June 21, 2022

Cheryl Blundon, Director of Corporate Services and Board Secretary
NL Board of Commissioners of Public Utility
120 Torbay Road
P.O. Box 21040
St. John's, NL
A1A 5B2

RE: FA NL **Mandatory Filing - Taxis – Oliver Wyman Report of Finding** – Response to Report dated June 10, 2022

Dear Ms. Blundon:

Facility Association ("FA") received a copy of the June 10, 2022 Oliver Wyman ("OW") report *"Review of Mandatory Filing submitted by Facility Association: Taxi"* (the "TX Report") with a request to provide comments (if any) to the Board of Commissioners the "Board") by June 21, 2022. FA appreciates the opportunity to comment, as presented on the pages that follow, and is happy to provide any additional clarification as needed with respect to our comments.

The TX Report contains 16 findings related to the rate level changes (listed in bullet form on pages 5 through 7), of which two are discussed in detail:

- Loss Trend Rates
- Finance Fees Revenue.

Before addressing it, we would like to remind the Board that our position continues to be that residual market volumes (both the Risk Sharing Pools and the residual market segment) should be as small as possible.

There are two reasons for this:

1. First, a small residual market is ongoing evidence that the market is competitive, and that consumers are successfully finding coverage in a market they choose.
2. Second, we believe those consumers are best served by companies competing directly for their business without the need to calculate the impact arising from their compulsory participation in residual market mechanisms. That is, residual market mechanisms should be small enough that their presence in a compulsory auto insurance jurisdiction should be "incidental" to a company's competitive participation in that jurisdiction.

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It is our strong belief that companies competing directly for their business in an environment where those companies do not have to frame their business decisions based on potential financial impacts from residual market mechanisms best serve consumers.

FA's primary concern is always the protection of market availability, and the best guarantee of market availability is a healthy, competitive regular market.

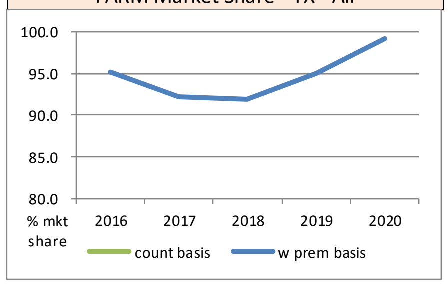
FARM Market Shares

As previously stated, part of the Facility Association's mission is to keep the market share of the residual market as small as possible. With respect to the TX rating class in NL (including both individually-rated and fleet-rated), the FARM market share on written premium basis are presented in the chart below[1]. The FARM TX market share on premium basis has been over 91% and has been increase since 2018; FA has been a major insurance provider for TX in NL.

Written Premium is in $000s

Taxis	Year	FARM Market Share / AWP Comparison: FARM Market Share (veh counts)	FARM Market Share (w prem)
TX	2016	-	95.2
TX	2017	-	92.2
TX	2018	-	91.9
TX	2019	-	95.0
TX	2020	-	99.2
	Total	-	94.5

FARM Market Share - TX - All



Source: 2020 AIX

We appreciate the Board's decision on FA's PPV profit provision filing in 2021:

> ***The Board agrees that Facility's position as a marginal player in the overall automobile insurance market in the province favours the principle of allowing Facility to include a profit provision in its rates.***
>
> ***The Board is satisfied that the guideline profit range as a percentage of premium of 5.0% - 6.0% is a reasonable range for a target profit provisions to be included in Facility's rate filings.***

The decision, that allows a 6.0% return on premium to be included in FA's rates, will help FA's position as a residual market and to be as small as possible.

[1] AIX industry exposure data is not available for Taxi, as a result, the FARM TX market share on exposure basis is not available.

Loss Trend

At this time, we do not intend to go over all the differences of actuarial opinion between FA and the TX Report. We would like to emphasize that the FA's trend analysis is completed on an indemnity-only basis, as this best reflects the Servicing Carrier compensation model with respect to claims services. We model the past available 20 years' experience (40 data points) using different time periods where statistical tests/review of results support such periods (e.g. periods aligned with product reforms as previously discussed). We always considered using a single all periods set, as well as a default set aligned with product reform. From there, other periods were considered as deemed appropriate from our review of the results (mainly through residual analysis as indicated above). We believe our approach for the trend analysis is reasonable and valid.

It is our strong belief that there are many possible models for frequency, severity, and loss costs for each coverage that are valid and reasonable. The ultimate selection of models by insurers in developing their rates is a matter of judgment and interpretation that can differ among actuaries even when modeling the same data. We put forward that differences like this in general should be viewed as both "acceptable" and welcomed to support a healthy competitive environment.

As indicated in the TX Report, FA's loss trend rates are not all higher than the benchmark loss trend rates from the Board. The table below compare the FA's and the benchmark loss trends rates as at December 31, 2020. For most coverages FA's loss trend rates are lower than benchmark loss trend rates, except BI and PD.

	Loss Cost Trends NL CV as at:2020-12		PUB Loss Cost Trends NL CV as at:2020-12		Loss Cost Trend Change Between FA and PUB	
Coverage	past	future	past	future	past	future
BI	**0.2%**	**0.2%**	**(5.0%)**	**(5.0%)**	**5.2%**	**5.2%**
PD	**0.9%**	**0.9%**	**(0.5%)**	**(0.5%)**	**1.4%**	**1.4%**
AccBen (indivis)	-	-	**6.0%**	**6.0%**	**(6.0%)**	**(6.0%)**
UA	-	-	**6.0%**	**6.0%**	**(6.0%)**	**(6.0%)**
UM	-	-	-	-	-	-
CL	**2.4%**	**2.4%**	**3.0%**	**3.0%**	**(0.6%)**	**(0.6%)**
CM	**2.5%**	**2.5%**	**3.0%**	**3.0%**	**(0.5%)**	**(0.5%)**
SP	-	-	**3.0%**	**3.0%**	**(3.0%)**	**(3.0%)**
AP	**2.6%**	**2.6%**	**3.0%**	**3.0%**	**(0.4%)**	**(0.4%)**

Note: the past and future trends cut-off date between FA and PUB may be different

As stated in the TX Report, FA received different questions from OW and provided evidence that our selections are valid ones. We believe FA's loss trend analysis is unbiased and appropriate and therefore, we stand by FA's own trend assumptions.

Finance Fee Revenue

As stated previously, FA does not directly engage in providing premium financing to policyholders insured through the FARM. Any such arrangements are strictly between the policyholder and the FA Servicing Carrier.

Historically, FA policyholders had access to third-party finance providers who provide insurance financing. In addition, FA allows Servicing Carriers to offer financing to policyholders as an alternative service, and permits the Servicing Carriers to determine the fee for that service. The Servicing Carriers manage the plan and have historically charged a range of fees, dependent upon their experience.

The Servicing Carriers and third-party finance providers' fees generally reflect the risk and payment profile of the segment of business. As noted, FA does not have access to the data on which the Servicing Carriers or third-party finance providers determine their fees, however it is our understanding that the fee charged reflects a significantly higher level of default and late payment. The fees for financing that are charged by either the Servicing Carriers or third-party finance providers are fees determined by them to reflect the service, risk and opportunity cost of providing that financing to FA policyholders.

It is important to emphasize that the premium finance fees are charged to reflect returns to capital providers in relation to the risk presented. Returns, by definition, are cash flows after taking into consideration costs, where risks reflect the uncertainty of the cash flows, and the amount of capital to support the service reflects the acceptable level of default of the capital provider, due to losses incurred in providing the service. In this particular case, the service is effectively the provision of a loan to a policyholder in the amount of the insurance policy premium, with loan repayment scheduled over the course of the policy term. The direct costs incurred by the loan provider include: the direct costs of administering the program, the uncertainty of the cash flows that reflect the credit risk that is borne by the loan provider (i.e. that the loan is not repaid either on time, or completely), and the investment income opportunity cost of the funds (i.e. the investment income that could have been earned on the funds, had they not been used to provide a loan to the policyholder). This arrangement is no different from the insured engaging a premium finance company to finance their premium. It does not form part of the insurance premium, but rather is a loan to finance the premium.

This being said, it is our understanding that, if consumers have access to premium financing, then all insurance carriers offering it are required by the Board to include finance fees revenues as an offset in their indications. This position was reflected in past decisions from the Board for our PPV and Taxi classes.

Therefore, to acknowledge this as well as to reflect the updated TPL loss cost trends, FA would like to amend the proposed overall rate changes as follows:

	Overall rate change – Filing	Overate rate change - Amended
Taxi	+13.3%	+10.0%

The table below provide the details of the corrected indication with updated TPL loss cost trends and including the finance fee revenue as an offset.

	Per Submitted Filing - TX			Corrected Indication for - TX		
Coverage	mgmt assumps @ 12% ROE & 2.8% RoI [1]	mgmt assumps @ 6% ROP & 2.8% RoI [2]	mgmt assumps & @ 6% ROP & 2.8% RoI Proposed Rate Change [3]	mgmt assumps @ 12% ROE & 2.8% RoI [4]	mgmt assumps @ 6% ROP & 2.8% RoI [5]	mgmt assumps @ 6% ROP & 2.8% RoI + 1.5% finance fee revenue [7]
Bodily Injury	16.0%	14.1%	14.1%	14.8%	12.9%	10.6%
Property Damage	16.0%	14.1%	14.1%	14.8%	12.9%	10.6%
DCPD	16.0%	14.1%	14.1%	14.8%	12.9%	10.6%
Third Party Liability						
Accident Benefits	13.0%	11.1%	11.1%	13.0%	11.1%	8.9%
Uninsured Automobile	16.1%	14.2%	14.2%	16.1%	14.2%	11.9%
Underinsured Motorist	-	-	-	-	-	-
Collision	11.3%	9.5%	9.5%	11.3%	9.5%	7.3%
Comp	22.2%	20.2%	20.2%	22.2%	20.2%	17.8%
Specified Perils	(32.2%)	(33.3%)	(33.3%)	(32.2%)	(33.3%)	(34.6%)
All Perils	n/a	n/a	n/a	n/a	n/a	n/a
Total	**15.1%**	**13.3%**	**13.3%**	**14.2%**	**12.3%**	**10.0%**

If you wish to discuss this further, please do not hesitate to contact me via email at pgosselin@facilityassociation.com or by phone at 416-644-4968.

Sincerely,

Philippe Gosselin, FCAS, FCIA
VP Actuarial & CRO