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Facility Association (FA)
Taxi, Jitneys, and Liveries Automobile Rate Application- Category 2
Province: Newfoundland and Labrador
April 9, 2014

Loss Development Factors

1. A) In prior question #4A, we asked for where in the rate filing the support could be found so we could follow how the selected loss development factors presented and applied to the Taxi experience are determined. From the response, we understand the support is not in the rate application. Please provide the supporting work papers so we can follow the methods and assumptions so as to determine the Taxi estimated ultimate incurred loss amounts for each accident year and coverage in the experience period. (Provide the work papers that are applicable to NL non-PPV from the Appointed Actuary Report as necessary so we can follow the support for the selected ultimate incurred loss amounts for non-PPV, and how this translates to the selected ultimate loss amounts for taxis.)

2. Based on the response to prior questions #4Bi and #4Bii, we understand the LDFs for TPL are based on the weights of Bodily Injury (BI) and Property Damage (PD) loss experience for Commercial Vehicles. Is this correct? If so, explain what consideration was given to the difference in the loss distribution between BI & PD for Taxis versus Commercial Vehicles. Provide support to show that the Commercial Vehicle split, instead of the Taxi split, is a reasonable assumption. Is the FA Taxi TPL loss experience data available split between BI and PD?

3. Further to the response to prior question #6, we cannot read the table (it is blurry) in the document. Please resubmit in a clearer format.

Loss Trends

4. Further to prior question # 7 regarding the combination of BI and PD loss trend rates into a TPL loss trend rate, our question was posed so we could understand how the two rates (BI & PD) were combined and the consideration given to the Taxi experience in combining the rates. What consideration did FA give to the distribution of Taxi BI losses with Taxi PD loss experience for each year to combine this into the Taxi TPL loss trend factors? Or did FA assume the distribution of losses between BI and PD for Commercial Vehicles is

appropriate for Taxis? If yes, explain why this is a reasonable assumption.

5. As stated in response to prior question #12, FA estimates the $2,500 deductible for BI claims introduced in August 2004 resulted in a one-time 37.1% reduction in the loss costs. We find this 37% reduction estimate a much larger decrease than has been presented in other rate applications. (a) Is this assumption of a 37% reduction in costs consistent with FA's position in the past for other NL rate analyses or filings? If so, state which filings. If not, provide the August 2004 BI reform factor used by FA in its prior automobile filing in NL. (b) How is this -37% reform factor split between frequency and severity? Provide the separate factors for severity and frequency.

6. In the description of FA's model, reference is made to "scalars" for the one-time shift in costs due to the reforms. Does FA's BI model use a scalar for the reforms? If so, what are the scalar factors for frequency and severity (separately)? How do these scalar factors for frequency and severity compare and relate to the response to question #5b above?

7. Explain the interaction of the reform estimate (scalar) and loss trend rate in calculating the fitted values.

8. If the reform savings estimate is too large (i.e., should be a smaller savings) would the loss trend rate therefore be too high- so as to get the "best" fit within the 20 year model used by FA?

9. Explain how the fitted BI severity values presented by FA for accident periods 2010-1 and 2010-2 are calculated. (Show the formula and how the numerical values presented as summary coefficients are combined.)

10. FA presents a 20 year regression model for BI. We understand the R2 is for the entire model over the 20 year period. Is that correct?

11. In response to prior question #12, the T-test result for the BI frequency Trend 2 parameter is 1.495 and the P-value result is 0.1437 (greater than FA's stated maximum P-value threshold of 0.05). Explain why FA accepts the presented model, when the BI Trend 2 statistics indicate it should not be accepted. These statistics are different than those presented in the rate application for BI frequency; explain why they are different.

12. Given the high P-values for the BI severity regression model, explain why FA accepts this model.

13. In response to prior question, FA states that it lets the "data speak" and has therefore included a reform factor for AB. (a) Based on FA's regression model, what is the AB reform factor for each of frequency and severity? (b) Show how it is calculated. (c) Given this reform factor calculated by FA, explain why it is reasonable to assume the magnitude of the change for each of frequency and severity (separately) for AB is a reasonable assumption. That is, in light of the $2,500 deductible for BI introduced in August 2004, why the AB reform factor amount for each of frequency and severity makes intuitive sense.

Credibility

14. In response to prior question #16, FA states that the TPL claim count standard for full credibility of 3,246 is based on a 2003 Atlantic Commercial Vehicle study. However, in the prior Taxi rate filing, FA stated the TPL claim count standard for full credibility was 5,410 and references the same 2003 Commercial Atlantic data study as support for the standard. Based on this, we do not understand why the full credibility standard changed in this rate application. Please provide a further explanation as to why the full credibility claim count standard changed.

Summary

15. Provide the rate level indications based on the following combination of alternative assumptions: a) TPL full credibility claim count standard of 5,410 (as used in the prior filing), b) ROI of 2.8%, c) net trend as the basis for the complement of credibility- from the renewal effective date of the current rate program to the proposed renewal effective date of this rate application, and d) the Board's guideline loss trend rates for commercial vehicles.