



P. O. Box 5236
St. John's, NL A1C 5W1

June 26, 2018

Board of Commissioners of Public Utilities
120 Torbay Road
Prince Charles Building, Suite E-210
St. John's, NL A1A 5B2

Attention: Cheryl Blundon, Director of Corporate Services and Board Secretary

Dear Madam:

Re: Automobile Insurance Review – Questions for Paula Elliott of Oliver Wyman

The following questions are submitted on behalf of the Campaign to Protect Accident Victims ("CTPAV") for reply by Paula Elliott of Oliver Wyman ("OW") arising out of or in relation to her report and presentation of *Newfoundland and Labrador Private Passenger Vehicles Profit and Rate Adequacy Review*:

- CTPAV – OW 1. How were the pre-tax investment returns calculated?
- a. How do these compare to the actual pre-tax investment returns in the GISA report?
 - b. Why the differences?
- CTPAV – OW 2. What pre-tax investment returns are used by regulators in other provinces?
- a. Why the differences between your estimates and those used in other provinces?
- CTPAV – OW 3. How would your estimates of premium deficiencies change if you had used higher investment returns, e.g. 6%?

CTPAV – OW 4. In light of your very low estimates for pre-tax investment returns, and the declining trend during the past 10 years, do you believe that a 10% after-tax ROE for auto insurance companies in the province is appropriate?

CTPAV – OW 5. How did you estimate your general expense ratios for the industry?

- a. What has happened to commissions over time?
- b. Have auto insurance companies changed their model to rely more on online marketing than on independent brokers and agents?
- c. Have you considered that many insurance brokerages in Newfoundland and Labrador are now owned subsidiaries of insurance companies underwriting in the Province and that there has been a vertical integration of the commission fees?
- d. What is the source for your estimates of commissions?
- e. If you deduct your estimates for commission and taxes from GISA's aggregate expense ratios, what are the resulting general expense ratios?
- f. Why the differences between your estimates and the revised estimates you just derived?
- g. How would your estimates of premium deficiencies change if you used these new general expense ratio estimates?

CTPAV – OW 6. How would your estimates of premium deficiencies change if you used more realistic estimates for pre-tax returns on investment income and general expenses ratios?

CTPAV – OW 7. How would your estimates of premium deficiencies change if you used more realistic estimates for after-tax ROEs?

CTPAV – OW 8. Why do your claims ratios differ so markedly from those in the GISA report for the years 2014-2016?

- a. Do you expect the claims ratios (yours and GISA's) to converge in the future? Why/why not?
- b. If they converge, what are the implications for your estimates for premium deficiencies going forward?

The following additional questions are submitted on behalf of CPTAV for reply by Paula Elliott of OW arising out of or in relation to her report and presentation of *Amended Minor Injury Reform Cost Estimates – Private Passenger Automobiles*.

To assist with context, we reference the following sections of Ms. Elliott's evidence given at the review hearing:

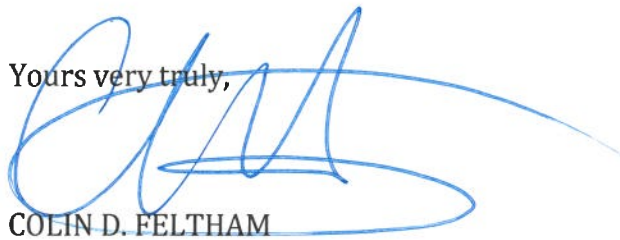
1. In the transcript for June 7, 2018 at p. 34, Ms. Elliott states that "in Nova Scotia and New Brunswick, we do analyze their data and we do use what's called a parameter in our regression models to test the impact, the cost level change and the frequency level change with respect to the minor injury reforms. We test that parameter for reasonableness using T tests and P values. We do a very rigorous review. So, we are able to identify that there was an impact on the reforms at that time – sorry, an impact on the frequency rate at the time of the reform introduction."
2. On June 7, 2018 at p. 167 of the transcript, Ms. Elliott elaborated on the models that she says OW used to attribute the post-2003 drop in frequency to the Minor Injury Regulation. She stated that, "We put in a value, a parameter, and then we associate and we say well, *at that point in time*, there was a minor injury reform and therefore we attribute that change to the minor injury reform." [emphasis added]

- CTPAV – OW 9. Can you provide details of the regression model by which you tested the impact of the reforms on frequency?
- CTPAV – OW 10. Has the same test been performed for points in time other than 2003? (i.e. using 2002, 2004, 2005, 2006, etc. as the dividing line between 'before' and 'after'). Do these tests show a comparable magnitude of change as the test that uses 2003 as the dividing line? If yes, does that cast doubt on the reforms being the cause of the change in frequency?
- CTPAV – OW 11. The graph on p. 21 of the report shows the frequency briefly rebounding in 2005, for both NB and NS. Does the parameter have the property of placing full effect on the 2003-2004 decline, while discounting the effect of the 2005 rebound?
- CTPAV – OW 12. There is oscillation in the frequency presented on the graph on p. 21 of the report. Would compiling annual frequency statistics (rather than semi-annual) provide a clearer view of the longer-term trend?
- CTPAV – OW 13. If these tests, at 2002, 2004, etc. show a comparable magnitude of change, does that cast doubt on the reforms being the cause of the change in frequency?

- CTPAV – OW 14. On June 7, 2018 at p.158 of the transcript, you state that "other external factors [besides the reform] also affect the frequency, the roads the winter, the ice, different things." On p. 160, you add "car safety" as an additional explanation of frequency changes. Has there been an attempt to use statistical rigor to allocate the magnitude of frequency change between these factors?
- CTPAV – OW 15. Has there been an attempt to parameterize the changes over time in the causal elements cited in Question CTPAV – OW 14? If yes, have they been incorporated into the regression model?
- CTPAV – OW 16. On June 7, 2018 at pp.224 to 228 of the transcript, you discuss the OW assumption, from p. 17 of the report that "based on our judgment, we estimate there to be a 25% reduction in ALAE costs for minor claimants who would be subject to the cap." Was there an attempt to evaluate empirically, from GISA data for ALAE, the change in ALAE per claim seen in NS and NB at the time of their reforms?

We look forward to Ms. Elliott's replies.

Yours very truly,



COLIN D. FELTHAM

- cc. Atlantic Provinces Trial Lawyers Association
Insurance Bureau of Canada
Consumer Advocate and Spinal Cord Injury Association