NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. A.I. 21(2018)

IN THE MATTER OF the *Automobile Insurance Act*, RSNL 1990, c. A-22, (the "*Act*"), as amended and regulations thereunder; and

IN THE MATTER OF an application by Facility Association for approval of revised rates for its Newfoundland and Labrador Private Passenger Automobiles class of business.

1. The Application

Facility Association ("Facility"), as operator of the residual market mechanism for automobile insurance in the Province, filed a Category 2 application on November 14, 2017 seeking approval of increased rates for its Newfoundland and Labrador Private Passenger Automobiles ("PPA") class of business (the "Application"). The Application proposes an overall rate change of +15.4% with rates be effective no earlier than 100 days post-approval rounded to the 1st of the following month for both New Business and Renewals.

2. Procedural Matters

The Application was referred to the Board's actuarial consultants, Oliver Wyman Limited ("Oliver Wyman"), for review.

On November 28, 2017, December 12, 2017 and December 28, 2017 Oliver Wyman filed questions on the Application. Facility filed responses on December 7, 2017, December 15, 2017 and January 10, 2018, respectively.

On January 22, 2018 Oliver Wyman filed a report outlining its review of the actuarial justification provided in the Application ("Oliver Wyman Report"). Facility filed comments in response to Oliver Wyman's report on January 30, 2018. Oliver Wyman filed a reply to Facility's comments on February 5, 2018.

On February 8, 2018 the Board extended the 90-day review timeline.

3. Review of Application Proposals

The Application presented Facility's rate level need using three sets of assumptions for cost of capital and return on investment. Facility proposed an overall rate change of +15.4% based on its indication using 0% cost of capital and 2.80% return on investment as follows:

Coverage	Facility Indication	Facility Proposal
Third Party Liability	+22.5%	+22.5%
Accident Benefits	-6.0%	-6.0%
Uninsured Auto	+27.4%	+27.4%
Collision	-9.6%	-9.6%
Comprehensive	+27.2%	+27.2%
Specified Perils	+20.5%	+20.5%
Underinsured Motorist	-7.4%	-7.4%
Total	**+15.4%**	**+15.4%**

The proposed rate change would increase the total average premium from $2,091 to $2,413, or $322. Facility's last Category 2 rate application for this line of business was submitted to the Board in January 2013, with approval of an overall rate level increase of 31.7% effective June 1, 2014.[1]

Oliver Wyman reviewed Facility's proposals and associated ratemaking procedure and found Facility's underlying assumptions and estimates used in its ratemaking procedures to be generally reasonable with certain exceptions. According to Oliver Wyman substitution of alternate but reasonable assumptions used by Facility would lead to a lower rate level indication than Facility has estimated and proposed. These include Facility's (i) estimation of ultimate loss amounts for Uninsured Auto, (ii) selected Bodily Injury, Accident Benefits and Collision loss trend rates, (iii) calculation of its Third Party Liability credibility weighting, (iv) treatment of finance fee revenues, and (v) adjustment for the HST rate change. Oliver Wyman also raised a concern with Facility's assumption for its expense provision. These issues, along with the Board's findings on each, are discussed in the following sections.

4. Board Findings

The Board is cognizant that there are a wide range of possible outcomes in any prospective ratemaking exercise. In accordance with the *Automobile Insurance Act* the Board must be satisfied that the proposed rate changes are supported based on the information filed and are not too high in the circumstances. In making this determination the Board looks to the professional judgement of the actuaries as well as the support and explanation for their respective positions.

The Board has reviewed the record, including Facility's Actuarial Memorandum, Oliver Wyman's reports, and Facility's responses to Oliver Wyman's reports and information requests. The Board notes that Oliver Wyman found Facility's underlying assumptions and estimates used in its

[1] See Order Nos. A.I. 27(2013), A.I. 1(2014) and A.I. 2(2014). The overall average rate level increase was -14.1%, and this was combined with a change in the capping procedure in regards to the age, gender and marital status cap to a renewal cap, for an additional overall rate level increase of +31.7%.

ratemaking procedures to be generally reasonable with the exception of (i) estimation of ultimate loss amounts for Uninsured Auto, (ii) loss trend rates, (iii) Third Party Liability credibility weighting, (iv) finance fee revenues, (v) HST adjustment, and (vi) expense provisions. These issues, along with the Board's findings on each, are discussed in the following sections.

3.1 Ultimate Loss Amounts for Uninsured Auto

Facility's selected ultimate losses by accident year and coverage are based on its estimate of ultimate PPA losses by accident half-year and coverage, evaluated as of March 31, 2017. In making its estimate the results from several loss estimation methods applied to the reported incurred losses for each accident year (2012-2016) are considered and the "best estimate" of the ultimate loss amounts for each accident half-year are selected to be used in arriving at an estimated rate level need. Based on a comparison of Facility's (implied) loss development factors and those of the Industry from 2012 to 2016 Oliver Wyman concluded Facility's estimates of ultimate loss amounts for coverages other than Uninsured Auto were reasonable. For Uninsured Auto coverage Oliver Wyman found that, absent additional information, the estimates may be high.

Oliver Wyman noted that Facility's Uninsured Auto reported loss amounts vary widely from year to year, largely due to the low number of claims. While acknowledging that Facility's loss development pattern for Uninsured Auto may be different than that of the Industry, Oliver Wyman concluded that the differences in the (implied) loss development factors are largely due to the method used to estimate ultimate losses. Oliver Wyman found Facility's selection of the results of the Weighted Method, in which more weight is assigned to higher results of the Expected Loss Ratio ("ELR") Method than in the Bornhuetter-Ferguson ("B-F") Method, resulted in the higher (implied) loss development factors. Oliver Wyman suggested that, for Uninsured Auto coverage, the B-F Method may be more reasonable than the Weighted Method as it results in implied loss development factors that, while still higher, are more in line with the Industry loss development factors. On request from Oliver Wyman Facility estimated that, making this change and with no other changes in assumptions, the Uninsured Auto coverage rate level indication would reduce from +27.4% to +18.9% and the overall rate level indication would reduce by approximately 0.2 percentage points.[2]

Facility submitted:

> Much of valuation and selection of ultimates leverages actuarial judgment. While the authors of the OW PPV Report suggest alternatives, they are not stating that the FA selections are in any way unreasonable. The FA Appointed Actuary has extensive experience in valuation and brings this extensive experience to bear in the valuation process, including the application of judgment with respect to various valuation methodologies to consider, selection of assumptions required by those methodologies, and ultimately the selection of ultimates after consideration of the results of various methodologies. We believe the Board should accept the UA ultimate selections as presented in the FA submission.[3]

[2] Oliver Wyman Report, January 22, 2018, page 11.
[3] Facility Comments on Oliver Wyman Report, January 30, 2018, page 2 of 9.

The Board accepts that the estimation of ultimate losses is a matter actuarial judgement but notes that these estimates can vary depending which methodology is used and that the exercise of judgement means that different actuaries may provide different but reasonable “best estimates”. The Board accepts Facility’s estimates of ultimate loss amounts for all coverages except Uninsured Auto as reasonable. In the case of Uninsured Auto the ultimate loss estimates selected by Facility for this coverage result in implied loss development factors that are much higher than Industry loss development factors for the same period. No additional evidence was provided to support this selection other than the explanation of actuarial judgement. The Board notes that the use of a different methodology can result in a material decrease in the Uninsured Auto coverage rate level indication, even though the impact on the overall rate level indication is small. Nevertheless, in the circumstance and without additional supporting evidence, the Board is not satisfied that Facility’s selection of ultimate losses for Uninsured Auto does not result in a rate that is too high for this coverage.

3.2 Loss Trend Rates

Loss trend rates are applied to the experience period incurred losses to adjust for the cost levels that are anticipated during the policy period covered by the proposed rates. The Board requires that, to the extent feasible, loss trends should be based on Industry NL claim frequency and claim severity data, with claims and losses developed to ultimate. The selection of the appropriate loss trend rate by coverage is a matter of actuarial judgement in the statistical analysis of the underlying data. Oliver Wyman updates the Board Guideline Industry NL loss trend experience every six months.[4] Companies are not required to use the guideline loss trends but full rationale for use of different factors must be provided and supported.

Facility selected its past loss cost trend rates for each of the Bodily Injury, Property Damage, Accident Benefits, Collision, and Comprehensive coverages based on its analysis of Industry NL claim experience as of December 31, 2016. Frequency and severity trend rates were separately determined and then combined to arrive at its selected past loss cost trend rates. Facility’s selected future loss trend rates are the same as the selected past loss trend rates.

Oliver Wyman compared Facility’s PPA loss trend rate selections against the Board Guideline loss trend rate selections:

Loss Trend Rate Selections		
	Facility	**Board Guideline**
Bodily Injury	+6.0%	+3.0%
Property Damage	+4.7%	+4.0%
Accident Benefits	+0.0%	+3.5%
Uninsured Auto	+6.1%	+5.0%
Collision	+3.1%	+5.5%
Comprehensive	+6.7%	+6.5%
Specified Perils	+8.0%	+6.5%
Underinsured Motorist	0.0%	+6.5%

[4] The Board Guideline loss trend rate selections used in the review of this filing were updated as of December 31, 2016.

At Oliver Wyman's request Facility estimated its rate level change based on the Board Guideline loss cost trends, and with no other changes in assumptions, would reduce from +15.4% to +11.8%.[5] Oliver Wyman commented on the general differences in the data and approach used by Facility when compared to its approach in updating the Board Guideline loss trends but found the more significant differences were largely due to Facility's application of scalar change adjustments (Bodily Injury), estimates of ultimate severities by accident half-year (Accident Benefits), and the time period over which the trend rates are modelled (Collision). While the difference in trend rates for Underinsured Motorist was high Oliver Wyman did not take issue with Facility's selected trend rate of 0.0% due to limited data for this coverage.

With respect to Bodily Injury loss trend rates Oliver Wyman found that, while Facility's selected severity trend rate was reasonable, the frequency trend rate was high. Facility determined its frequency trend rate for Bodily Injury coverage based on a regression analysis of its estimate of Industry PPA ultimate claim counts by accident half-year over a 20-year period ending December 31, 2016, split into four time segments.[6] Oliver Wyman noted:

> Facility's view of frequency declining in "steps" is "in contrast to our view (and that of most other insurers' models we have reviewed for Bodily Injury in NL) that frequency has exhibited more of a steady declining, in particular since 2012 – the beginning of FA's experience period.[7]

Oliver Wyman provided a graph of Bodily Injury claim frequency rates for the most recent 15 years by accident half-year which, in its view, supports the general decline in frequency rate from 2003 to 2016 rather than a segment-by-segment decline as presented by Facility. As further evidence of this Oliver Wyman asked Facility to calculate the modelled frequency trend rate over the time period 2012-1 to 2016-2, the experience period most relevant for this filing. According to Oliver Wyman Facility's results supported an annual frequency trend rate of -7.4% without any segmentation of the data. Oliver Wyman also noted that Facility offered no explanation of the cause of the steep decline in claim frequency level at the start of each time segment used by Facility. With respect to Facility's assumption that claim frequency will remain level after 2016 through 2022 leading to a selected 0.0% future frequency trend rate, Oliver Wyman stated that there is no evidence to indicate that the decrease in frequency trend rate will not continue through the future projection period. Oliver Wyman found its selected Bodily Injury loss cost trend rate of +3.0%, based on severity and frequency trend rates of approximately +6.5% and -3.5%, to be more reasonable than Facility's selected Bodily Injury loss cost trend rate of +6.0%, based on severity and frequency trend rates of +6.0% and 0.0%.

For Accident Benefits coverage Oliver Wyman found Facility's selected frequency trend rate to be reasonable, but found the selected severity trend rate to be low. Facility determined its severity trend rates based on a regression analysis of its estimate of Industry PPA ultimate average claim cost by accident half-year over the 20-year period ending December 31, 2016. Facility selected a 0.0% severity trend rate to be applied to the experience period data based on actuarial judgement as it was unable to discern a trend rate. Oliver Wyman concluded that Facility's selected Industry

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[5] Oliver Wyman noted an issue with the application of the HST adjustment in this calculation.
[6] The four time periods used were 1997-1 to 2000-1, 2000-2 to 2004-1, 2004-2 to 2013-2, and 2014-1 to 2016-2.
[7] Oliver Wyman Report, January 22, 2018, page 17.

loss development factors based on Atlantic Accident Benefits coverage loss experience were low, and are now lower than Oliver Wyman's selected Industry factors based on NL total Accident Benefits loss and Allocated Loss Adjustment Expense ("ALAE") experience. Oliver Wyman attributed the difference in loss development factors as the main reason for the difference in calculated severity trend rates. As such, Oliver Wyman continued to find its selected severity trend rate of +3.5% to be reasonable.

In the case of the Collision loss trend rates Oliver Wyman found Facility's selected frequency trend rate to be reasonable but found the selected severity trend rate to be low. Facility determined its severity trend rates for the Collision coverage based on a regression analysis of its estimate of Industry PPA ultimate average claim cost by accident half-year beginning in 1997 and ending December 31, 2016. Other than for consideration of the change in the HST rate effective July 1, 2016, Facility does segment this time period. Facility selected a 0.8% severity trend rate for this period which Oliver Wyman found to be low when compared to the approximate +3.0% severity trend rate that underlies its modelled loss cost trend. Oliver Wyman believes the difference in severity trend rates is due to the time periods over which the severity trend was modelled. Facility used a 20-year period beginning in 1997 compared to the shorter, more recent, time periods beginning 2010 used by Oliver Wyman which it finds more representative of the higher trend pattern over the experience period.

Facility raised several issues with regards to Oliver Wyman's findings on its estimated loss trend rates for Bodily Injury, Accident Benefits and Collision. Facility submitted that the underlying trends that reflect changes over time is an unknown, and actuarial judgement is applied in proposing models to describe a relationship between variables. Facility also commented on Oliver Wyman's application of the July 1, 2016 HST rate change and disagreed that Oliver Wyman's approach leads to a higher estimate of the trend rate as the HST rate change would only impact a single data point. The Board notes that this difference in approach only affects the severity trend rates. Facility also noted that it uses time and seasonality as the main proxies for whatever is changing in the driving environment that is leading to changes in the frequency, severity, and loss costs related to automobile insurance and, in its view, while it is easy to guess at what might explain changes, more likely than not the guess will be incorrect. Facility submitted that it believes all of its trend model selections are statistically supported.

The Board acknowledges that selecting loss trend rates is a matter of actuarial judgement; however, this judgement must be fully justified to demonstrate that the resulting rates are not too high. The Board also notes that, in its selected loss trend rates as of December 31, 2016 prepared for the Board, Oliver Wyman found a gradual year-to-year decline to be a more realistic representation of the frequency trend pattern, particularly over the experience period 2012 through 2016. As noted by Oliver Wyman this gradual decline has also been found in other insurers' models for NL that have been reviewed. The Board finds that Facility has not adequately justified with supporting information the exercise of its judgement in relation to its selection of loss trend rates for Bodily Injury, Accident Benefits and Collision coverages.

3.3 Third Party Liability Credibility Weighting

In its prior PPA filing Facility provided the number of Bodily Injury and Property Damage claims in the experience period as 537 and 1,228, respectively. At that time, using the Board approved full credibility claim count standards of 2,164 for Bodily Injury and 1,082 for Property Damage, Facility measured the credibility for Bodily Injury at 49.81% and Property Damage at 100%. The separate credibility weighted projected ultimate loss ratios for Bodily Injury and Property Damage were combined to arrive at the Third Party Liability credibility weighted projected ultimate loss ratio.

In the Application Facility has changed the way it determines Third Party Liability credibility. Facility stated the number of Bodily Injury and Property Damage claims in the experience period are 900 and 2,602, respectively. Instead of separately determining the credibility for each of Bodily Injury and Property Damage, and then combining them to determine the Third Party Liability credibility, Facility adds the Bodily Injury and Property Damage claim counts, applies this count against the Third Party Liability credibility standard and finds the Third Party Liability coverage to be fully 100% credible.

Oliver Wyman found that, following the same methodology as the prior filing and using the Board approved full credibility claim count standards, the measured credibility is 64.5% for Bodily Injury and 100% for Property Damage. Oliver Wyman estimated that using the same methodology, and with no other changes in assumptions, the overall rate level indication of +15.4% would reduce to +12.6%.

Facility noted that its combination of Bodily Injury and Property Damage claims counts is consistent with the approach taken over the last several years across all jurisdictions and classes where Bodily Injury and Property Damage are not separately analyzed. According to Facility, Bodily Injury and Property Damage are not currently rated independently for Facility Association Residual Market rates in the province and, as such, while the claim experience could be viewed separately the premium cannot. The lack of premium determination at the sub-coverage level requires allocation of premium, which Facility views as being arbitrary, without having any ultimate impact on the combined projected loss ratio for Third Party Liability. Facility also noted that its selected ratio for the experience period is 78.3% and all three of the most recent accident years are higher than its selected ratio. Facility asserted that Oliver Wyman's alternative assumption for credibility gives less weight to this experience loss ratios and means that it will take longer for rates to reflect the experience.

The Board accepts that the selection of credibility standards is largely a matter of judgement and that it must look to the professional judgement of actuaries, as well as support and explanation for their respective positions, in making a decision. Facility's approach in this filing for Third Party Liability credibility weighting is different than taken in its last filing and not consistent with Board Guidelines, which requires Bodily Injury and Property Damage sub-coverages be treated separately when calculating credibility weighting. When an insurer chooses to take another approach it must justify to the Board's satisfaction that the alternative assumptions are reasonable and appropriate in the circumstances. In this case Facility has proposed an approach primarily on the basis that it is consistent with the approach taken over the last several years across all jurisdictions. The Board is not satisfied that Facility has adequately justified its approach to Third Party Liability credibility weighting in this filing and finds that the measured credibility weight for Bodily Injury at 64.5% and Property Damage at 100% would be appropriate.

3.4 Finance Fee Revenues

Facility does not include in its rate level indication the revenue impact associated with finance fees paid by policyholders or arising from delay in cash flow and associated bad debt. While the Board's Guidelines require finance fee revenue to be reflected in rates, Facility's position has been that monthly financing plans are provided and administered by Servicing Carriers, which also assume all related expenses and risks.

In the Application, Facility did not include finance fee revenues or expenses in its rate level indications on the basis that, as Facility does not directly offer policyholders premium financing, its administration expenses do not include any related expenses. Facility submitted that the general rationale for regulators requiring inclusion of premium financing fees as an expense offset in insurer rate applications does not apply to Facility as its administration expenses do not include any expenses related to offering premium financing.[8]

In response to questions from Oliver Wyman Facility provided information on the level of finance fees and written premiums associated with monthly payment plans at its Servicing Carriers. Based on this information and its review of other rate applications Oliver Wyman estimated that 55% of Facility's risks are on a monthly payment plan, which results in an additional 1.5% of premiums, and that the level of bad debt for Facility would be higher than 0%. On this basis Oliver Wyman found a provision of 1.5% for premium finance fees offset by a provision of 0.75% for bad debt, resulting in a net finance fee of 0.75%, to be reasonable. Oliver Wyman requested Facility calculate the rate level indications assuming a net finance fee revenue of an additional 0.75% of premiums, with consideration for the delay in receipt of the premiums for those risks on monthly payment plans. Based on these assumptions, and with no other changes in assumptions, Facility calculated its overall rate level indication would reduce from +15.4% to +14.9%.

Oliver Wyman suggested that the Board consider the fairness of an inconsistent treatment of Facility policyholders compared to policyholders of other insurers that take into consideration the finance fee revenues in calculating their rate level needs and accept this estimate as presented above as reasonable. Oliver Wyman also suggested that the Board require Facility to submit accurate information regarding its finance fee plans with future rate applications, as other insurers do.

Section 6.3(3) of the *Automobile Insurance Act* requires all insurers in NL to provide a monthly payment plan for PPA insureds. It is common practice in the industry that finance fee revenues associated with monthly payment plans be reflected as an offset in assessing rate levels. This issue was addressed by the Board in Order No. A.I. 27(2013) arising from Facility's last PPA rate filing, in which the Board directed Facility to report within 90 days as to changes which will be made to ensure that finance fee revenue is reflected in its next rate filing. In its reply to the Board Facility

[8] Facility Actuarial Memorandum, November 14, 2017, page 30.

advised of completed surveys regarding finance fee revenues and costs for its Servicing Carriers and stated that this information would enable it to report on the impact of those fees in its next rate filing.[9] In this filing Facility's position is that it does not include finance fees related to offering premium financing since it does not directly offer policyholders premium financing.

In the Board's view finance fee revenues should be reflected in rates since they are revenues collected by insurers in premiums paid monthly. Facility's position is that premiums are collected by the Servicing Carriers so its expenses do not include these associated expenses or revenues. While this may be the case insureds in Facility are still paying the finance fees, irrespective of who collects (and retains) these fees. In the interest of fairness and consistency all insureds should receive the benefit of offsetting revenues associated with premium financing plans in setting rates. Without this offset the Board cannot be satisfied that the proposed rates are not too high. In the absence of further supporting information in the Application as to the appropriate level of revenue offset to include, the Board accepts Oliver Wyman's assumption of a net finance fee revenue of 0.75% of premiums. Future PPA rate applications from Facility should include finance fee revenue with supporting information.

3.5 HST Adjustment

The HST rate increased in the province on July 1, 2016 from 13% to 15%, an increase of 1.77%. In the Application Facility applied an HST adjustment factor of 1.0177 to all coverages except Accident Benefits and Bodily Injury. For these coverages Facility applied an HST adjustment factor of 1.012 on the basis that, since the HST does not apply to the Accident Benefits-Disability Income sub-coverage, approximately two-thirds of the total Accident Benefits costs are affected and that Bodily Injury would be similar to Accident Benefits. Facility also adjusted its complement of credibility loss ratio by a HST adjustment factor of 1.0177 for all coverages.

Oliver Wyman agreed with Facility's HST adjustment and complement of credibility loss ratios for all coverages, with the exception of the Bodily Injury and Accident Benefits coverages or the complement of credibility loss ratios for these coverages. Oliver Wyman referenced closed claims studies in NL and NB and estimated that, based on the results of those studies, the HST would only apply to 30% of the Bodily Injury costs, leading to an HST adjustment factor of +1.0053 for Bodily Injury coverages. Also, since the HST would not apply to the Disability Income portion of Accident Benefits, the HST would only affect approximately 80% of the Accident Benefits claims cost. This would result in an HST adjustment factor of 1.0142 for Accident Benefits coverage. Oliver Wyman also noted that the higher HST adjustment factor used by Facility to adjust its Bodily Injury and Accident Benefits complement of credibility data is inconsistent with Facility's HST adjustment factors used elsewhere in the Application.

Oliver Wyman calculated that applying the alternate HST adjustment factors of 1.0053 and 1.0142, instead of Facility's 1.012, to the respective Bodily Injury and Accident Benefits coverages and to the complement of credibility loss ratios, instead of Facility's 1.0177, and with no other changes in assumptions, the overall rate level indication would reduce by approximately 0.5 percentage points.

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[9] Facility letter to the Board, March 10, 2014.

Facility stated that it stands by its selection of HST adjustments by coverage for the experience period for claims on-leveling purposes, as supported by its application and its responses to various questions from Oliver Wyman. With respect to the HST adjustments for the complement of credibility loss ratios, Facility stated that it has no issue with the alternative proposed in the Oliver Wyman Report, but at Facility's HST adjustment levels by coverage.

The Board accepts the HST adjustments proposed by Facility for all coverages except for Accident Benefits and Bodily Injury. In addition, as noted by Oliver Wyman, Facility's selection of different and higher adjustment factors to be applied to Bodily Injury and Accident Benefit coverages for the complement of credibility are inconsistent with the HST adjustment factors applied elsewhere in the Application. The Board finds that Facility's selections for the HST adjustment factors for Bodily Injury and Accident Benefits and to the complement of credibility loss ratios result in overall rate indications that are too high. Oliver Wyman has provided support for its alternate HST adjustment factors for these coverages and ratios and the Board accepts these as reasonable.

3.6 Expense Provision

Facility assumes a total expense provision of 30.83% allocated as (i) variable (10.2% commissions, 5% premium tax, 1% servicing carrier fee, 9% servicing carrier operating costs, and 0.18% for other regulatory costs), and (ii) fixed (5.44% for health levy, driving record abstracts and central office). The Board Guideline total expense provision is 28%.

According to Oliver Wyman GISA[10] estimates the NL Industry general expense ratio for 2016 is 26.2%, which averages to approximately $292 per car based on the NL Industry-wide average written premium of $1,117 in 2016.[11] Oliver Wyman noted that Facility's assumed expense costs average to approximately $722 per car for this Application. Oliver Wyman requested Facility provide the actual expense costs to support the provisions for the expenses used to determine its rate level change need, in particular the 10% of premium comprised of the 1% servicing carrier fee and the 9% servicing carrier operating costs. Facility did not provide the information. In its reply Facility submitted that:

> The compensation arrangement with the Servicing Carriers is established in the Plan of Operation, as approved by the FA membership and the Newfoundland and Labrador Superintendent of Insurance. As the Plan of Operation carries the force of law, Servicing Carriers will be compensated through the formula so approved. As the compensation is a known fixed proportion of premium set by law, the associated provision assumption in the FA rates is necessary to ensure adequacy of FARM rates.
>
> Respectfully, FA does not require Servicing Carriers to provide actual costs for provision of their services, as the compensation arrangement is not on a "cost recovery" basis. We would point out that any member company can request to become a Servicing Carrier, but inquiries to become a Servicing Carrier has been less than 5 in total in the last decade. During that period, the only Servicing Carrier we added in that time was Unifund, a subsidiary of RSA, which is now in the process of being "rolled back into" RSA. All of

[10] General Insurance Statistical Agency
[11] Oliver Wyman Report, January 22, 2018, page 3.

> which, we believe, suggests that the Servicing Carrier compensation is not particularly lucrative.[12]

The Board notes that Facility's expense provision of 30.83% is substantively higher than the GISA NL general expense ratio for 2016 of 26.2% and the Board Guideline expense provision of 28%. The Board acknowledges that the 1% servicing carrier fee and 9% servicing carrier operating costs are based on Facility's Plan of Operation. However Facility did not provide support for the actual cost for these items or any other of the components of their general expenses provision. The Board concludes that Facility has not provided sufficient support to demonstrate that an expense provision of 30.83% is reasonable in the circumstances. Absent supporting evidence in this filing, and in subsequent filings, the Board will not accept an expense provision percentage higher than its Guideline expense provision of 28%.

5. Conclusions

The Board accepts Facility's proposals and assumptions contained in the filing with exception of Facility's (i) estimation of ultimate loss amounts for Uninsured Auto, (ii) selected Bodily Injury, Accident Benefits and Collision loss trend rates, (iii) calculation of its Third Party Liability credibility weighting, (iv) treatment of finance fee revenues, (v) adjustment for the HST rate change, and (vi) assumption for expense provision.

Based on the record for this Application the Board accepts that a rate increase for Facility's Private Passenger Automobiles class of business appears to be justified, although not at the level proposed by Facility. Facility may file a revised application incorporating the Board's findings in this Decision and Order.

[12] Facility Response to Oliver Wyman Questions, December 7, 2017, page 2 of 38.

6. Order

IT IS THEREFORE ORDERED THAT:

1. The Application by Facility Association is denied.

2. Facility Association will pay all costs of the Board, including the cost of the actuarial review, arising from this Application.

DATED at St. John's, Newfoundland and Labrador, this 15th day of June, 2018.

Darlene Whalen, P. Eng.
Chair & CEO

John O'Brien, FCPA, FCA, CISA
Commissioner

Cheryl Blundon
Board Secretary