

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. A.I. 19(2022)

1 **IN THE MATTER OF the Automobile**
2 **Insurance Act**, RSNL 1990, c. A-22, as
3 Amended, and regulations thereunder; and

4
5 **IN THE MATTER OF** an application by
6 Facility Association for approval of a revised
7 rating program for its Taxis category of
8 automobile insurance.

9
10 **Application**

11
12 Facility Association (“Facility”), as operator of the residual market mechanism for automobile
13 insurance in the province, filed a revised rating program under the Board’s Mandatory filing
14 option on March 31, 2022 seeking approval of rates for its Taxis category of automobile insurance
15 (the “Application”).¹ The Application also included a proposal by Facility to introduce a profit
16 provision in its Taxi rates. The Application proposed an overall average rate level increase of
17 +13.3% to be effective April 1, 2023 for new business and renewal business. On May 18, 2022
18 Facility revised its rate proposal to +12.3% to correct a minor calculation error discovered during
19 the review of the Application.² The Application proposed the following rate changes by coverage:

Coverage	Indications
Third Party Liability - Bodily Injury	+12.9%
Third Party Liability - Property Damage	+12.9%
Direct Compensation Property Damage	+12.9%
Uninsured Automobile	+14.2%
Accident Benefits	+11.1%
Collision	+9.5%
Comprehensive	+20.2%
Specified Perils	-33.3%
Total	+12.3%

20 The Application was referred to the Board’s actuarial consultants, Oliver Wyman Limited (“Oliver
21 Wyman”), for review.³

¹ Facility currently has 393 taxi exposures in Newfoundland and Labrador with an average premium per vehicle of \$7,056.

² From Facility Association to Oliver Wyman - Responses to Additional Questions - 2022-05-18, page 5.

³ The +12.3% overall rate change proposal served as the basis of Oliver Wyman’s review.

1 On April 20, 2022 Oliver Wyman filed questions on Facility’s actuarial analysis. Facility filed
2 responses on April 29, 2022. Follow-up questions were filed by Oliver Wyman on May 9, 2022.
3 Facility filed responses on May 18, 2022.

4
5 On June 10, 2022 Oliver Wyman filed a report of findings (“Oliver Wyman Report”) outlining its
6 review of the actuarial justification provided in the Application. Facility filed comments and a
7 revised rate proposal in response to the Oliver Wyman Report on June 21, 2022. On June 24,
8 2022 Oliver Wyman confirmed it had no follow-up comments.

9
10 A Notice of Application was published in newspapers throughout the province starting July 23,
11 2022 inviting interested parties wishing to participate in the Application to contact the Board by
12 August 10, 2022. A copy of the Notice along with information on how to view the Application was
13 also sent directly to Taxi operators in the province.⁴ No submissions were received.

14

15 **Review of Application Proposals**

16

17 In the Application Facility presented its rate level indications and proposed changes for each level
18 of coverage based on an actuarial analysis of its loss experience through December 31, 2020. The
19 proposed rate changes include the introduction of a profit provision of 6% of premium consistent
20 with the Board’s maximum benchmark profit provision for insurers. The inclusion of a profit
21 provision in Facility’s rates was accepted by the Board in Order No. A.I. 48(2021). In that Order
22 the Board also determined that the profit range as a percentage of premium of 5.0%-6.0%, as set
23 out in the Board’s Mandatory Filing Guidelines, was a reasonable range for a target profit
24 provision to be included in Facility’s rate filings.⁵ The Application also proposes various rule
25 changes, changes to the categorization of various convictions, and increases to minor and major
26 conviction surcharges to align with industry practice and to be consistent with industry surcharge
27 levels across all jurisdictions.

28

29 Oliver Wyman reviewed the rate level indications developed by Facility and, in so doing,
30 examined all aspects of Facility’s ratemaking procedure. Oliver Wyman found that the
31 assumptions used by Facility were generally in keeping with the Board’s Filing Guidelines and
32 were reasonable in the circumstances, with the exception of Facility’s loss trend rates and finance
33 fee revenues. Oliver Wyman noted that substituting alternate assumptions, judgements and
34 calculations that it found to be more appropriate for loss trend rates and finance fee revenues
35 would result in an overall rate level indication of -0.8%, which was less than Facility’s proposed
36 overall change.⁶ Oliver Wyman’s alternative rate level indication also included a profit provision
37 of 6% of premium consistent with the Board’s benchmark.

⁴ The Board sent a copy of the Notice of Application via email to taxi operators in the province for which contact information was publicly available.

⁵ The request for inclusion of a profit provision in Facility’s rates was included in Facility’s June 1, 2021 application for increased rates for its Private Passenger Automobiles (PPA) category of automobile insurance. In the application Facility indicated that, if approved by the Board, a profit provision would be included in its future rate filings for all other classes of business it writes in the province. Final PPA rates arising from the application, which included a profit provision as a percentage of premium of 6%, were approved in Order No. A.I. 52(2021).

⁶ Oliver Wyman Report, page 17.

1 On June 21, 2022 Facility filed a revised rate level proposal of +10.0% to adjust its finance fee
 2 assumptions in response to the Oliver Wyman Report.⁷ Oliver Wyman did not provide any further
 3 commentary on the revised proposal. Facility's revised rate level indications and proposed
 4 changes by coverage, as well as Oliver Wyman's alternate rate level indications, are set out
 5 below:

Coverage	Facility Revised Indications	Facility Revised Proposals	Oliver Wyman Alternate Indications
Third Party Liability - Bodily Injury	+10.6%	+10.6%	-5.9%
Third Party Liability - Property Damage	+10.6%	+10.6%	-5.9%
Direct Compensation Property Damage	+10.6%	+10.6%	-5.9%
Uninsured Automobile	+11.9%	+11.9%	+37.2%
Accident Benefits	+8.9%	+8.9%	+37.1%
Collision	+7.3%	+7.3%	+9.6%
Comprehensive	+17.8%	+17.8%	+19.5%
Specified Perils	-34.6%	-34.6%	-28.4%
Total	+10.0%	+10.0%	-0.8%

6 Board Findings

7

8 The Board is cognizant that there are a wide range of possible outcomes in any prospective
 9 ratemaking exercise. The Board must be satisfied that the proposed rate changes are supported
 10 based on the information filed are just and reasonable in the circumstances. In making this
 11 determination the Board considers the professional judgement of the actuaries, as well as the
 12 support and explanation for their respective positions. The Board notes that neither Facility nor
 13 Oliver Wyman took the position that each other's work was unreasonable or contrary to actuarial
 14 standards of practice.

15

16 The Board has reviewed the record of the proceeding, including Facility's actuarial memorandum,
 17 Facility's responses to information requests, the Oliver Wyman Report and Facility's comments
 18 on the Oliver Wyman Report. The issues to be addressed are: i) the loss trend rates, ii) the finance
 19 fee revenue, and iii) the rule and surcharge changes. These issues, along with the Board's findings
 20 on each, are discussed in the following sections.

21

22 i) Loss Trends

23

24 Facility selected its own loss trend rates based on industry Commercial Vehicles data as of
 25 December 31, 2020 rather than using the Board's benchmark loss trend rates prepared by Oliver
 26 Wyman using the same data. A comparison of the Facility and Oliver Wyman loss trend selections
 27 is set out below:

⁷ From Facility Association - Oliver Wyman Report - Comments - 2022-06-21, page 5.

Coverage	Facility Association	Oliver Wyman
Bodily Injury	+0.2% <i>(With -25% at Jan. 2016)</i>	-5.0% <i>(With +40% at Jan. 2013)</i>
Property Damage and DCPD	+0.9%	-0.5%
Accident Benefits	+0.0% <i>(With +105% at July 2011)</i>	+6.0%
Uninsured Auto	+0.0%	Same as Accident Benefits
Collision	+2.4%	+3.0%
Comprehensive	+2.5%	+3.0%
Specified Perils	+0.0%	Same as Comprehensive
Underinsured Motorist	+0.0%	+0.0%

1 Oliver Wyman noted that the majority of the differences between the Facility and Oliver Wyman
2 trend selections was due to different judgements in regression model design driven by relatively
3 limited and volatile commercial vehicle data. In particular, Oliver Wyman noted there were
4 differences in judgements regarding: (i) trend measurement period, (ii) point at which trend rates
5 change, (iii) point at which there is a sustained level change up or down in experience, and (iv)
6 inclusion/exclusion of specific data points considered outliers. Oliver Wyman further noted that
7 the considerable volatility in the industry commercial experience makes the trend patterns
8 difficult to identify.⁸

9
10 Oliver Wyman noted that, while it had no issues with Facility's general approach to modelling, it
11 was not in agreement with some of Facility's trend rates due to its model design choices. As a
12 sensitivity test Oliver Wyman asked Facility to provide rate level indications using the Board's
13 Guideline loss trend rates. Facility estimated that substituting the Guideline loss trend rates as of
14 December 31, 2020 instead of those selected by Facility, and with no other changes in
15 assumptions, would decrease its overall rate level indication by 8.5 percentage points.⁹

16
17 In response to Oliver Wyman Facility submitted that its loss trend analysis was unbiased and
18 appropriate and that it stood by its own selections. Facility stated:

19
20 It is our strong belief that there are many possible models for frequency, severity, and
21 loss costs for each coverage that are valid and reasonable. The ultimate selection of
22 models by insurers in developing their rates is a matter of judgment and interpretation
23 that can differ among actuaries even when modeling the same data. We put forward that
24 differences like this in general should be viewed as both "acceptable" and welcomed to
25 support a healthy competitive environment.¹⁰

26
27 Facility further noted that it received questions from Oliver Wyman during the review regarding
28 its trend selections and provided evidence that the selections were reasonable and valid.

29
30 The Board accepts that the estimation of ultimate losses is a matter actuarial judgement but
31 notes that these estimates can vary depending which methodology is used. The exercise of
32 judgement means that different actuaries may provide different but reasonable "best

⁸ Oliver Wyman Report, pages 8-9.

⁹ Oliver Wyman Report, page 9.

¹⁰ From Facility Association - Oliver Wyman Report – Comments - 2022-06-21, page 3.

1 estimates". There are a wide range of possible outcomes that can be considered reasonable
2 when conducting this type of analysis of loss trends and two actuaries may reach different
3 conclusions when selecting loss trend rates. The selection of loss trends includes making
4 judgements in respect of the data and the Board has to assess whether those judgements are
5 reasonable in the circumstances. The Board notes that there is limited data upon which to model
6 both commercial and taxi loss trends within the province.

7
8 Facility's decision to use its own loss trend rates rather than the Board's benchmark loss trends
9 as determined by Oliver Wyman is in accordance with the Mandatory Filing Guidelines.¹¹ The
10 Board has, in the past, accepted an insurer's loss trends versus the benchmark loss trends when
11 sufficient support for the loss trends has been provided. Facility has provided support for all of
12 its selections and also provided additional information as requested by Oliver Wyman to further
13 justify its selections of loss trends. Although there is a difference of opinion in the loss trend
14 selections, neither Facility nor Oliver Wyman took the position that the other's work was
15 unreasonable or contrary to actuarial standards of practice.

16
17 The Board finds the loss trends in the Application are reasonable in the circumstances and
18 accepts Facility's position that the selection of loss trends is a matter of judgement.

19
20 ii) Finance Fee Revenues

21
22 The Board's Mandatory Filing Guidelines state that finance fee revenues should be separately
23 and clearly identified in the rate analysis and must be considered in calculating the rate level
24 change indication. Finance fees can either be treated as additional revenue or as a separately
25 identified negative expense.¹²

26
27 Facility's sole servicing carrier offers a monthly payment plan option and charges a 3% finance
28 fee. In the Application Facility did not initially account for finance fee revenues or associated
29 administrative expenses in determining its rate level indications. Facility noted that premium
30 financing was an arrangement strictly between the policyholder and servicing carrier and that
31 the finance fees and associated expenses should not be considered in the rate analysis as Facility
32 does not directly engage in the process.¹³

33
34 Oliver Wyman noted that the issue of finance fee revenues was previously addressed by the
35 Board in the Facility Tax application filed on July 30, 2018. In Order No. A.I. 3(2019) the Board
36 found that finance fee revenues should be reflected in Facility's rates and that Facility should
37 include finance fee revenues with supporting information in future rate applications.¹⁴ As part of
38 its review of the Application Oliver Wyman asked Facility to provide an estimate of its net finance
39 fee revenues and associated impact on the rate indication calculations. Facility estimated the net
40 fees to be 1.5% of taxi premiums and calculated that incorporating this change, and no other

¹¹ Page 14 of the Guidelines state that "Insurers are not required to use the Board's benchmark loss trends, but full rationale for the use of different trend rates must be provided and supported."

¹² Mandatory Filing Guidelines, page 19.

¹³ Application, Section 4, page 30.

¹⁴ Order No. A.I. 3(2019), page 9-10.

1 changes in assumptions, would reduce its overall rate level by approximately 2.3 percentage
2 points.¹⁵

3

4 On June 21, 2022 Facility filed a revised rate proposal in which it acknowledged the prior decision
5 of the Board and reduced its proposed rate change by 2.3 percentage points to account for net
6 finance fees. The Board is satisfied that Facility's revised finance fee assumptions are reasonable
7 in the circumstances.

8

9 iii) Rule and Surcharge Changes

10

11 Facility proposed various rule changes applicable to all lines of business, with supporting
12 rationale and the estimated premium impact for all proposed rule changes provided where
13 applicable. In addition to the rule changes Facility also proposed increases to its minor and major
14 conviction surcharges to align with industry practice and to be consistent across jurisdictions. A
15 summary of the proposed surcharge changes is set out in the following table:¹⁶

Convictions	Current	Proposed
1 Minor	0%	0%
2 Minor	0%	5%
3 Minor	0%	15%
4 Minor	25%	25%
Each Additional Minor	15%	15%
1 Major	15%	25%
Each Additional Major	5%	25%
1 Serious	50%	50%
Each Additional Serious	100%	100%

16 Oliver Wyman stated that it could not opine on the reasonableness of Facility's proposed
17 conviction surcharge increases as no support was provided due to data limitations. Oliver Wyman
18 further noted that the rate level impact of the conviction surcharge changes was estimated to be
19 approximately 1.0% and was not included in the proposed overall rate level increase proposed
20 by Facility.¹⁷

21

22 The Board has reviewed the proposed rule changes and is satisfied that the proposed changes
23 are reasonable and should be approved. The Board acknowledges there is limited available data
24 to support the conviction surcharges for Taxis but is satisfied that the rationale provided by
25 Facility to align its surcharges with industry practice and to be consistent across jurisdictions is
26 reasonable in the circumstances and that the proposed surcharge changes should be approved.

27

28 Conclusion

29

30 Facility proposes an overall average rate level increase of 10.0% whereas Oliver Wyman
31 estimated an overall average rate level decrease of 0.8% based on alternative assumptions,

¹⁵ Oliver Wyman Report, page 16.

¹⁶ Application, Section 5, page 2.

¹⁷ Oliver Wyman Report, page 2

1 judgements and calculations primarily related to the selection of loss trend rates. The limited and
 2 volatile data, combined with differences of actuarial opinion, resulted in the significant variance
 3 between the loss trend selections and the resulting rate level indications. The Board is satisfied
 4 that the proposed rate level changes for Facility's Taxis class of business have been supported
 5 and accepts Facility's revised rate proposal as filed on June 21, 2022.

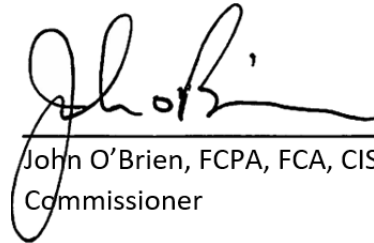
6
 7
 8 **IT IS THEREFORE ORDERED THAT:**

- 9
 10 1. The revised rating program received on June 21, 2022 from Facility Association for its
 11 Taxis category of automobile insurance is approved to be effective no earlier than 100
 12 days post approval for new business and renewals, rounded to the 1st of the following
 13 month.

DATED at St. John's, Newfoundland and Labrador, this 22nd day of September, 2022.



Darlene Whalen, P. Eng., FEC
 Chair and Chief Executive Officer



John O'Brien, FCPA, FCA, CISA
 Commissioner



Christopher Pike, LL.B., FCIP
 Commissioner



Cheryl Blundon
 Board Secretary