>Total</i>	103.9%	100.4%	3.5%	108.9%
Underwriting & Admin Expense	34.2%	34.1%	0.1%	34.9%
Combined Operating Ratio	138.1%	134.5%	3.6%	143.8%

rounding differences may occur

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

This updated projection in Net Result from Operations to the end of the year has deteriorated by \$3.3 million from the projection provided last month (see the second and third columns in the table). The updated projection includes the overall \$4.5 million unfavourable impact of the valuation, as at June 30, 2020, as summarized in the following table (see more information under “Effect of Quarterly Valuation” on page 11 **Error! Bookmark not defined.**). The remaining difference was driven by the overall decrease in projected written premium and the associated impacts on earned premium, claims, and expense projections.

AB Non-Grid	unfav / (fav) projected for full year						year EP 127,576 (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	(1,750)	(222)	(1,972)	1,575	(599)	(996)	(1.4%)	(0.2%)	(1.5%)	1.2%	(0.5%)	(0.8%)
CAY	4,780	73	4,853	846	-	5,699	3.7%	0.1%	3.8%	0.7%	-	4.5%
Prem Def	(904)	3	(901)	711	-	(190)	(0.7%)	-	(0.7%)	0.6%	-	(0.1%)
TOTAL	2,126	(146)	1,980	3,132	(599)	4,513	1.7%	(0.1%)	1.6%	2.5%	(0.5%)	3.5%

Current month results (Alberta Non-Grid RSP)

The Alberta Non-Grid Risk Sharing Pool produced a -\$6.9 million Operating Result in the month of August 2020, a \$21.8 million deterioration compared with the same month last year. This deterioration is a result of a \$22.5 million unfavourable impact from the overall increase in the combined ratio (from -49.3% to 166.3% applied to \$10.4 million in earned premium), offset by an approximately \$0.7 million favourable impact associated with the \$0.5 million increase in earned premium (at a prior combined ratio of -49.3%).

This month's results moved the year-to-date combined operating ratio from 125.2% at the end of seven months to 130.4% at the end of eight months. The 5.2 percentage point increase is composed

of a 4.1 percentage point increase in the Current Accident Year loss ratio, coupled with a 2.4 percentage point increase in the expense ratio, offset by a 1.3 percentage point decrease in the Prior Accident Years loss ratio.

Variances from Projections (Alberta Non-Grid RSP)

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

Alberta Non-Grid RSP Summary of Actual vs Projected variances

August 2020	Actual	Projection	Difference	Difference %
Written Premium	8,628	12,455	(3,827)	(30.7%)
Earned Premium	10,421	10,971	(550)	(5.0%)
Reported Losses				
Paid Losses	11,542	7,710	3,832	49.7%
Paid Expenses	291	296	(5)	(1.7%)
Change in Outstanding Losses	(3,829)	2,767	(6,596)	(238.4%)
Total Reported Losses	8,004	10,773	(2,769)	(25.7%)
Change in IBNR Provision*	4,733	43	4,690	
Change in Premium Deficiency (DPAC)*	1,866	404	1,462	

(Amounts in \$000's)

rounding differences may occur

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 2020, reported losses were \$2.8 million lower than projected and it was mainly from the Current Accident Year. The Current Accident Year had an approximately \$2.0 million favourable variance in reported losses, and the Prior Accident Years had a \$0.8 million favourable variance. No single Prior Accident Year had a reported loss variance in excess of \$1.0 million.

The variances for claims activity were beyond the set thresholds for some specific individual Accident Years for the month. Management investigated the 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 (AB-N RSP)

The August 2020 Alberta Non-Grid Risk Sharing Pool Operational Report reflects the results of an updated valuation as at June 30, 2020, with the associated impacts in relation to the results for August 2020 summarized in the following tables.

AB Non-Grid	unfav / (fav) for the month and ytd						mth EP 10,421 (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	(1,750)	(240)	(1,990)	1,725	(655)	(920)	(16.8%)	(2.3%)	(19.1%)	16.6%	(6.3%)	(8.8%)
CAY	3,142	200	3,342	495	-	3,837	30.2%	1.9%	32.1%	4.8%	-	36.8%
Prem Def	1,004	144	1,148	549	-	1,697	9.6%	1.4%	11.0%	5.3%	-	16.3%
TOTAL	2,396	104	2,500	2,769	(655)	4,614	23.0%	1.0%	24.0%	26.6%	(6.3%)	44.3%

The valuation result is due to changes generated from updated nominal ultimate selections and projected cash flows (generating a \$2.5 million unfavourable impact – see column [3] in the preceding table on the left), in addition to the impact due to a 37 basis point decrease in the selected discount rate (from 0.63% to 0.26% generating a \$2.7 million unfavourable impact – see column [4] in the preceding table on the left).

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 \$0.7 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 following table (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).

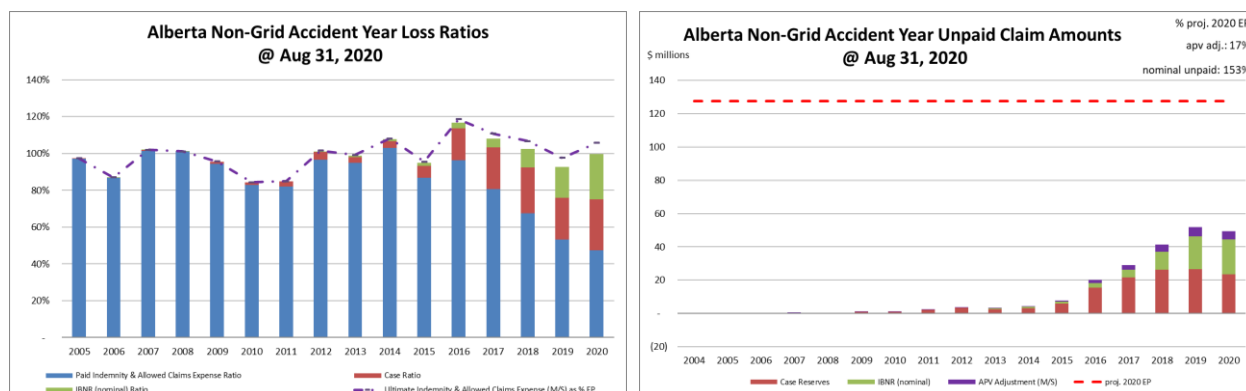
RSP: Alberta Non-Grid, as at: 2020 Q2		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LRs & exp	APVs @ prior assumptions	updated dsct rate	updated margins	Total Impact	Booked Policy Liabilities	Total Impact as % Book Liabs	Nominal Impact as % Book Liabs
		[1]	[2]	[3]	[4]	[5] = sum([1] to [4])	[6]	[7] = [5] / [6]	[8] = [1] / [6]
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%)
2019 Q3	Oct 2019	(2,036)	276	(189)	-	(1,949)	274,797	(0.7%)	(0.7%)
2019 Q4	Mar 2020	(4,156)	13	(1,296)	-	(5,439)	283,726	(1.9%)	(1.5%)
2020 Q1	May 2020	(8,660)	(756)	7,257	-	(2,159)	292,561	(0.7%)	(3.0%)
2020 Q2	Aug 2020	2,396	104	2,769	(655)	4,614	285,259	1.6%	0.8%
12-qtrs	-	(48,559)	(1,433)	6,859	(1,669)	(44,802)			
% of total		108.4%	3.2%	(15.3%)	3.7%	100.0%			
4 unfavourable (nominal) valuations							4 impacts were outside of 2.5%		
Averages									
12-qtrs		(4,047)	(119)	572	(139)	(3,734)	269,439	(1.4%)	(1.5%)
2017 Q3 to 2019 Q2		(4,513)	(134)	(210)	(127)	(4,984)	262,115	(1.9%)	(1.7%)
2019 Q3 to 2020 Q2		(3,114)	(91)	2,135	(164)	(1,233)	284,086	(0.4%)	(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 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 \$48.6 million favourable. That said, the average favourable impact over the 12 quarters at \$4.0 million (nominal only) represents 1.5% of ending policy liabilities, which we would view as not significant.
- (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 preceding table, being higher than our expectation (0). We are currently in the process of reviewing the valuation process (including how assumptions are struck, the accuracy of various valuation methodologies, and our default selections), impacting the current 2020 Q2 valuation result. We expect this review to continue over the next 2-5 months.
- (iii) **Bias evidence measurement: This objective has been met**, as 4 of 12 valuations show unfavourable changes (column [1] of the preceding table), in line with 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 two of the three objectives indicate improvement needed and suggests some reflection on our processes is warranted, so we are taking action in response.

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

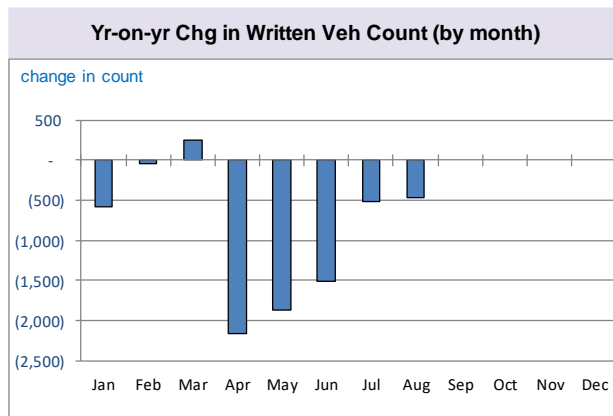


The actuarial valuation will be updated next as at September 30, 2020 and we anticipate that the results will be reflected in the October 2020 Operational Report

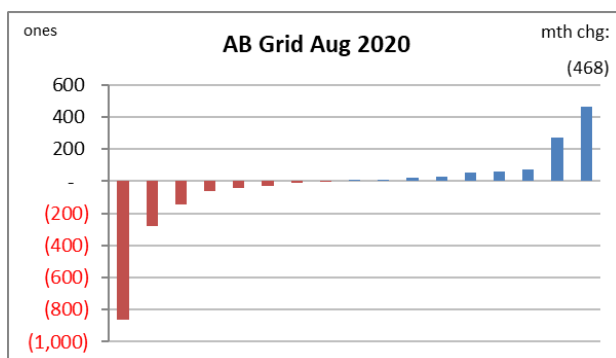
³We also consider changes in nominal estimates relative to beginning claims liabilities, with this metric also ideally being small, but in this case, less than 5.0%. Over time, our view of “small” for each of these metrics may change.

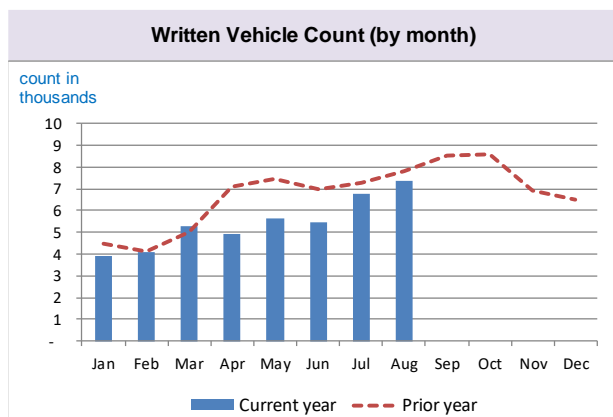
Management Comments

Alberta Grid

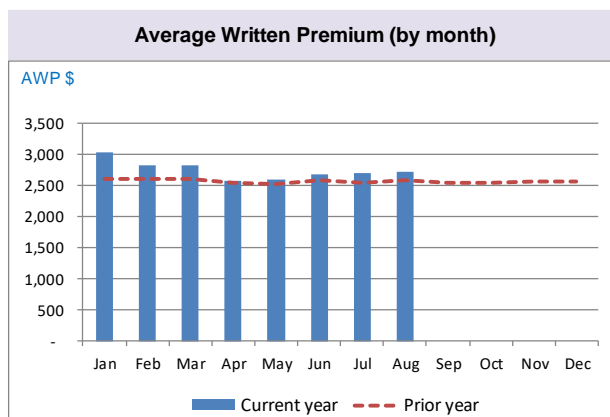


The chart on the left shows the year-on-year change in the vehicles transferred to the Alberta Grid RSP by month, with August showing a decrease of 468 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for a decrease of 925 vehicles, indicating a variance of 457 vehicles from the actual transfers. This variance was mainly due to two member company groups transferring a higher number of vehicles than projected to the RSP in August.

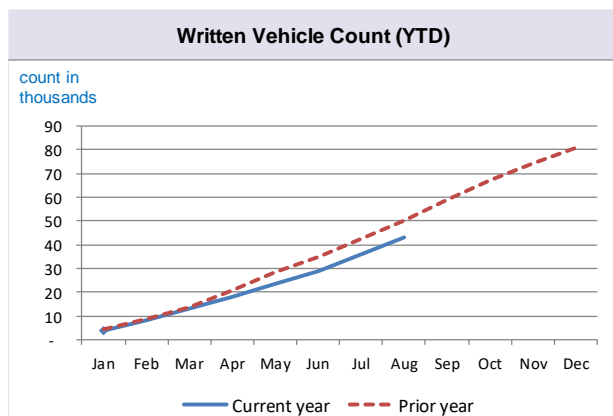




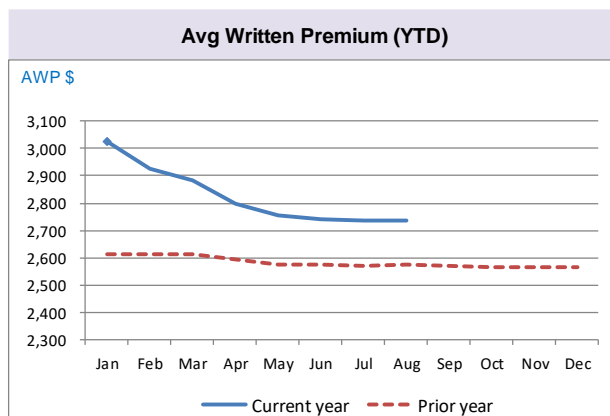
	Aug-20	Aug-19	Amt Chg	% Chg
W. Veh curr mth	7,352	7,820	(468)	-6.0%



	Aug-20	Aug-19	Amt Chg	% Chg
AWP curr mth	2,729	2,584	145	5.6%

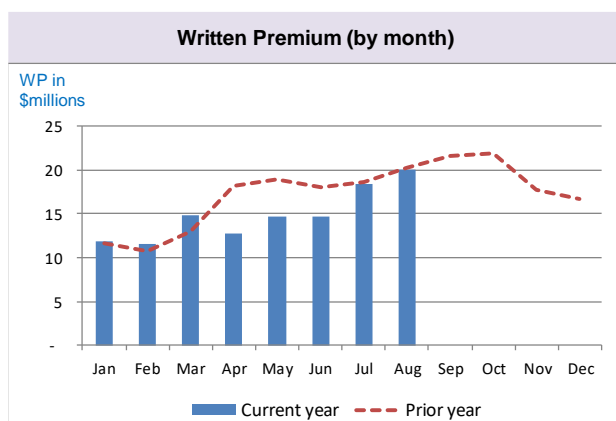


	Aug-20	Aug-19	Amt Chg	% Chg
W. Vehicles YTD	43,372	50,251	(6,879)	-13.7%

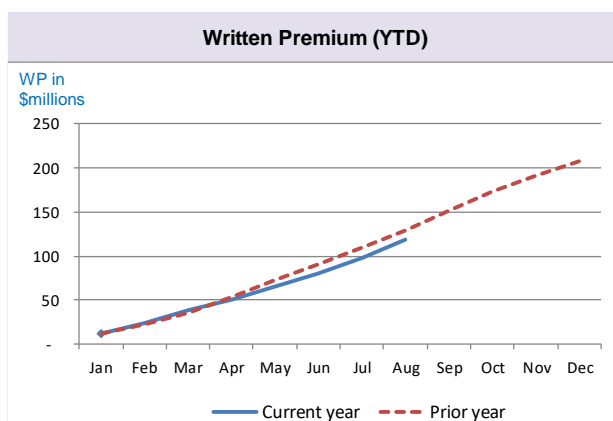


	Aug-20	Aug-19	Amt Chg	% Chg
Avg W. Prem YTD	2,734	2,573	161	6.3%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 0.7% for the month compared with the 4.3% decrease we projected last month, and was down 8.3% year-to-date (see the following charts).



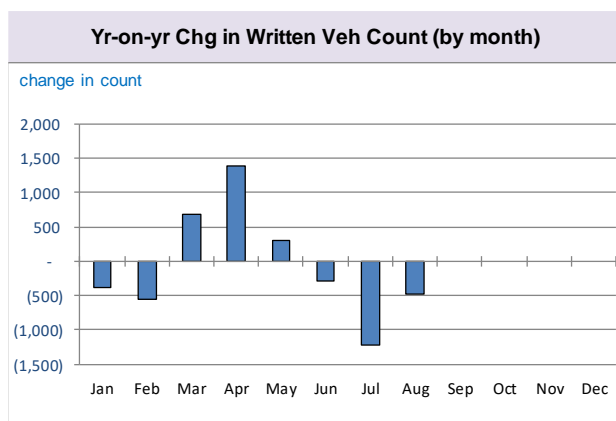
	Aug-20	Aug-19	Amt Chg	% Chg
WP (\$000s) curr mth	20,061	20,204	(143)	-0.7%



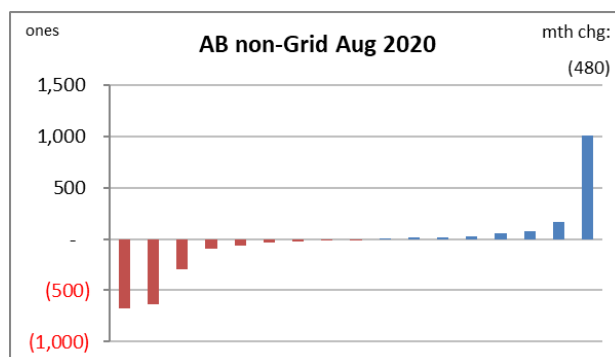
	Aug-20	Aug-19	Amt Chg	% Chg
WP (\$000s) YTD	118,587	129,312	(10,725)	-8.3%

Alberta Non-Grid

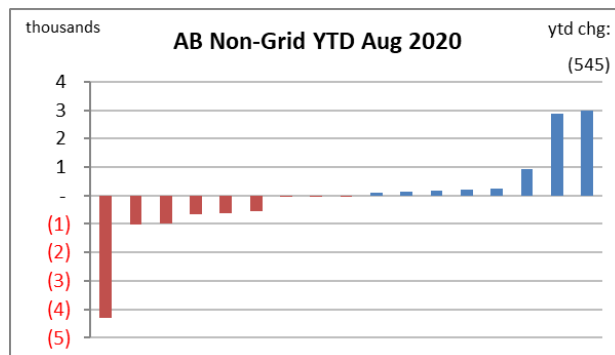
For the Alberta Non-Grid RSP, the transfer limit is 4.0% of Non-Grid exposures written in the prior year at the member company group level (that is, within a group under common management or ownership, a single member can transfer the entire transfer limit for the group). System programming prevents 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 2020 vehicle count up 11.8% from 2019, being 2.9% of the 2019 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 480 vehicles. Our projection last month (in part based on previous projections provided by select member company groups) was for an increase of 1,849 vehicles, indicating a variance of 2,329 vehicles from the actual transfers. This variance was mainly due to four member company groups transferring a lower number of vehicles than projected to the RSP in August.



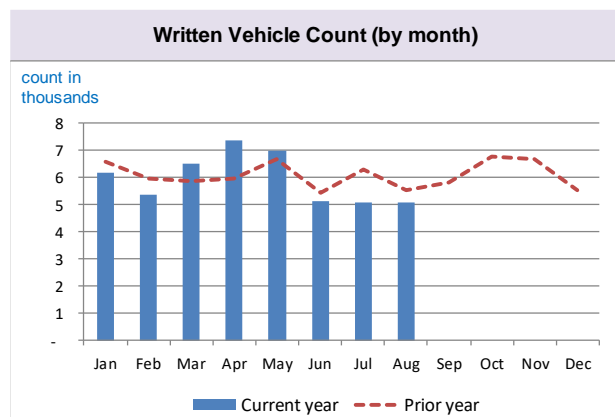
for 71% of the total transfer decrease for these “decliner” members. Of the 8 member company groups transferring more vehicles, 1 member company groups accounted for 73% of the total transfers increase for these “grower” members.



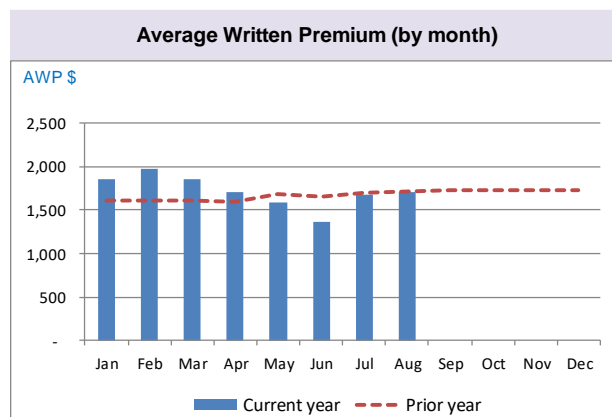
The chart on the left shows the overall change in the **month**, broken down by member company group changes (each blue or red bar represents the change for a single member company group), sorted by magnitude of change. Nine member company groups transferred fewer vehicles to the RSP this month compared to a year ago, while eight transferred more. Of the 9 member company groups transferring fewer vehicles, 2 member company groups accounted

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.

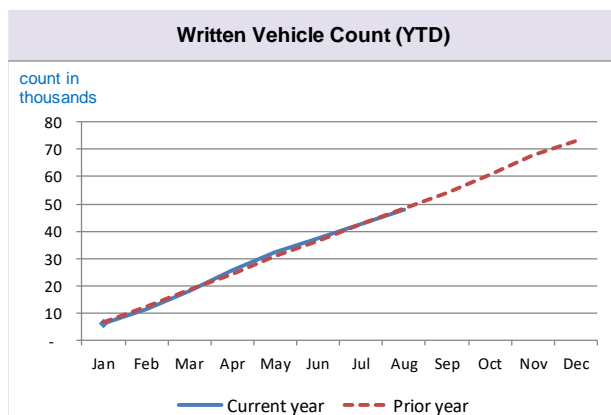
August’s vehicle count transfers to the RSP represent a 8.7% decrease from August 2019, and counts were down 1.1% year-to-date. Average written premium was down 0.6% in August 2020 compared with the same month in 2019, while up 4.5% year-to-date (see the following charts).



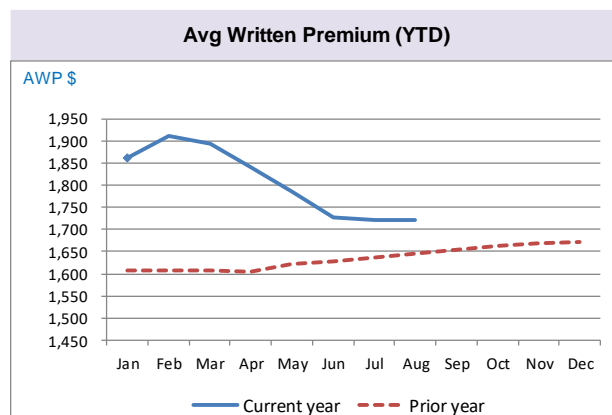
	Aug-20	Aug-19	Amt Chg	% Chg
W. Veh curr mth	5,058	5,538	(480)	-8.7%



	Aug-20	Aug-19	Amt Chg	% Chg
AWP curr mth	1,706	1,716	(10)	-0.6%

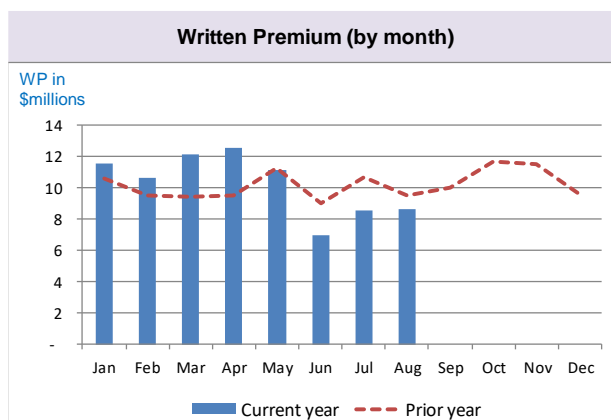


	Aug-20	Aug-19	Amt Chg	% Chg
W. Vehicles YTD	47,777	48,322	(545)	-1.1%

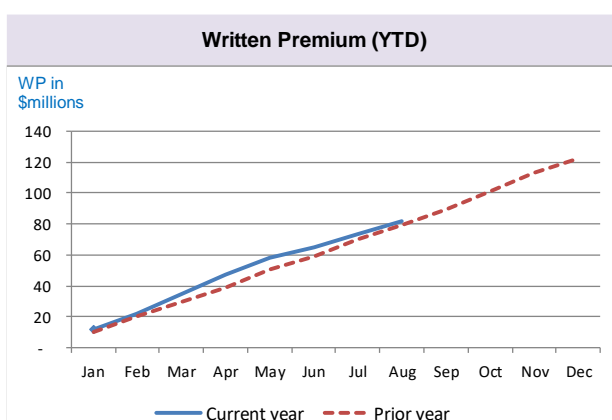


	Aug-20	Aug-19	Amt Chg	% Chg
Avg W. Prem YTD	1,720	1,646	74	4.5%

As a result of the movements in transfer vehicle counts and average written premium, the transferred premium was down 9.2% for the month compared with the 31.0% increase we projected last month, while still up 3.3% year-to-date (see the following charts).



	Aug-20	Aug-19	Amt Chg	% Chg
WP (\$000s) curr mth	8,628	9,505	(877)	-9.2%



	Aug-20	Aug-19	Amt Chg	% Chg
WP (\$000s) YTD	82,196	79,547	2,649	3.3%

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

Saskia Matheson
President & CEO

Related Links:

Alberta Grid RSP:

[Alberta Grid RSP August 2020 Operational Report - Actuarial Highlights](#)

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

Alberta Non-Grid RSP:

[Alberta Non-Grid RSP August 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 - Alberta (Grid)
Operating Results for the 8 Months Ended August 31, 2020 (Discounted basis)
Source: Monthly Operational Report
(thousands of dollars)

EXHIBIT 1

	January	February	March	April	May	June	July	August	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:											
Net Premiums Written	\$11,789	\$11,503	\$14,810	\$12,717	\$14,636	\$14,647	\$18,425	\$20,061	\$118,588	\$189,907	\$207,231
Decrease (Increase) in Unearned Premiums	5,632	4,829	2,853	3,830	1,926	112	(2,506)	(3,588)	13,088	7,136	(26,892)
Net Premiums Earned	\$17,421	\$16,332	\$17,663	\$16,547	\$16,562	\$14,759	\$15,919	\$16,473	\$131,676	\$197,043	\$180,339
Claims Incurred:											
Prior Accident Years:											
Undiscounted	(\$178)	(\$207)	(\$8,498)	(\$275)	(\$348)	(\$82)	(\$73)	(\$6,914)	(\$16,575)	(\$16,575)	(\$29,152)
Effect of Discounting	(83)	(666)	(2,354)	(911)	6,856	(746)	(645)	469	\$1,920	(728)	(636)
Discounted	(\$261)	(\$873)	(\$10,852)	(\$1,186)	\$6,508	(\$828)	(\$718)	(\$6,445)	(\$14,655)	(\$17,303)	(\$29,788)
Current Accident Year:											
Undiscounted	\$15,776	\$14,836	\$11,715	\$13,748	\$11,177	\$11,666	\$12,568	\$10,841	\$102,327	\$152,592	\$153,840
Effect of Discounting	1,183	963	421	759	2,331	884	715	1,557	\$8,813	12,695	8,884
Discounted	\$16,959	\$15,799	\$12,136	\$14,507	\$13,508	\$12,550	\$13,283	\$12,398	\$111,140	\$165,287	\$162,724
Claims Incurred	\$16,698	\$14,926	\$1,284	\$13,321	\$20,016	\$11,722	\$12,565	\$5,953	\$96,485	\$147,984	\$132,936
Underwriting Expenses:											
Expense Allowance	\$3,590	\$3,500	\$4,500	\$3,863	\$4,449	\$4,453	\$5,600	\$6,098	\$36,053	\$57,736	\$64,494
Change in UPDR/DPAC:											
Undiscounted	583	514	(7,962)	735	(2,198)	207	(322)	(1,938)	(10,381)	(10,311)	(2,404)
Effect of Discounting	(357)	(304)	(1,295)	(200)	1,984	8	206	1,125	1,167	1,806	3,776
Discounted	226	210	(9,257)	535	(214)	215	(116)	(813)	(9,214)	(8,505)	1,372
Underwriting Expenses	\$3,816	\$3,710	(\$4,757)	\$4,398	\$4,235	\$4,668	\$5,484	\$5,285	\$26,839	49,231	65,866
Net Underwriting Gain (Loss)	(\$3,093)	(\$2,304)	\$21,136	(\$1,172)	(\$7,689)	(\$1,631)	(\$2,130)	\$5,235	\$8,352	(\$172)	(\$18,463)
Administrative Expenses	\$86	\$124	\$93	\$102	\$93	\$99	\$108	\$91	\$796	\$1,254	\$1,139
Operating Result	(\$3,179)	(\$2,428)	\$21,043	(\$1,274)	(\$7,782)	(\$1,730)	(\$2,238)	\$5,144	\$7,556	(\$1,426)	(\$19,602)
Ratios:											
Claims & Expenses Incurred (Earned)											
Prior Accident Years	-1.5%	-5.3%	-61.4%	-7.2%	39.3%	-5.6%	-4.5%	-39.1%	-11.1%	-8.8%	-16.5%
Current Accident Year	97.3%	96.7%	68.7%	87.7%	81.6%	85.0%	83.4%	75.3%	84.4%	83.9%	90.2%
All Accident Years Combined (Earned)	95.8%	91.4%	7.3%	80.5%	120.9%	79.4%	78.9%	36.2%	73.3%	75.1%	73.7%
Underwriting & Administrative Expenses (Earned)	22.4%	23.5%	-26.4%	27.2%	26.1%	32.3%	35.1%	32.6%	21.0%	25.6%	37.2%
Combined Operating Ratio	118.2%	114.9%	-19.1%	107.7%	147.0%	111.7%	114.0%	68.8%	94.3%	100.7%	110.9%

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 2020

Risk Sharing Pool - Alberta (Non-Grid)

Operating Results for the 8 Months Ended August 31, 2020 (Discounted basis)

 Source: *Monthly Operational Report*

(thousands of dollars)

EXHIBIT 2

	January	February	March	April	May	June	July	August	CY2020 YTD	CY2020 12 MONTHS Updated Projection	CY2019 12 MONTHS Actual
Underwriting Revenue:											
Net Premiums Written	\$11,535	\$10,617	\$12,139	\$12,601	\$11,127	\$7,011	\$8,536	\$8,628	\$82,194	\$145,627	\$122,354
Decrease (Increase) in Unearned Premiums	(918)	(668)	(1,316)	(2,043)	(298)	2,684	1,867	1,793	1,101	(18,051)	(6,597)
Net Premiums Earned	\$10,617	\$9,949	\$10,823	\$10,558	\$10,829	\$9,695	\$10,403	\$10,421	\$83,295	\$127,576	\$115,757
Claims Incurred:											
Prior Accident Years:											
Undiscounted	(\$46)	(\$230)	\$2,640	(\$319)	(\$5,077)	(\$230)	(\$173)	(\$1,812)	(\$5,247)	(\$5,246)	(\$24,105)
Effect of Discounting	(565)	(464)	(781)	(335)	4,052	(333)	(289)	370	1,655	220	(784)
Discounted	(\$611)	(\$694)	\$1,859	(\$654)	(\$1,025)	(\$563)	(\$462)	(\$1,442)	(\$3,592)	(\$5,026)	(\$24,889)
Current Accident Year:											
Undiscounted	\$11,377	\$10,857	\$9,537	\$10,839	\$9,214	\$9,541	\$10,167	\$13,216	\$84,748	\$128,940	\$120,930
Effect of Discounting	855	626	239	573	1,530	578	(336)	963	5,028	8,612	5,956
Discounted	\$12,232	\$11,483	\$9,776	\$11,412	\$10,744	\$10,119	\$9,831	\$14,179	\$89,776	\$137,552	\$126,886
Claims Incurred	\$11,621	\$10,789	\$11,635	\$10,758	\$9,719	\$9,556	\$9,369	\$12,737	\$86,184	\$132,526	\$101,997
Underwriting Expenses:											
Expense Allowance	\$3,510	\$3,227	\$3,689	\$3,830	\$3,382	\$2,129	\$2,595	\$2,623	\$24,985	\$44,270	\$38,100
Change in UPDR/DPAC:											
Undiscounted	77	72	(4,633)	1	(2,006)	270	260	1,296	(4,663)	(5,108)	218
Effect of Discounting	66	48	(505)	127	1,304	(202)	(136)	570	1,272	3,014	1,595
Discounted	143	120	(5,138)	128	(702)	68	124	1,866	(3,391)	(2,094)	1,813
Underwriting Expenses	\$3,653	\$3,347	(\$1,449)	\$3,958	\$2,680	\$2,197	\$2,719	\$4,489	\$21,594	\$42,176	\$39,913
Net Underwriting Gain (Loss)	(\$4,657)	(\$4,187)	\$637	(\$4,158)	(\$1,570)	(\$2,058)	(\$1,685)	(\$6,805)	(\$24,483)	(\$47,126)	(\$26,153)
Administrative Expenses	\$88	\$127	\$93	\$102	\$94	\$110	\$99	\$92	805	\$1,433	\$1,169
Operating Result	(\$4,745)	(\$4,314)	\$544	(\$4,260)	(\$1,664)	(\$2,168)	(\$1,784)	(\$6,897)	(\$25,288)	(\$48,559)	(\$27,322)
Ratios:											
Claims & Expenses Incurred (Earned)											
Prior Accident Years	-5.8%	-7.0%	17.2%	-6.2%	-9.5%	-5.8%	-4.4%	-13.8%	-4.3%	-3.9%	-21.5%
Current Accident Year	115.2%	115.4%	90.3%	108.1%	99.2%	104.4%	94.5%	136.1%	107.8%	107.8%	109.6%
All Accident Years Combined	109.4%	108.4%	107.5%	101.9%	89.7%	98.6%	90.1%	122.3%	103.5%	103.9%	88.1%
Underwriting & Administrative Expenses (Earned)	35.2%	34.9%	-12.5%	38.5%	25.6%	23.8%	27.1%	44.0%	26.9%	34.2%	35.5%
Combined Operating Ratio	144.6%	143.3%	95.0%	140.4%	115.3%	122.4%	117.2%	166.3%	130.4%	138.1%	123.6%

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