OliverWyman

INTERROGATORIES #1

Prepared by:	Oliver Wyman
Date:	June 7, 2021
Company:	Facility Association (FA)
Filing Type:	Mandatory Rate Filing
Vehicle Type:	Private Passenger Vehicles
Province:	Newfoundland and Labrador
Proposed Effective Dates:	January 1, 2022, for new business and renewals

General

1. Can FA provide data from its servicing carriers of the actual general expense costs (for each of 2018 to 2020 years) to support that the 10% of premiums (9% operating costs and 1% fees) provision is reasonable for general expenses?

2. If FA's proposed overall premium increase of +8.9% is approved, there would be a commensurate increase in the fees paid to the servicing carriers, all else being equal. As a large portion of the +8.9% increase is attributed to a higher profit provision and a lower pre-tax return on investment rate than assumed in the current rates, explain why it is reasonable to increase the fees paid to the servicing carriers.

3. FA states in its cover letter dated May 31, 2021, that for 18% of the risks, the primary reason for submission to the FA is due to the lower FA premium.

   3.1. Does FA agree or know if it is possible that some of those risks (i.e., the 18%) could have been placed with another insurer whose rates would have been lower than FA's?

   3.2. Each insurer determines its rate level need independently from other insurers using their unique loss experience and operating expense profile, and as as result, there can be a wide range of rates amongst insurers. Given independent rate setting and different portfolios of risks, does FA find it unreasonable for some insurers to have higher rates than those of FA for some risks? If so, explain why this is unreasonable.

Finance Fees

4. Consistent with FA's prior filing, FA has included a finance fee provision of 0.75% as an offset against other variable expenses. Can FA state the fees and net associated expenses as a percentage of premiums for each of the last three years?

Profit Provision

5. To show the rate level impact of the inclusion of the 6% of premium profit provision in the indicated rate level change estimate, as a sensitivity test, provide the rate indication based on a profit provision of 0% of premium instead of 6%, and no other changes in assumptions.

6. As sensitivity tests:

   6.1. Provide the rate indications based on the Board's prior pre-tax ROI guideline (minimum) of 2.8% instead of 1.44%; and no other changes in assumptions.

   6.2. Provide the rate indications based on a pre-tax ROI of 2.44% instead of 1.44%; and no other changes in assumptions.

   6.3. Provide the rate indications by combining Questions 5 and 6.1; and no other changes in assumptions.

7. Based on the reporting in the P&C-1 financial statements, in the Province of Newfoundland and Labrador, the written premium weighted average pre-tax return on investment rate for automobile insurers operating in the province was approximately 2.00%, 3.61% and 3.48%, respectively for 2018 to 2020; an average of 3.03%. As a sensitivity test, provide the rate indication based on a pre-tax ROI of 3.0%, instead of 1.44%, and no other changes in assumptions.

8. As directed by the Board's filing guidelines, insurers are to assume a pre-tax ROI based on the expected total ROI for all investment assets – aligned with the ROI rates noted in Question 7 above - in their rate applications. Specifically, the guidelines state: "While the expected investment return selected should consider new money rates, the Board anticipates that the selected expected investment return will be close to the actual investment return the insurer earned within the recent past and reflect the mix of all investment assets expected to be held by the insurer." Given this, explain why it is reasonable for FA to propose an ROI of 1.44% based on an approach that does not consider all assets held by insurers, but instead only government bonds.

Loss Development – FA Experience

9. In Appendix A, Part 1, page 3 of 56, under the Incurred Development Method summary it references "incl Loss adj" within the title. Confirm this is incorrect, and that the data only includes indemnity amounts. (This title is presented for all coverages.) Otherwise, explain why additional provisions for loss adjustment expenses are included separately.

10. Provide the rationale for selecting the Net Zero Incurred method, rather than the Incurred Method.

Loss Trend - General

11. As a sensitivity test, provide the rate indications based on the Board's guideline loss trend rates as of June 30, 2020. Please include excel indication model with this response.