

7 October 2015

Mr. Robert Byrne
Director, Regulatory and Advisory Services
Board of Commissioners of Public Utilities
P.O. Box 21040
St. John's, Newfoundland
A1A 5B2

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

Dear Mr Byrne:

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) and submitted our report of findings dated September 1, 2015. This is an addendum to that report in which we address FA's proposed introduction of base rate changes that vary by territory that was not discussed in our September 1st report.

Summary of Findings

FA Proposal

FA proposes changes to its Third Party Liability (TPL) and Accident Benefits (AB) rates that vary by the three standard rating territories as defined in the General Insurance Statistical Agency (GISA) Automobile Statistical Plan (ASP) for Newfoundland. The following table presents the territory rate relativities FA proposes for TPL and AB.

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Table 1A

Territory	TPL	AB
1	1.040	1.053
2	0.916	0.913
3	0.955	0.927
Total	1.000	1.000

Currently FA does not differentiate rates by territory, so this represents a change to FA's rating methodology.

As presented in Table 1A, FA proposes TPL rates in Territory 1 that will be, on average for otherwise identical risks, 4% higher than the average rates for the entire province; TPL rates in Territory 2 that will be, on average, 8.4% lower than the provincial average; and TPL rates in Territory 3 that will be, on average, 4.5% lower than the provincial average. FA proposes similar, but not identical, variations in its AB rates.

FA Indicated Territory Relativities

FA's proposed territory relativities are identical to its indicated territory relativities.

FA determines indicated territory relativities by:

- estimating the ultimate loss ratio for each territory (for TPL and AB separately) based on the latest five years of FA taxi experience in NL,
- measuring the credibility of its experience in each territory using its full credibility standards as discussed in our September 1, 2015 report: 3,246 claims for TPL and 2,164 claims for AB. FA finds its TPL experience for territories 1, 2 and 3 are 41.7%, 19.2%, and 8.8% credible, respectively. FA finds its AB experience for territories 1, 2, and 3 are 26.6%, 11.8%, and 5.1% credible, respectively, and
- applying the balance of credibility weight to a relativity factor of 1.00 (i.e., to provincial average).

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We find FA's general approach to determine its territory relativities to be reasonable. However, as discussed in our September 1, 2015 report, we find FA's TPL full credibility claim count standard to be a change from its prior standard approved by the Board that has not been supported. (As stated in the Board's Decision regarding the 2014 taxi filing, the Board found that FA had not supported its proposed changes to the full credibility standards, and FA was directed to use the same standards as those from its 2013 taxi filing: 5,410 claims for TPL.)

Making the change to the TPL full credibility standard approved by the Board, 5,410 claims, and no other changes in assumptions, we estimate the credibility for TPL territories 1, 2 and 3 to be 32.3%, 14.9%, and 6.8%, respectively. Based on this alternative credibility standard, and following the methodology presented by FA, we estimate the indicated territory relativities to be as follows.

Table 2A

Territory	TPL	AB
1	1.026	1.053
2	0.929	0.913
3	0.959	0.927
Total	1.000	1.000

As presented in Table 2A (compared to Table 1A above) the higher full credibility standard of 5,410 claims for TPL results in a narrow range of average rates. For example, instead of the average TPL rates in Territory 1 being 4% higher than the provincial average, they would be 2.6% higher.

FA Proposed Rate Changes by Territory

The following table presents the rate changes proposed by FA by territory.

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Table 3A

Territory	TPL	AB	UA	Collision	Comp	SP	AP	All
1	+81.8%	+154.8%	+180.1%	-29.8%	-17.4%	-17.4%	-25.7%	+74.1%
2	+60.0%	+120.7%	+180.1%	-29.8%	-17.4%	-17.4%	-25.7%	+74.1%
3	+66.8%	+124.4%	+180.1%	-29.8%	-17.4%	-17.4%	-25.7%	+74.1%
Total	+74.7%	+141.9%	+180.1%	-29.8%	-17.4%	-17.4%	-25.7%	+74.1%

The following Table 4A presents the FA's proposed changes for TPL by territory, and our estimated indicated rate level changes by territory for TPL using the territory relativities we presented above in Table 2A and our alternative indications presented in Table 6 of our September 1st report. A similar Table 4B is presented for AB.

Table 4A- TPL

Territory	FA Proposed Changes	Oliver Wyman Indicated Changes by Territory		
		June 2014 Board Trends Table 6- Column #1	December 2014 Board Trends Table 6- Column #2	With FA Trends & Board Credibility Standards Table 6- Column #3
1	+81.8%	+30.7%	+42.7%	+45.7%
2	+60.0%	+18.4%	+29.2%	+32.0%
3	+66.8%	+22.2%	+33.4%	+36.3%
Total	+74.7%	+27.4%	+39.1%	+42.1%

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Table 4B- Accident Benefits

Territory	FA Proposed Changes	Oliver Wyman Indicated Changes by Territory		
		June 2014 Board Trends Table 6- Column #1	December 2014 Board Trends Table 6- Column #2	With FA Trends & Board Credibility Standards Table 6- Column #3
1	+154.8%	+91.2%	+88.2%	+101.5%
2	+120.7%	+65.8%	+63.2%	+74.7%
3	+124.4%	+68.3%	+65.7%	+77.4%
Total	+141.9%	+81.6%	+78.7%	+91.4%

Summary

We find FA's general approach to select territory relativities to be reasonable except for its full credibility standard for TPL. This issue of the full credibility standard is discussed more fully in our report dated September 1, 2015. If the Board finds that the FA has not provided support to change its prior approved full credibility standard for TPL from 5,410 claims to 3,246 claims, then the TPL territory relativities proposed by FA based on this proposed lower standard of 3,246 claims used to determine the territory relativities would also not be supported.

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forth herein. This report should not replace the due diligence on behalf of any such third party.

- 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

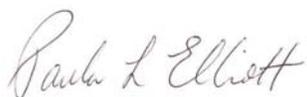
- For our review, we relied on data and information provided by FA without independent audit. Though we have reviewed the data for reasonableness and consistency, we have not audited or otherwise verified this data. It should also be noted that our review of data may not always reveal imperfections. 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.

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

Sincerely,



Paula Elliott, FCAS, FCIA



Theodore J. Zubulake, FCAS, FCIA