

10 March 2017

Ms. Cheryl Blundon  
Board Secretary  
Board of Commissioners of Public Utilities  
P.O. Box 21040  
St. John's, Newfoundland and Labrador  
A1A 5B2

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

Dear Ms Blundon:

### **Introduction**

The Facility Association (hereafter referred to as FA) was provided a copy of our report dated March 1, 2017 on FA's Taxi, Jitney and Liveries (hereafter referred to as taxi) rate application. We were provided a copy of FA's comments on our report in its letter dated March 8, 2017. We appreciate the opportunity to provide our thoughts on the comments made by FA.

### **Issues**

There are two issues we wish to comment on in regards to statements made by FA in its letter dated March 8, 2017.

The first issue is in regard to FA's statement that we appear to be "capping"<sup>1</sup> by finding FA's selected loss trend rates reasonable when they are lower than the Board Guideline trend rates, but not accepting FA's selected loss trend rates when they are higher than the Board Guideline trend rates. We find this comment to be unfounded; and frankly, inappropriate.

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<sup>1</sup> Page 3, second last paragraph.

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In our report we discuss the differences in the selected trend rates for Bodily Injury and Accident Benefits (as the selections were essentially the same for the other physical damage coverages no discussion was necessary).

In the case of Bodily Injury, we found FA's selected severity trend to be in line with, but lower than, our selected severity trend of +4.0%; yet the alternate trend scenarios that we presented reflected our higher +4.0% severity trend. We did find our selected Bodily Injury frequency trend of -2.0% to be more reasonable than FA's selected frequency trend of 0%, and we presented the reasons for our position.

As respects Accident Benefits, as we stated both in our report on FA's filing and in our 2015-2 Commercial Vehicle trend report for the Board, the Accident Benefits claim experience is quite volatile (considerable variability) and as a result trend patterns are difficult to discern. We selected a loss cost trend rate of +7.0% which the Board adopted as its Guideline trend rate, and which, coincidentally, was in line with the Accident Benefits trend rate of +6.4% selected by FA in its prior tax filing. As we noted in our report on FA's current tax filing, FA changed its trend model for Accident Benefits and presented rationale supporting its selection of a sustained upward shift in costs by +85% in 2011 followed by a 0.0% loss cost trend rate thereafter. Given the difficulty in identifying trend patterns for this coverage, we stated that although FA's selected trend rate differs from our selection, we do not find it unreasonable. But we also stated how FA's rate indication would change if a +7.0% trend rate was applied.

We view our role as presenting to the Board what we believe are reasonable alternate assumptions to those made by a Company in calculating its rate level indications. Our findings as respects FA's selected trend rates are most certainly not an indication of bias. As further evidence of our not being biased, we note that in FA's 2015 tax rate application its selected loss trend rates were higher than the Board Guideline trend rates; yet we did not find any of FA's loss trend rate selections unreasonable.

The second issue<sup>2</sup> is in regard to our comment that "...rate increases alone are not an appropriate solution to this problem." While FA states it is unclear what the "problem" is, we suggest FA consider that its current rate level average tax premium in Newfoundland and Labrador at \$5,931 is considerably higher than Alberta at \$3,531, Nova Scotia at \$2,360 and New Brunswick at \$4,017 – and this is before reflecting the impact of the current application. Contrary to FA's comments, we are not advocating artificially holding the premium below a level that the Board finds is just and reasonable based on reasonable methodologies and assumptions. We are,

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<sup>2</sup> Page 11, 3rd paragraph

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though, suggesting that other ideas such as a detailed study into the reasons why the taxi claim costs are so high in the Province, developing taxi safety and driver training programs, and examining the reasonableness of commission and other expense provisions that have not been updated for over a decade, could be considered to lower premiums to address this “problem.” We stand by our comment.

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## **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

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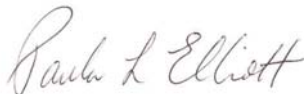
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accurate and complete. The results of our analysis are dependent on this assumption. If this data or information is inaccurate or incomplete, our findings and conclusions may need to be revised.

- 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.

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

Sincerely,



Paula Elliott, FCAS, FCIA



Theodore J. Zubulake, FCAS, FCIA