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May 10, 2016

NL Board of Commissioners of Public Utilities  
120 Torbay Road, P.O. Box 21040,  
St. John's, Newfoundland and Labrador  
A1A 5B2

Attention: Cheryl Blundon

RE: FA NL **Taxi, Jitney, and Liveries Automobile Rate Application – Category 2** – Response to attachment in email April 26, 2016

Dear Ms. Blundon,

Facility Association (FA) received questions in regard to FA Newfoundland and Labrador Taxi, Jitney, and Liveries Rate Filing in 2016 (Information Requests PUB-FA-001 to PUB-FA-013). Our responses to the questions are provided on the pages that follow.

Best regards

Liqing Yang, FCIA, FCAS  
Pricing Actuary

**PUB-FA-001:** Please complete the following table for FA's Taxi class of business:

	Average TPL Premium	Total Average Premium	Proposed Increase	Approved Increase
<b>Prior to August 1, 2013</b>			n/a	n/a
<b>As of August 1, 2013</b>				
<b>As of September 1, 2015</b>				
<b>As of June 1, 2016</b>				
<b>Current Proposal</b>				n/a

**FA Response to PUB-FA-001:**

In the table below, we have used accident year 2012 as the starting point, and estimated subsequent average premium levels by applying approved rate increases indicated in the corresponding row. This would not take into consideration any changes in mix of rating characteristics, mix of coverage purchases, or the impacts of any experience rating (as applicable for fleet-rated taxis).

Coverage	Average TPL Premium	Total Average Premium	Proposed Increase - TPL	Proposed Increase - Total	Approved Increase - TPL	Approved Increase - Total
Prior to August 1, 2013	1,884	2,073	n/a	n/a	n/a	n/a
As of August 1, 2013	2,826	3,054	50.0%	47.3%	50.0%	47.3%
As of September 1, 2015	3,318	3,643	69.7%	71.9%	17.4%	19.3%
As of June 1, 2016	4,227	4,696	74.7%	74.1%	27.4%	28.9%
Current Proposal	5,364	5,982	26.9%	27.4%	n/a	n/a

Note 1: 2012 AY written premium used for estimated average premium in initial row.

Note 2: for each subsequent row, average premium is estimated as approved rate increase times prior row estimated average premium except for "current proposal" row, where proposed rate change is used

The estimated total average premium in row "Current Proposal" of \$5,982 is approximately 21% lower than the estimate of \$7,593 provided submission Exh C-1. Our investigation into this uncovered that in our submission Exh C-2, rows [24] and [25] were not updated to reflect the rate level indices applicable to accident halves 2014-1 and 2014-2 respectively, but instead were for 2013-1 and 2013-2 (as per our previous filing). As a result, those indices were understated, causing the on-level average written premium used in Exh C-1 for weighting coverages to be over-stated. This affects weighting (and hence the weighted totals) and the assumption of Driver Record Abstracts as % of on-level premium. The latter has a small impact (increase) for the TPL indication, and creates minor changes in the estimated overall indications (being a weighted average). Specifically:

TPL indications	12% ROE	0% CoC	Alt Assumps
As Submitted	79.4%	60.0%	26.9%
Updated	79.8%	60.3%	27.2%

All Coverages indications	12% ROE	0% CoC	Alt Assumps
As Submitted	79.7%	60.3%	27.7%
Updated	79.7%	60.2%	27.4%

You will note that the all coverages indication as decreased, even though there was a small increase in the TPL indications. This is due to less weight being given to the TPL and AccBen indications with the update to the on-level rate factors.

With these adjustments, the updated Exh C-1 overall proposed average written premium is \$6,039 which compares with the \$5,982 all coverages current proposed average written premium per the table prepared in response to the original question (i.e. a difference of approximately 1%).

The attached please find the exhibits (Updated Exh A-1, Updated Exh C-1, Updated Exh C-2 and Updated Exh G-1) which are impacted by the updates.

**PUB-FA 002:** *FA's average commission for Taxi business will increase to approximately \$471 based on the proposed changes in the current filing. This represents an increase of approximately 283% when compared to the average commission of \$123 prior to the August 1, 2013 rate change. Notwithstanding the Plan of Operation, please explain why such a large increase in commissions during this period is reasonable and justified.*

**FA Response to PUB-FA-002:**

(As a result of updating current on-level average written premium per vehicle as indicated in response to question 1, the estimated average commission per vehicle as proposed will be \$362 as opposed to \$471, an increase of 188% - the same increase as per the increase in the average written premium during the period.)

FA's broker commission for taxi in Newfoundland & Labrador is 6%, the same level as other jurisdictions other than Ontario. This compares with 10% for commercial vehicles, 9% to 11% for private passenger (9% for classes 10/11/12, and 11% for all other).

A broker compensation arrangement providing commission as a percentage of premium is a standard practice throughout the insurance industry. It is not meant to reimburse brokers for actual costs incurred for individual transactions, but to provide for the cost of the provision of services overall and measured or considered over the longer term.

Brokers provide services to their clients in the acquisition of appropriate levels of coverage based on an assessment of the client's risk profile, risk appetite, financial position, and the product availability in the

market place. We believe that with an appropriately priced taxi policy, a clear incentive is provided to the taxi owner-operators and their brokers to work more closely to take action to reduce the likelihood of causing insurable accidents and to reduce the financial impact of insurable accidents that do occur (which is the force behind the extensive need for rate increase). With proper broker compensation, specialized brokers that focus on risk management for such insureds may be enticed to enter the market place and, to the extent that they are able to help reduce the number of accidents or the financial impact of accidents, society overall will benefit.

**PUB-FA 003:** *Given the large increases in FA Taxi premiums since August 1, 2013, was a cap on the dollar amount of commissions considered by FA? If not, why not?*

**FA Response to PUB-FA-003:**

Changes to commission levels require Plan of Operation amendments. FA management has not considered capping the commission levels, as we do not see the issue being over-payment of commission to brokers, but rather that the current rate levels do not reflect the underlying claims experience of the taxi industry in Newfoundland & Labrador.

All that said, the Plan of Operation carries the force of law and our rate filing includes future costs in compliance with the Plan.

**PUB-FA 004:** *Does FA have a cap on its dollar commission rate for any lines of business in any province? If so, under what conditions?*

**FA Response to PUB-FA-004:**

Commission caps apply in Ontario, as directed by the Ontario Superintendent of Insurance and as scheduled in the Plan of Operation. However, in Ontario, the cap is increased on a regular basis with the Superintendent's approval and with the ultimate goal of having it remove altogether.

No other jurisdiction in which FA operates caps broker commissions.

**PUB-FA 005:** *FA's Servicing Carrier operating costs and fees (for policy handling and processing) will increase to approximately \$785 based on the proposed changes in the current filing. This represents an increase of approximately 283% when compared to the average servicing carrier operating costs and fees of \$205 prior to the August 1, 2013 rate change. Notwithstanding the Plan of Operation, please explain why such a large increase in Servicing Carrier operating costs and fees during this period is reasonable and justified. In the response, please detail any specific changes to process or workload which have contributed to the increased expense.*

**FA Response to PUB-FA-005:**

As a result of updating current on level average written premium per vehicle, the estimated FA's Servicing Carrier operating costs and fees per vehicle is \$604, not \$785. Like broker commission, this represents a 188% increase from the 2012 level, aligned with the proposed change in rates over that period.

Servicing Carriers are compensated on a formula basis, that is, they are not compensated on the basis of reimbursement for actual costs incurred. Rather, Servicing Carrier compensation levels have historically been set on a reasonably consistent basis across jurisdictions and specifically are not set at a rating class basis. It is our understanding that the level is established so as to provide for the overall costs incurred by Servicing Carriers and measured or considered over the longer term. It is also our understanding that the mandated compensation reflects not just Servicing Carrier performance that can be directly related to specific activities (for example underwriting, rating, policy management, fleet management, broker management), but also captures costs associated with technology, accounting and reporting, audit, and general management/oversight expenses.

All that said, the Plan of Operation carries the force of law and our rate filing includes future costs in compliance with the Plan.

**PUB-FA 006:** *What were the actual FA Taxi Servicing Carrier operating costs and fees for 2012, 2013, 2014 and 2015?*

**FA Response to PUB-FA-006:**

Facility Association does not have access to details related to actual expenses incurred by Servicing Carriers. Servicing Carriers do provide services in support of all jurisdictions and rating classes for the Facility Association, and any attempt by Servicing Carriers to estimate "actual" expenses for any single rating class in any specific jurisdiction would likely require a number of allocation assumptions that would make a precise estimate extremely difficult to obtain.

Table below shows total Servicing Carrier Operating costs and fees by year and estimated Servicing Carrier Operating costs and fees allocated to Taxis:

All Vehicle Classes	Source	2015	2014	2013	2012	All
Written Premium	Participation Rpt as at Dec. 31, 2015	28,010,940	29,324,515	30,423,696	28,707,721	All
Operating and Service Fee	Participation Rpt as at Dec. 31, 2015	3,147,706	3,062,135	3,192,814	2,986,612	All
Operating and Service Fee as % of Premium		11.2%	10.4%	10.5%	10.4%	All

  

Taxis	Source	2015	2014	2013	2012	Taxis
Written Premium	FA AIX AU11 (10yr)	2,513,470	2,395,383	2,152,409	1,697,835	Taxis
Operating and Service Fee as % of Premium	Participation Rpt as at Dec. 31, 2015	11.2%	10.4%	10.5%	10.4%	Taxis
Estimated \$ amount of Operating and Service Fee		282,449	250,132	225,885	176,635	Taxis

**PUB-FA 007:** *Given the large increases in FA Taxi premiums since August 1, 2013, was a cap on the dollar amount of Servicing Carrier operating costs and fees considered by FA? If not, why not?*

**FA Response to PUB-FA-007:**

Changes to Servicing Carrier compensation require Plan of Operation amendments. FA management has not considered capping Servicing Carrier compensation levels, particularly at a jurisdiction or rating class level. FA does not see the issue being over-payment of compensation to Servicing Carriers, but rather that the current rate levels do not reflect the underlying claims experience of the taxi industry in Newfoundland & Labrador.

**PUB-FA 008:** *Does FA apply a cap on Servicing Carrier operating costs and fees for any lines of business in any province? If so, under what conditions?*

**FA Response to PUB-FA-008:**

No, there is no cap for Servicing Carrier operating costs and fees in any jurisdiction in which FA operates (other than the sliding scale compensation approach applied to claims service fees).

**PUB-FA 009:** *Please explain what consideration FA has given to the impact that large increases to expenses calculated on a percent of premium basis will have on Taxi policyholders.*

**FA Response to PUB-FA-009:**

While FA recognizes that no business looks favourably on increases in their input costs, the insurance industry has provided, and continues to provide, a substantial subsidy to the Newfoundland & Labrador taxi industry by charging insurance premiums that are lower than the costs associated with the product.

In the long run, we would view this as unfavourable to the public interest in Newfoundland & Labrador to the extent that taxi owners and operators in the province are not being provided with the proper incentive to address the issues (driving behaviours, for example), that are the root cause of the level of frequency and severity of insurable claims for the taxi industry.

**PUB-FA 010:** *Please provide the total average premium for FA Private Passenger business in NL for 2012, 2013, 2014 and 2015.*

**FA Response to PUB-FA-010:**

The table below shows the average premium for FA Private Passenger business in NL:

PPV	2015	2014	2013	2012
Written Premium	21,152,345	23,000,544	24,025,394	23,132,535
Written Exposure (excl trailers) - policy	10,622	11,513	12,108	11,916
Average Written Premium	1,991	1,998	1,984	1,941

**PUB-FA 011:** *Please provide the average dollar commissions charged for FA Private Passenger business in NL for 2012, 2013, 2014 and 2015.*

**FA Response to PUB-FA-011:**

The table below shows the average dollar commissions charged for FA Private Passenger business in NL:

PPV	2015	2014	2013	2012
Written Premium	21,152,345	23,000,544	24,025,394	23,132,535
Written Exposure (excl trailers) - policy	10,622	11,513	12,108	11,916
Average Written Premium	1,991	1,998	1,984	1,941
% of Commission	10.2%	10.0%	10.0%	10.1%
Average Dollar Commissions Charged to PPV	202	200	199	196

**PUB-FA 012:** *Please provide the average dollar Servicing Carrier operating costs and fees charged for FA Private Passenger business in NL for 2012, 2013 2014 and 2015.*

**FA Response to PUB-FA-012:**

The table below shows the average dollar Servicing Carrier operating costs and fees charged for FA Private Passenger business in NL for FA PPV in NL:

PPV	2015	2014	2013	2012
Written Premium	21,152,345	23,000,544	24,025,394	23,132,535
Written Exposure (excl trailers) - policy	10,622	11,513	12,108	11,916
Average Written Premium	1,991	1,998	1,984	1,941
% of Operating Costs and Fees	11.2%	10.5%	10.5%	10.4%
Average Dollar Servicing Carrier Operating Costs and Fees Charged to PPV	223	209	209	202

**PUB-FA 013:** *Please explain any differences in underwriting, policy processing, claims handling or any other costs that exists for a Servicing Carrier placing FA Private Passenger business versus FA Taxi business.*

**FA Response to PUB-FA-013:**

The underwriting and claims processes would be very similar for both private passenger and taxi (for example, both require completed applications and vehicle registrations, and MVRs and Autoplus reports are ordered for both). However, a taxi questionnaire is required on new business and renewals (not required for private passenger) and additional work is required on taxis in St. John's and Mount Pearl (where the majority are written) due to municipal filing requirements. There tends to be more drivers per vehicle for taxis than private passenger, and tend to change more often than private passenger, increasing the policy maintenance for both brokers and the Servicing Carriers.