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October 25, 2018

Ms. Cheryl Blundon
Board Secretary,
Board of Commissioners of Public Utilities
P.O. Box 21040
St. John's, Newfoundland and Labrador
A1A 5B2

Subject:
Facility Association
Newfoundland and Labrador -Taxis, Jitney's & Liveries
Category 2 Rate Application

Dear Ms. Blundon:

Introduction

In accordance with your request, Oliver, Wyman Limited (Oliver Wyman) reviewed the Taxi, Jitney and Liveries (hereafter referred to as taxi) rate application submitted by Facility Association (hereafter referred to as FA).

Summary of Findings

FA Proposal

As presented in its application, FA proposes to increase its average rates for Third Party Liability (TPL) by 10.5%, Accident Benefits (AB) by 7.1%, Uninsured Auto (UA) by 15.2%, and Collision by 5.9%. FA proposes to decrease its average rates for Comprehensive by 0.1%, and Specified Perils by 6.2%. (FA's physical damage coverage rates are based on a percentage of its private passenger rates and the individual multipliers would be adjusted accordingly.)   FA estimates its proposed overall rate level change for all coverages combined (including physical damage) is an increase of 10.2%.

FA Indication

FA presents its estimate of its rate level change need on three bases, each with a different return on equity (ROE)/cost of capital (COC)[1] target and a different pre-tax return on investment rate (ROI) assumption:

1. a ROE target of 12%; an assumed ROI of 1.79%
2. no cost of capital (target COC of 0%); an assumed ROI of 1.79%
3. no cost of capital (target COC of 0%); an assumed ROI of 2.8%

The base with the target ROE at 12% and assumed ROI at 1.79% (i.e., #1, above) represents FA's best estimate of its rate level change need. However, the two bases with the target COC set at 0% are also provided by FA as it understands the Board does not accept a cost of capital provision in the FA rates. The ROI at 2.8% is presented because FA understands the Board's Guideline ROI range is 2.8% to 4.0%. The following table presents these indications provided by FA, along with the proposed changes.

Table 1

Base	TPL	AB	UA	Collision	Comp	SP	All
12% ROE & 1.79% ROI	+26.9%	+21.9%	+31.3%	+18.5%	+12.0%	+5.2%	+26.3%
0% COC & 1.79% ROI	+14.0%	+9.5%	+18.0%	+6.5%	+0.6%	-5.5%	+13.5%
0% COC & 2.80% ROI	+10.5%	+7.1%	+15.2%	+5.9%	-0.1%	-6.2%	+10.2%
Proposed	+10.5%	+7.1%	+15.2%	+5.9%	-0.1%	-6.2%	+10.2%

Hence, FA is proposing a rate level change for each of the coverages that is the same as its estimate of its overall rate level change need based on the indicated change with a 0% target COC and an assumed 2.8% ROI.

[1] The rate indications based on a COC target exclude investment income expected to be earned on the capital; whereas the rate indications based on a ROE target include the investment income expected to be earned on the capital.

FA estimates the proposed average premium increase (for all coverages combined) is approximately $737 per vehicle. The following table presents the current rate level average premiums and the proposed average premiums for TPL, AB, UA, and for all coverages combined.

Table 2

	TPL	**AB**	**UA**	**Total[2] All Coverages**
Current Average Premium	$6,305	$527	$247	$7,228
Proposed Average Premium	$6,967	$564	$285	$7,965
Proposed Average **Change** ($)	+$662	+$37	+$38	+$737

TPL, AB and UA premiums comprise approximately 98% of FA's total written premiums at the current rate level, with the balance (2%) for the physical damage premiums.

For the year 2012, FA estimated its average written premium for TPL, AB and UM was $1,889, $40, and $7, respectively - a total for these coverages of $1,936. Since 2012, FA has received approval for five rate increases, with the current total average written premium for TPL, AB and UM combined estimated at $7,079 - an increase of 266% or $5,143. The currently proposed increase of $737 for these three coverages implies a total increase of 304% (or $5,880) since 2012.

Background

FA submitted a rate application for an overall proposed rate level change of +10.2% with a target effective date of June 1, 2019 for new business and renewals. Oliver Wyman received a copy of the rate application on July 27, 2018 from FA. On August 8 we provided our questions on the rate application to FA, and received FA's responses on August 24. On September 7 we provided

[2] Total All Coverages represents a weighted average based on the premium distribution and includes the physical damage coverages that are not shown in the table.

follow-up questions to FA and received its responses on September 18. We now have sufficient information to prepare this report.

FA's last approved rate change was for an average increase of 18.6%, effective March 1, 2018. Prior to this rate change, FA increased its average rate level by 25.7% on March 1, 2017, 28.9% on June 1, 2016, 19.3% on September 1, 2015, and 50.1% on August 1, 2013.

Findings - Introduction

As presented in Table 1, FA calculates three sets of rate level indications for all coverages based on different profit and investment rate targets/assumptions, and proposes changes in its rate level for each coverage based on its findings.

For simplicity, for the remainder of this document we only discuss the FA rate indications assuming a target 0% COC (consistent with the Board's Decisions in the four prior filings), and an assumed ROI of 2.8% (consistent with the Board's Guideline minimum ROI).

FA's indicated and proposed rate level changes by coverage are summarized in the following table. FA's proposed and indicated rate changes are the same for each coverage.

Table 3

Coverage	**FA's Proposed Rate Changes (ROI at 2.8% COC at 0.0% and FA's Loss Trend Rates)**	**FA's Indicated Rate Changes (ROI at 2.8% COC at 0.0% and FA's Loss Trend Rates)**
TPL	+10.5%	+10.5%
Accident Benefits	+7.1%	+7.1%
Uninsured Auto	+15.2%	+15.2%
Collision	+5.9%	+5.9%
Comprehensive	-0.1%	-0.1%
Specified Perils	-6.2%	-6.2%
Total	+10.2%	+10.2%

Findings – Rate Level Changes

As support for FA's proposed changes, FA calculates and presents a rate level need by coverage based on its Newfoundland and Labrador (NL) loss experience arising from the latest five accident years (2012 to 2017) ending December 31, 2017 as compiled by GISA. We refer to this five-year period as the experience period. We reviewed the rate level indications (as presented in Table 3 above) developed by FA, and in so doing have examined all aspects of the ratemaking procedure. The following are the key assumptions in FA's rate application.

- *Loss Trends* – FA selects loss trend rates based on its review of Industry commercial vehicles data as of June 30, 2017 to project its historical loss experience to the average accident date of its proposed rate program. We discuss FA's selected loss trend rates below.

- *Premium Trends and On-Level Factors* – FA adjusts its premiums to take into consideration its rate level changes in the recent past and premium drift. We find these adjustments to be reasonable.

- *Selection of Ultimate Losses (loss development)* – FA relies upon its non-PPV (commercial, motorcycles, snow vehicles, taxis, etc.) NL experience in selecting development factors that it applies to its reported incurred losses for taxis. (FA's reported incurred losses do not include allocated loss adjustment expenses.) We discuss these selections below.

- *Selection of Ultimate Claim Counts (claim count development)* – FA relies upon its non-PPV NL experience in selecting development factors that it applies to its reported claim counts for taxis. We find these selections to be reasonable.

- *Experience Period Weights* - For each coverage, FA combines its experience over the five accident years by assigning a 20% weight to each year. We find the weights to be reasonable and consistent with its prior filing.

- *Loss Adjustment Expense (LAE)* – FA's LAE provision (for both internal and external claim settlement related expenses) is based on the contractual arrangement between FA and its servicing carriers, which, in turn, is based upon the FA's loss ratio results. We find these estimates to be in line with the contractual arrangements and, therefore, accept them as reasonable. However, the actual LAE costs are not provided by FA to support these provisions.

- *Health Levy (HL)* – FA has not included a provision for the HL. This is consistent with FA's treatment of the HL in prior taxi filings.

- *Full Credibility Claim Count Standards* – FA selects full credibility claim count standards consistent with its prior filing and approved by the Board.

- *Complement of Credibility* - To the extent that FA determines its own loss experience is not statistically credible, FA assigns the balance of credibility to the net loss/premium trend rate since the effective date of its last rate change, with an adjustment to provide for its estimate of the resulting inadequacy in its current rate level (due to FA implementing a smaller rate increase than it had estimated was needed at the time of the prior application). We discuss this issue more fully below.

- *Expense Provision* - FA assumes a total expense provision of 24.52% allocated as follows: (a) variable: 6% standard commissions, 5% premium tax, 1% servicing carrier fee, 0.18% miscellaneous regulatory fees, and 9% servicing carrier operating costs - for a total variable expense provision of 21.18% of premium; and (b) fixed: 1.54% for driving record abstracts and 1.8% for central office expenses - for a total fixed expense provision of 3.34% of premium. The 6% commission rate is based on an agreement between the FA Board and its servicing carriers. The 5% premium tax rate is set by the provincial government. The servicing carrier fee of 1% and servicing carrier operating costs of 9% are based on a compensation agreement between the FA Board and its servicing carriers, rather than the actual costs and expenses of the servicing carriers for processing taxi policies. The fixed expense costs are based on estimates by FA, taking into consideration its most recent actual costs and proposed rate level change. We discuss FA's servicing carrier fees (9%+1%) assumption and provision for driving record abstracts more fully below.

- *Contingent Commissions* – In calculating its rate level change need, FA does not include a contingent commission provision. We find this assumption to be in keeping with the Board's Guidelines.

- *Finance Fee Revenues* - FA does not take into consideration the fees paid by policyholders for the monthly payment plans offered. We discuss this issue more fully below.

- *Profit Provision (Cost of Capital)* – Although FA believes its rate level needs should provide for a target 12% ROE, since FA acknowledges the Board's approval of FA's prior rate change based on a target COC of 0% it presents its rate indications based on a 0% COC.

- *Investment Income on Cash Flow* (ROI) – Although FA estimates its ROI to be 1.79%, since FA acknowledges the Board's minimum ROI is 2.8% it presents its rate indications based on an ROI of 2.8%.

- *HST Adjustment* – FA applies HST adjustment factors of 1.2% for Bodily Injury and Accident Benefits. In response to our question on the adjustment for the HST change, FA provided indications by increasing its historical loss experience by the same factors approved by the Board for Private Passenger Vehicles (1.0053 for Bodily Injury and 1.0142 for Accident Benefits). FA calculates this change, and no other changes in assumptions, reduces the overall rate level indication from +10.2% to +9.5%. We find this HST adjustment and resulting calculation of the overall rate level indication to be reasonable.

Based on our review of the application and the responses to the questions we have raised, we present below a discussion of the following assumptions used by FA for the Board's consideration[3]: (1) the selection of the ultimate loss amounts, (2) the selected loss cost trend rates, (3) the complement of credibility base, (4) the expense provision and (5) finance fee revenues provision.

<u>Selection of Ultimate Losses</u>

FA's selected ultimate losses by accident year and coverage are its Appointed Actuary's (AA) selected ultimate NL non-PPV losses by accident half-year and coverage, evaluated as of December 31, 2017.

These non-PPV losses include the FA claim experience from all vehicles that are not private passenger vehicles, therefore it is not exclusively taxi claim experience. FA states that over the last ten years (2008 to 2017) the reported loss amount is $50 million for all non-PPV vehicles of which $33 million (or 66%) is for taxis alone. Due to the limited volume of taxi experience, FA finds it necessary to use its non-PPV experience to select ultimate losses for taxis. As this is the same

[3] As discussed above, we find the HST adjustments as approved by the Board for Private Passenger Vehicles to be reasonable for taxis and consistent with the Board's prior Decision on this issue.

approach FA used in its prior taxi filing, and given the limited taxi experience, we find this approach to be reasonable. However, the use non-PPV loss experience adds to the uncertainty of FA's estimate of its overall rate level change need (+10.2%) for taxis.

In making its selections, the AA considers several loss estimation methods: Link Ratio Method, Expected Loss Ratio Method (ELR), B-F Method, and Weighted Method.

- The Link Ratio Method (also known as the Incurred Loss Development Method) involves the review of changes in reported incurred loss amounts over time (loss development), the identification of loss development patterns, and the application of loss development factors that are reflective of those patterns to the reported incurred losses as of a particular point in time. We find this is the most common method used by actuaries in rate applications. As noted above, the loss development factors that are selected and applied by the AA are based on FA's non-PPV claim experience.

- The ELR Method involves selecting a loss ratio for each accident year based on various considerations and applying those loss ratios to the corresponding earned premium. The ELR Method is more commonly used when there is considerable uncertainty as to the ultimate loss amounts and/or when the historical experience is too limited for purposes of identifying and selecting loss development factors. The ELR's selected by the AA are based on adjusting FA's NL non-PPV loss ratios for the more mature accident years to reflect subsequent trend and rate changes. Under the ELR Method the actual reported incurred loss experience for the specific accident year being estimated is not explicitly considered as it is under the Link Ratio Method.

- The B-F Method is a weighted average of the results of the Link Ratio Method and the ELR Method. The weights are derived from the loss development factors that are selected under the Link Ratio Method, and are proportional to the percent of the ultimate losses that are estimated to have been reported (so more weight is assigned to the results of the Link Ratio Method as accident years mature).

- The Weighted Method is also a weighted average of the results of the Link Ratio Method and the ELR Method. However, what differentiates this method from the B-F Method is that the weights are judgmentally selected. For the most recent accident half-year (2017-2) the AA assigns 100% weight to the results of ELR Method and 0% weight to the results of the Link Ratio Method. The AA lowers the weight assigned to the ELR Method by 12.5 percentage points for each older accident half-year; 100% weight is assigned to results of the Link Ratio Method for the 2013-2 accident half-year.

After consideration of the results of these methods, the AA selects its "best estimate"[4] which in this case is generally the result of the Link Ratio Method for the older accident years and is either the result of the B-F method or Weighted Method for the more recent accident years. FA uses the AA's ultimate loss selections in estimating its rate level needs.

FA's AA has greater insight into FA's claim experience and claim reserving practices than we do. And we don't presume that the AA's ultimate loss estimates are biased. However, the AA does exercise considerable judgment in making its selections (as is the case with ultimate loss estimates made by all actuaries). For example, we note[5]:

In the case of Bodily Injury,

- The AA's estimates of the ultimate loss ratios for 2017-1 under the Link Ratio, B-F and Weighted methods are 56.4%, 59.2% and 77.9%, respectively; the AA's selection for 2017-1, 77.9%, is the highest estimate.

- The AA's estimates of the ultimate loss ratios for 2017-2 under the Link Ratio, B-F and Weighted methods are 50.4%, 60.4% and 75.0%, respectively; the AA's selection for 2017-2, 75.0%, is the highest estimate.

FA's selection of the higher of these three results[6] (Link Ratio Method, B-F Method, and Weighted Method) as the best estimate of ultimate loss amounts leads to a higher rate indication than if it had selected, for example, the results of the B-F Method (which, as noted above, is a blending of Link Ratio Method and the ELR Method) for each of these accident half-years.

[4] The Canadian Institute of Actuaries standards guide the AA and provide a definition of "best estimate" where the best estimate is meant as an unbiased estimate that is neither too conservative or unconservative. Due to the numerous judgments in the process of selecting a best estimate, another actuary fulfilling the AA role for FA would not likely have the identical best estimate.

[5] We also note that the AA assumes that selected loss ratios (which are used in the ELR Method, the B-F Method, and the Weighted Method) that are based on FA's non-PPV business are appropriate for FA's taxi business.

[6] As presented by FA, it does not select the ELR Method for any accident half-year period. Based on the ELR Method, FA presents estimates of the ultimate loss ratios at 81.0% for 2017-1 and 75.0% for 2017-2.

Based on the AA's selections, the estimate of the TPL loss cost per taxi for Accident Year 2017 is $6,611, a 38.5% increase over the TPL loss cost estimate for Accident Year 2016 of $4,771. FA explains this increase for 2017 over 2016 is mainly attributed to the selection of the Weighted Method by the AA.

To provide the Board with a sense of the sensitivity of FA's calculated rate level indications to the AA's selected ultimate loss amounts, we note that had the AA instead selected the estimated loss losses, and hence loss ratios, under the B-F Method (the mid-range estimates) instead of the Weighted Method for both Bodily Injury and Accident Benefits, and no other changes in assumptions, FA's overall rate level indication would reduce from +10.2% to +6.9%; a reduction of 3.4 percentage points. (This change only affects accident years 2017 and 2016.)

We asked FA if it finds the results of the B-F Method to be unreasonable. FA did not directly respond to our question (but FA did acknowledge that the B-F Method is a commonly used method) and instead reiterated that the selections are the AA's best estimate.

Our point is that there is a range of reasonable loss selections that the AA could have made, and the impact of alternate selections on the rate level indications could be material. This, plus, as we noted earlier, the AA's use FA non-PPV claim and loss ratio experience (instead of FA taxi only claim experience, which is limited) adds to the uncertainty of FA's estimated rate level change need.

Loss Cost Trend Rates

The loss cost trend rates are used to adjust the actual claim experience that occurred in the experience period to the cost level of the period in which the proposed rate program is to be in effect.

The Industry experience for taxis, which are categorized as public vehicles for statistical reporting purposes, is too limited for use in selecting loss trend rates. FA, therefore, bases its selected loss trend rates on the NL Industry commercial vehicle (CV) loss experience. As the Board has no guideline on the data to be used to select trend rates for taxis, and FA's use of Industry CV experience for determining loss cost trends is consistent with its prior approach, we find the use of Industry CV experience to be reasonable.

Based on Industry CV experience in NL as of June 30, 2017, FA selects its CV loss cost trend rates for each coverage by separately selecting frequency and severity trend rates and then combining these selected trend rates to arrive at its selected loss cost trend rates[7].

The following table summarizes the CV loss cost trend rates[8] selected by and FA and Oliver Wyman (and approved by the Board) as of June 30, 2017.

Table 4

Loss Cost Trend Rates	FA June 2017	Oliver Wyman June 2017
Bodily Injury	+0.0%	+0.0%
Property Damage	+2.4%	+2.5%
Accident Benefits	+0.0%	+10.0%
Uninsured Auto	+0.0%	+10.0%
Collision	+0.0%	+0.0%
Comprehensive	+2.9%	+4.0%

As presented in the table above, the CV loss cost trend rates selected by FA are lower than those selected by Oliver Wyman for Accident Benefits, Uninsured Auto, and Comprehensive; and essentially the same for the other coverages.

We presented our rationale for the June 2017 CV trends rates that we selected in our Commercial Vehicle Loss Trend Report filed with the Board. As we have stated in our trend reports to the Board, we find that the considerable volatility in the Industry CV experience makes the trend patterns difficult to identify.

The differences between the trend rates selected by Oliver Wyman and those selected by FA are generally due to different judgments regarding: (1) trend measurement period, (2) selected loss development factors, (3) inclusion/exclusion of loss adjustment expenses, and (4) FA's application of level change adjustments.

[7] FA uses the same trend rate for both past and future trend periods.
[8] Oliver Wyman uses the same trend rate for both past and future trend periods.

FA estimates substituting the Board's Guideline loss trend rates instead of those selected by FA, and no other changes in assumptions, increases its overall rate level indication from +10.2% to +12.5%.

Accident Benefits

In the case of Accident Benefits, where there is the largest difference, FA finds a change in loss cost level of +119% to have occurred at 2011-2, and when this level change is considered the indicated loss cost trend rate is 0% (no trend). As we state in our loss trend report, the Accident Benefits data is very volatile making it difficult to discern a trend pattern. Hence, while different than our selection, we do not find FA's selection unreasonable.

We note that substituting the Board's Guideline Accident Benefits loss trend rate instead of FA's selection, and no other changes in assumptions, increases FA's rate indication for Accident Benefits from +7.1% to +35.5%. Similarly, substituting the Board's Guideline Uninsured Auto loss trend rate instead of FA's selection, and no other changes in assumptions, increases FA's rate indication for Uninsured Auto[9] from +15.2% to +41.1%.

Loss Trend Summary

The rate level impact of substituting each of the Board Guideline loss trend rates as of June 30, 2017 for those selected by FA, increases FA's estimated rate level change by approximately 2.3[10] percentage points.

Given the uncertainty and volatility of the underlying loss experience, and that FA measures trends based on data that excludes loss adjustment expenses, we do not find FA's selected loss trend rates to be unreasonable. However, we continue to find the selected loss trend rates that we recommended to the Board as Guideline loss trend rates to be reasonable.

[9] Oliver Wyman's selected Accident Benefits trend rate is also used for Uninsured Auto
[10] This includes changes to the selected trend rates for Comprehensive, Specified Perils, Uninsured Auto and Accident Benefits.

Complement of Credibility

In this rate application, FA applies net trend to the prior credibility weighted loss ratio that it selected, adjusted for the approved rate change as the complement of credibility. Instead, we suggest that FA should use the prior credibility weighted loss ratio that the Board approved. With FA's approach, it implicitly adjusts for rate inadequacy it believes resulted from the Board's prior approval of a much lower rate level change than FA found was required at the time of its last filing.

In its prior rate application, FA proposed a rate increase of +29.7%, which was less than the Board approved (+18.6%).

As stated in the Board's Decision A.I.4 (2017) regarding the FA prior taxi application, the Board did not accept that FA's adjustment for any rate inadequacy in its complement of credibility calculation. Similarly, as the Board found a rate increase of +18.6% to be supported in the prior filing, and this rate change was implemented by the FA, we understand the Board's position would be the same as its prior Decision.

We calculate that removing FA's adjustment for any perceived rate inadequacy, and no other changes in assumptions, reduces FA's overall rate level change from +10.2% to +5.2%; a 5 percentage point reduction.

Expense Provision

In this section, we discuss the driving record abstract provision and the servicing carrier fee provision.

Driving Record Abstract Fee

The driving record abstract fee increased in this filing to $123 from $86 in the prior taxi filing. FA explains that this increase is due to an improvement in its allocation and reconciliation process of these costs in each province. We find this change in process to be reasonable. However, we inquired with FA how the costs in NL compare to other provinces with this change in process.

We asked FA to compare these fees in NL with those in NS and NB. FA calculates its driving record abstract provision based on the actual costs of the fees charged in each province and an estimate of the average number of drivers associated with each taxi. The provisions are $122.98

in NL, $99.77 in NS, and $81.49 in NB. Although the regulated fees (for AutoPlus and MVR) are marginally lower in NL compared to NS and NB, FA explains the actual driving record abstract provision included by FA in NL rates is higher because the estimate of the number of drivers per taxi in NL (at 5.0 per vehicle) is higher than the estimate in NB (at 1.9) and in NS (at 2.6).

FA states the estimate of 5 drivers per taxi vehicle is based on a sample. We asked FA to explain why the estimate (at 5.0) is so much higher than in NS and NB, but FA was unable to provide insight into this question. We recommend that this issue be addressed by FA, and if appropriate the driving record abstract fee for taxis be modified.

Servicing Carrier Fee – Handling and Processing

The servicing carriers are compensated by FA according to its approved plan of operations - a total fee of 10% of premiums for processing and handling of the policies. (Any costs for driver abstract costs and claims handling costs are separately compensated.) The proposed servicing carrier fee provision in the rates for NL would be $796 based on the proposed average premium of $7,965.

Hence, the FA provision for handling and process included in the rates is based on a set percentage (i.e., 10%) and does not reflect the *actual* costs of the servicing carriers to perform these tasks.

At our request, FA provided the servicing carrier fee included in the taxi rates in NS (at $260) and in NB (at $481). These fees in NS and NB are based on 10% of premiums approach, as is the case in NL.

We asked FA to explain why the proposed fee for handling and processing in NL at $796 would be reasonable given it is so much higher than in NS and NB for essentially the same services. FA was unable to provide any insight or justification for this difference, other than noting the provisions are based on an agreement using a percentage approach.

Hence, we raise two concerns: (i) the 10% provision does not reflect *actual* expense costs incurred by the servicing carriers to perform the service, instead it is their compensation which is based on a percent of premium; and (ii) FA's percentage approach without any cap results in a relatively high cost that is included in the rates compared to NS and NB for the same services.

As sensitivity measure, we asked FA to provide the rate indications based on the dollar amount provision of each of NS (at $260) and NB (at $481) instead of the provision proposed for NL (at $796).

- FA estimates that substituting the NS provision, and no other changes in assumptions, would reduce the overall rate level indication from +10.2% to +1.6%; an 8.6 percentage point reduction.
- FA estimates that substituting the NB provision, and no other changes in assumptions would reduce the overall rate level indication from +10.2% to +5.6%; a 4.6 percentage point reduction.

We view this a policy issue that the Board may consider as it decides on the reasonableness of the expense provision that FA includes in its NL rates.

Finance Fee Revenues

In the Board's Decision (A.I. 21, 2018) for the prior FA private passenger vehicle filing, FA was directed to include a provision for the fees that policyholders pay for payment plan options.

As provided by FA, two of FA's larger servicing carriers for taxis charge a 3% finance fee; and a smaller carrier does not charge a finance fee. However, FA did not account for these revenues in determining its rate level needs in this taxi rate application.

We find it appropriate that the FA should be consistent with the Board's prior Decision on finance fee revenues. Given this, we asked FA to make an adjustment for the fees from payment plans in a manner similar to the Board's prior Decision for private passenger vehicles. However, as FA is unable to estimate these fees for taxis (at this time) it performed the calculations using an estimated net fee of 0.75%, consistent with the private passenger vehicle net fee estimate. FA calculates that this change, and no other changes in assumptions, reduces the overall rate level indication from +10.2% to +9.1%; a reduction of 1.1 percentage points.

Rate Level Change Summary

We reviewed the rate level indications as developed by FA and in so doing have examined all aspects of its ratemaking methodology.

We calculate that in making changes to:

1. FA's estimate of its ultimate loss amounts for Bodily Injury and Accident Benefits by using the B-F Method instead of the Weighted Method (-3.4 percentage points).

2. The Board's Guideline loss trend rates (+2.3 percentage points).

3. FA's credibility complement basis to exclude the adjustment for rate inadequacy (-5.0 percentage points).

4. FA's servicing carrier fee expense provision to be the same as NB (-4.6 percentage points).

5. FA's recognition of finance fee revenues (-1.1 percentage points).

6. An adjustment for the change in the HST rate consistent with the Board's prior Decision on the adjustment factors (-0.7 percentage points).

would lead to overall rate level indications that are less than the rate level need that the FA has proposed.

The following tables present FA's calculations of its indicated and proposed changes and those that we derive[11] by applying:

Scenario A: 2, 3, 5, and 6
Scenario B: Same as Scenario A, plus 1
Scenario C: Same as Scenario A, plus 1 and 4

[11] All calculations are estimates and subject to verification by FA.

Table 6: ROI at 2.8% and COC at 0.0%

Coverage	FA's Indicated Rate Changes	FA's Proposed Rate Changes	Scenario A	Scenario B	Scenario C
TPL	+10.5%	+10.5%	+3.5%	+0.1%	-4.5%
AB	+7.1%	+7.1%	+17.2%	+10.4%	+5.4%
UA	+15.2%	+15.2%	+14.7%	+14.7%	+9.5%
Coll.	+5.9%	+5.9%	+7.8%	+7.8%	+2.9%
Comp.	-0.1%	-0.1%	-0.8%	-0.8%	-5.3%
SP	-6.2%	-6.2%	-10.6%	-10.6%	-14.6%
Total	+10.2%	+10.2%	+4.6%	+1.3%	-3.4%

FA's proposed overall rate level change of +10.2% is higher than the indications we calculate based on these 3 scenarios, A, B and C.

The Board may find other combinations of alternative assumptions to be reasonable.

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- This report is designed and intended solely for the Board's internal use, provided that the Board may distribute a copy of this report to (i) the company whose rate application is the subject of Oliver Wyman's review, or (ii) any third party properly requesting such information through a channel established by the Board or pursuant to applicable freedom of information laws, provided that in the case of freedom of information law requests, the Board shall first inform Oliver Wyman of such request in writing so that Oliver Wyman may, in its reasonable discretion, contest such request.

Considerations and Limitations

- For our review, we relied on data and information provided by FA without independent audit. Though we have reviewed the data for reasonableness and consistency, we have not audited or otherwise verified this data. It should also be noted that our review of data may not always reveal imperfections. We have assumed that the data provided is both accurate and complete. The results of our analysis are dependent on this assumption. If this data or information is inaccurate or incomplete, our findings and conclusions may need to be revised.
- Our conclusions are based on an analysis of the FA application and data and on the estimation of the outcome of many contingent events. Future costs were developed from the historical claim experience and covered exposure, with adjustments for anticipated changes. Our estimates make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in historical databases or which are not yet quantifiable.
- While this analysis complies with applicable Actuarial Standards of Practice and Statements of Principles, users of this analysis should recognize that our projections involve estimates of future events, and are subject to economic and statistical variations from expected values. We have not anticipated any extraordinary changes to the legal, social, or economic environment that might affect the frequency or severity of claims. For

these reasons, no assurance can be given that the emergence of actual losses will correspond to the projections in this analysis.

Please call us if you have any questions or require additional information.

Sincerely,

Paula L Elliott

Paula Elliott, FCAS, FCIA