Consumer Advocate RfI CA-FA-05: *The 2013 FA Taxi filing presented an indicated TPL rate increase of 66%. FA requested and was granted a rate increase of 50%. The 2014 FA Tax filing presents and additional indicated TPL rate increase of 75.4% above the 2013 50% increase. Please explain and quantify the magnitude of the 2014 rate increase in terms of:*

a. *Frequency and severity trend between 2013 and 2014*

b. *Change in FA methodology between 2013 and 2014 filings*

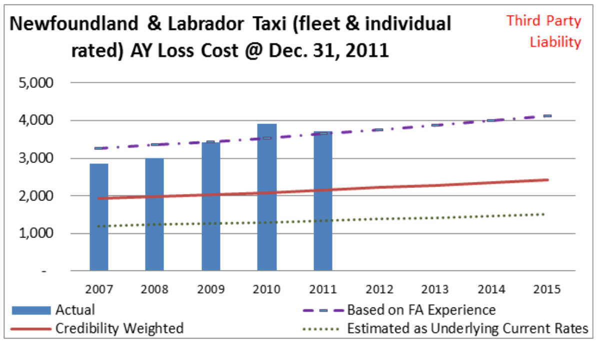
c. *The actual development of FA loss experience between 2013 and 2014.*

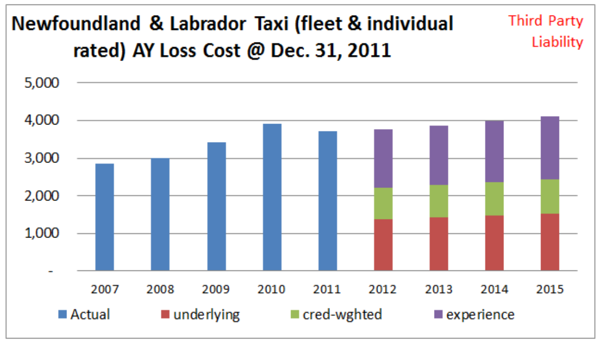
FA Response to RfI CA-FA-05:

This issue was raised by Oliver Wyman in their March 21, 2014 correspondence, question 2 and was addressed in our response dated March 31, 2014. Below, we address the specific request as laid out in CA-FA-05 above, but the "breakdown" implicit in the question does not explain the majority of the change in the indication – the major cause of the indication change is the experience itself as explained in our March 31, 2014 response to Oliver Wyman and we would recommend a review of that correspondence (particularly pages 2 through 7 as respects TPL). Further, the updated indication is in line with what would be expected, based on the underlying approach taken to projecting results. It is easier to see this in relation to loss cost (i.e. indemnity per earned vehicle) than loss ratio, as the former is not impacted by changing rate levels.

From the data provided in the 2013 filing, it is possible to derive the implied loss cost levels underlying each of three projected loss ratios implied by the results in the filing. The 2013 filing did not include earned vehicle counts (which is needed for the loss cost exercise), but these values were available in the underlying data (and included in the 2014 filing information). In translating the 2013 filing projected loss ratios (one estimated as underlying current rates under the assumption they are "adequate" and projected forward 1 year; one based on 5-years of FA experience, and one as credibility weighted from the first two) to loss costs, we apply the loss ratios to the average on-level earned premium (as there were no on-level earned premium factors, the average on-level premium used was the AY 2011 level, as being most current) to arrive at loss costs. We apply the trend "back" each period, to provide a comparable loss costs consistent with each projected loss ratio. The results are presented in two formats in the charts below. In both charts, blue bars are the actual ultimate loss cost. In the left chart, we include lines showing loss costs based on FA experience (the top line), as estimated from underlying current rates (the bottom line), and the credibility-weighted loss cost (red line in the middle). On the right chart, we show future projected loss cost by accident year in three "tranches", the lower being on underlying current rates, the next if you include the additional loss cost indicated by the credibility weighted projection, and finally the additional loss cost indicated by the experience projection.

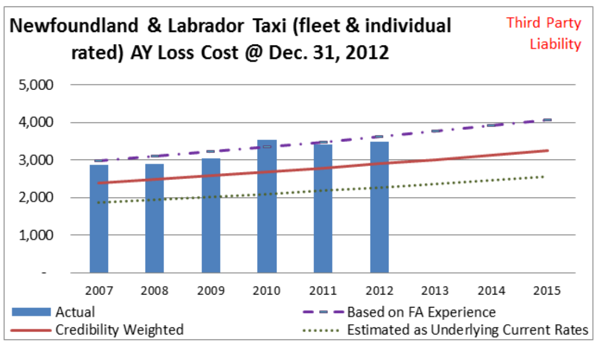
TPL Loss Cost by Accident Year Consistent with 2013 Filing

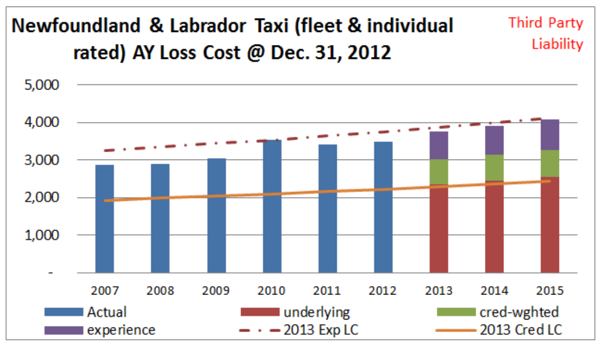




On the above basis, we can similarly construct loss cost projections from our current (2014) filing, as shown below.

TPL Loss Cost by Accident Year Consistent with 2014 Filing





In our opinion, the information displayed in the preceding charts suggests the 2014 filing experience loss cost projections are consistent with the 2013 filing experience loss cost projections. To ease the comparison, we included in the 2014 chart on the right a line consistent with the 2013 filing's loss costs based on experience, and as based on the credibility weighting procedure. In our opinion, this shows that the accident year 2012 loss cost as currently estimated is largely in line with that projected from the 2013 filing based on the experience and considerably higher than the two "alternative" loss cost projections from that filing (please see table below).

Accident Year 2012	2013 filing projected AY 2012 loss costs			2012 AY as at
Loss Cost Comparisons	underlying	experience	cred wght	31-Dec-12
loss cost:	1,383.28	3,754.74	2,218.72	3,474.97
var from dec 2012 LC:	2,091.69	(279.77)	1,256.25	
% variance:	151.2%	(7.5%)	56.6%	

In our opinion, the 2013 credibility-weighted projection loss cost is in line with the 2014 filing's "projected loss cost underlying current rates" (right chart on bottom of preceding page – the orange line is consistent with the red bars). Over time, if the FA experience loss cost continues on its current path, the credibility-weighted projected loss cost will continue to move toward the experience loss cost level, closing the gap between the two.

In direct response to CA-FA-05, the 2013 filed TPL indication of 66.1%, was based on an assumption of 0.0% cost of capital and an assumed effective date of July 1, 2013 with rates in effective for 1 year, indicating an assumed average loss date of June 24, 2014. The bodily injury trend selected for loss costs was 2.4% up to 2010-H2, and 4.0% for periods 2011-H1 and beyond. The property damage trend selected for loss costs was 3.8% up to 2010-H2 and 1.9% for periods 2011-H1 and beyond. The future trends (4.0% for bodily injury and 1.9% for property damage) were weighted using claim amounts to arrive at an approximate weighted average 3.65% future trend (see 2013 filing, Exhibit 9, Sheet 2.1, Note for column (20)).

FA proposed a 50.0% rate increase which was approved effective August 1, 2013, or one month later than assumed in estimating the rate level indication.

The 2014 filed indication assumed an effective date of August 1, 2014 with an associated average accident date (assuming rates in effect for 1 year) was July 23, 2015.

From the prior analysis and projecting between average effective dates (approximately 13 months), a "initial" estimate of rate need could be estimated as:

$$(1.661/1.500)*(1.0365)^{(13/12)} – 1 = 15.1\%$$

The FA 2014 filing indicated rate need was 75.4%, assuming a 0.0% cost of capital, thus indicating an additional rate need of 52.4% from the an "initial" 15.1% estimate indicated above. As per our response to CA-FA-01, the rate need indication is reduced from 75.4% to 69.7% with the correction to the loss ratio used in Exh C-2, indicating an additional rate need of 47.4% in relation to the 15.1% "initial" estimate. As indicated below, we estimate the impact of each change in sequence, with the final change resulting in a "backed-out" indication of 59.6% (as opposed to 69.7%), indicating that these changes account were equivalent to 1.697/1.596 – 1 or 6.3%. We estimate contributions as per request as:

a. Changing the trend factors applied to be consistent with those used in the 2013 filing would reduce the indication to 66.7%, suggesting that this change impact is:

   1.697/1.667 – 1 or 1.8%.

b. The 2014 filing outlined in Section 2.a.3 outlined six changes introduced in the indication process, of which we would only classify the first two as "methodology" type changes (we see others as changes to how assumptions are struck). The "methodology" changes introduced were to replace the process of "credibility weighting an indication" with "credibility weighting projected loss ratios” and changing the complement of credibility from being a two-year claims trend (which previously would have been credibility-weighted with an indication determined based on FA experience) to being a “projected loss ratio”, estimated as one being estimated as underlying current rates, projected forward from the average accident date underlying current rates to the future average accident date.

The previous methodology as described above can be considered as equivalent to deriving the “projected loss ratio underlying current rates” we now use as the current “target loss ratio” consistent with a 0.0% cost of capital (after application of step a above, this being 67.7%), trended forward two years (to be consistent with the change in step a, we use the forward trend rate of 3.65%). This results in a third party liability (cumulative with step a) indication of 53.7%, suggesting that this change impact is:

1.667/1.537 – 1 or 8.5%.

c. We assume that the question here is to consider the implications of using different accident periods (2007-2011 vs 2008-2012) and using updated valuation results (Dec. 31, 2011 vs June 30, 2013). We estimated the implications using a two-step process. First, we changed the experience period used from 2008-2012 to 2007-2011. This results in a third party liability (cumulative with steps a&b) indication of 53.0%. Next, we replaced the current estimate of ultimate for accident years 2007-2011 inclusive with the ultimates used in the prior filing. This results in a third party liability (cumulative with steps a&b and step c part 1) indication of 59.7%, suggesting that this total “step c” change impact is:

1.537/1.597 – 1 or -3.8%.