INTERROGATORIES #2

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Date:	June 29, 2021
Company:	Facility Association (FA)
Filing Type:	Mandatory Rate Filing
Vehicle Type:	Private Passenger Vehicles
Province:	Newfoundland and Labrador
Proposed Effective Dates:	January 1, 2022, for new business and renewals

Profit Provision

1. In prior IR#1, Q 8, FA was asked to estimate the ROI considering all investment assets held by insurers. In the response, FA explains the "transfer of funds" and accounting of those transfers as a different environment that FA operates under. However, FA does not address the return on investment rate that the capital supporting such business might be achieving when invested in equities (e.g., stocks) held by insurers.

    I. Explain why reference to equity investments was excluded by FA in its response.

    II. Does FA have evidence that the investment assets associated with the capital held by insurers for FA business does not include equities?

2. Regular/voluntary market insurers receive premiums from policyholders and invest those funds until they are needed to pay the claims. In the course of doing so, regular/voluntary market insurers must be prepared to pay claims as the settlement process unfolds. For the FA portfolio, insurers receive (their proportionate share of the) premium funds from FA (rather than from the policyholder) and must pay (their proportionate share of) claims (by sending funds to FA) as the need arises according to when payments must be made on the FA claims that occur.

    Other than separate accounting, explain how the funds received/distributed by insurers for regular/voluntary (i.e., non-FA) business is different than for their FA business – with respect to the ability to invest those cash flow related funds – as compared to their regular/voluntary market business.

3. Insurers are expected to hold sufficient capital to support their share of the FA business that they assume. And this capital is not provided by FA, but instead by each individual insurer. The associated capital for FA business held by insurers is notionally earmarked for the FA business; and invested in any manner that the insurer chooses – subject to OSFI regulations – as with its own direct business capital.

In this rate application, FA requests an after-tax return on this capital (held by insurers) using a 6% of premium approach.

Given this, would there be any reason (e.g., FA Plan of Operation Articles) that would prevent the investment rate on the capital assets held by insurers for the FA business to be any different than the rate on the capital associated assets held for non-FA business?