
Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**IN THE MATTER OF AN
APPLICATION BY FACILITY ASSOCIATION
FOR APPROVAL OF REVISED RATES FOR ITS
NEWFOUNDLAND AND LABRADOR
PUBLIC VEHICLES – TAXIS AND LIMOUSINES
CLASS OF BUSINESS**

**DECISION AND ORDER
OF THE BOARD**

ORDER NO. A.I. 4(2017)

BEFORE:

**Darlene Whalen, P. Eng.
Vice-Chair**

**James Oxford
Commissioner**

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

AN ORDER OF THE BOARD

NO. A.I. 4(2017)

IN THE MATTER OF the *Automobile Insurance Act*, RSNL 1990, c. A-22, as amended; and

IN THE MATTER OF an application by Facility Association for approval of revised rates for its Newfoundland and Labrador Public Vehicles – Taxis and Limousines class of business.

BEFORE:

Darlene Whalen, P. Eng.
Vice-Chair

James Oxford
Commissioner

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1 **1. The Application**

2
3 Facility Association (“Facility”), as operator of the residual market mechanism for automobile
4 insurance in the Province, filed a Category 2 application on December 23, 2016 seeking approval
5 of increased rates for its Newfoundland and Labrador Public Vehicles – Taxis and Limousines
6 (“Taxis”) class of business (the “Application”). The Application proposes overall rate increases
7 for Third Party Liability, Accident Benefits and Uninsured Automobile coverages, to be effective
8 no earlier than October 1, 2017, as follows:

Proposed Taxi Rate Increases¹			
	Third Party Liability	Accident Benefits	Uninsured Automobile
Proposed % Increase	+30.7%	+22.8%	+53.7%
Proposed Average \$ Increase	+\$1,599	+\$104	+\$95

9 Rates for Physical Damage² coverages are proposed to decrease: Collision by 9.3%;
10 Comprehensive by 11.8%; and Specified Perils by 7.0%. Facility estimates that its Application
11 proposals, if approved, will result in an increase of 29.7% in its overall rate level in the Province
12 for all coverages combined, and a proposed average premium of \$7,693 per vehicle³.

13
14 This Application is Facility’s fifth request for an increase in rates for its Taxis class of business
15 since 2013. As a result of the previous applications, Facility’s rates for Taxis increased by an
16 average of 50.1% on August 1, 2013, 19.3% on September 1, 2015, 28.9% on June 1, 2016 and
17 25.7% on March 1, 2017⁴. Prior to 2013 rates for Taxis had not changed since 1993 as Facility
18 did not file any applications for rate changes in the intervening 20-year period.

19
20 **2. Procedural Matters**

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

24
25 On January 9, 2017 Oliver Wyman filed questions on Facility’s actuarial analysis and Facility
26 filed responses on January 20, 2017.

27
28 On March 1, 2017 Oliver Wyman filed a report (the “Oliver Wyman Report”) outlining its
29 review of the actuarial justification provided in the Application. Facility filed comments in
30 response to the Oliver Wyman Report on March 8, 2017 and Oliver Wyman filed a reply on
31 March 13, 2017.

¹ Facility’s Actuarial Memorandum, Exhibit C-1. Individual policyholder increases will vary depending on coverage level and driving record.

² Facility’s rates for Physical Damage coverage are based on a percentage of its Private Passenger Automobile rates.

³ Facility’s Actuarial Memorandum, Exhibit C-1.

⁴ Board Order Nos. A.I. 9(2013), A.I. 11(2015), A.I. 15(2015), A.I. 3(2016), A.I. 5(2016), A.I. 14(2016) and A.I. 18(2016).

1 A Notice of Application was published in newspapers throughout the Province starting March 3,
2 2017 inviting interested parties wishing to participate in the Application to contact the Board by
3 March 17, 2017. No submissions were received.

4
5 On March 16, 2017 the Board extended the 90-day review timeline.

6
7 Facility advised the Board on May 17, 2017 that it wished to amend the effective date of new
8 rates arising from this filing to March 1, 2018.

9 10 **3. Review of Application Proposals**

11
12 In the Application Facility presents its rate level need using three sets of assumptions for cost of
13 capital and return on investment.⁵ Facility's overall rate indications and proposed changes based
14 on 0% cost of capital and 2.8% return on investment are shown below:⁶

Coverage	Overall Rate Indication (0% cost of capital and 2.8% ROI)	Overall Proposed Rate Change
Third Party Liability	+30.7%	+30.7%
Accident Benefits	+22.8%	+22.8%
Uninsured Automobile	+53.7%	+53.7%
Collision	-9.3%	-9.3%
Comprehensive	-11.8%	-11.8%
Specified Perils	-7.0%	-7.0%
Total	+29.7%	+29.7%

15 Facility proposes overall rate level changes by coverage that are the same or less than its
16 indications using 0% cost of capital and 2.8% return on investment. Facility also proposes a
17 number of underwriting rule changes which have no impact on rates.

18
19 With respect to Facility's ratemaking methodology Oliver Wyman noted that Facility's proposed
20 overall rate level change of +29.7% is based on assumptions that are generally in keeping with
21 the Board's Filing Guidelines and recent Decisions on previous Facility Taxis rate applications
22 with the exception of: i) the selected loss trend rates; ii) the full claim count credibility standards
23 for certain coverages; and iii) the complement of credibility. Oliver Wyman also noted that
24 Facility omitted an adjustment to its historical loss experience for the change in HST from 13%
25 to 15% effective July 1, 2016.

26 27 **4. Board Findings**

28
29 The Board is cognizant that there are a wide range of possible outcomes in any prospective
30 ratemaking exercise. The Board must be satisfied that the proposed rate changes are supported
31 based on the information filed and are not too high in the circumstances. In making this

⁵ Facility presents three rate level indications based on: i) 12% cost of capital and 0.47% return on investment; ii) 0% cost of capital and 0.47% return on investment; and, iii) 0% cost of capital and 2.80% return on investment. The overall rate level indication for each of these scenarios is +56.6%, +39.4% and +29.7% respectively.

⁶ Facility's Actuarial Memorandum, Exhibit C-1.

1 determination the Board looks to the professional judgement of the actuaries, as well as the
2 support and explanation for their respective positions. The Board notes that neither Facility nor
3 Oliver Wyman took the position that each other's work was unreasonable or contrary to actuarial
4 practice standards.
5

6 The Board has reviewed the record of the proceeding, including Facility's Actuarial
7 Memorandum, Oliver Wyman's reports on its review of the Application, and Facility's responses
8 to the Oliver Wyman Report and the information requests. The issues to be addressed are: i) the
9 selected loss trend rates; ii) the full claim count credibility standards; iii) the complement of
10 credibility; and iv) the HST adjustment. These issues, along with the Board's findings on each,
11 are discussed in the following sections.
12

13 **4.1. Loss Trend Rates** 14

15 Loss trend rates are applied to the experience period incurred losses to adjust for the cost levels
16 that are anticipated during the policy period covered by the proposed rates. The selection of the
17 appropriate loss trend rate by coverage is a matter of actuarial judgment in the statistical analysis
18 of the underlying data. Because the industry experience for Taxis is too limited for use in
19 selecting loss trend rates, Facility based its selected loss trend rates on the NL Industry
20 Commercial Vehicles loss experience.
21

22 In the Application Facility selected loss trend rates based on its review of NL Industry
23 Commercial Vehicles data as of December 31, 2015. Facility selected its loss cost trend rates for
24 each coverage by separately selecting frequency and severity trend rates and then combining
25 these selected trend rates to arrive at its selected loss cost trend rates. Facility used the same
26 trend rate for both past and future trend periods.
27

28 Oliver Wyman noted that there is considerable volatility in the NL Industry Commercial
29 Vehicles experience which makes trend patterns difficult to identify. Given the uncertainty and
30 volatility of the underlying experience, and that Facility measures trends based on data that
31 excluded loss adjustment expenses, Oliver Wyman does not find Facility's selected loss trend
32 rates to be unreasonable with the exception of the Bodily Injury trend⁷.
33

34 In its current Bodily Injury trend analysis based on industry data through December 31, 2015,
35 Facility selects a frequency trend rate of 0.0%, a severity trend rate of +3.5% and a loss cost
36 trend rate of +3.5%. In its prior review based on industry data through December 31, 2014
37 Facility selected a frequency trend rate of -2.3%, a severity trend rate of +4.8% and a loss cost
38 trend rate of +2.4%. Hence, the increase in Bodily Injury loss cost trend from +2.4% to +3.5% is
39 primarily driven by the increase in the selected frequency trend from -2.3% to 0.0%.
40

41 Oliver Wyman noted that industry data through December 31, 2015 shows that Facility's Bodily
42 Injury claim frequency continued to decline in comparison to the December 31, 2014 data.
43 However, Facility increased its selected frequency trend rate from -2.3% to 0.0%⁸.

⁷ Oliver Wyman Report, page 12.

⁸ Ibid., page 11.

1 Facility stated that its 0.0% Bodily Injury frequency selection is due to a change in approach in
 2 which it now finds it reasonable to assume that the Bodily Injury frequency trend should track
 3 with that of Property Damage, Collision and Accident Benefits, for which 0.0% frequency trend
 4 is also selected. Facility submitted that this change is statistically supported based on the results
 5 and interpretation of a correlation analysis it conducted. Facility stated:

6
 7 Over the course of several reviews across multiple jurisdictions and rating classes, we
 8 have noted a high level of correlation in claims frequency among “result of collision”
 9 type coverages. This makes intuitive sense to us, as a single accident can give rise
 10 concurrently to claims across multiple coverages.

11
 12 As indicated by the correlation matrix, bodily injury frequency is correlated with all 3
 13 other major “resulting from collision” coverages (PD, AccBen, and CL) to either a strong
 14 or moderate degree.⁹ NL Industry CV BI frequency is also strongly correlated with NL
 15 Industry PPV BI frequency (correlation of 76% over the period). For each of the others,
 16 the frequency trend selected was 0%.¹⁰

17
 18 Oliver Wyman does not accept Facility’s rationale for selecting a 0% Bodily Injury frequency
 19 trend rate. Oliver Wyman stated that Facility changed its approach to a more judgement based
 20 approach and selected 0.0%, but had it followed its prior statistical approach, Facility would
 21 have selected -1.6%. Based on its own analysis, Oliver Wyman found a -2.0% frequency trend
 22 rate for Bodily Injury to be reasonable and noted that, by substituting the Board’s Guideline
 23 Bodily Injury trend rate instead of Facility’s selections and with no other changes in
 24 assumptions, Facility’s rate indication for Third Party Liability decreases from +30.7% to
 25 +26.2%.¹¹

26
 27 Facility submitted that Oliver Wyman’s loss trend findings appear to be inconsistent as Oliver
 28 Wyman rejects Facility’s Bodily Injury selection due the change in approach, yet it does not find
 29 Facility’s Accident Benefits selection to be unreasonable. Facility noted that its analysis takes the
 30 same approach for both coverages and believes that the same “result of collision” forces apply.
 31 By substituting the Board’s Guideline Accident Benefits trend rate instead of Facility’s selection,
 32 the Accident Benefits indication basically doubles from +22.8% to +44.4%. Facility submitted
 33 that it has provided data which demonstrates that all of its trend model selections are statistically
 34 supported and submitted that its trend structures should be allowed by the Board without
 35 adjustment.

36
 37 The Board notes that Facility’s Bodily Injury loss trend selection relies on Facility’s judgement
 38 that the Bodily Injury frequency trend should track with that of Property Damage, Collision and
 39 Accident Benefits, for which Facility selects a 0.0% frequency trend. This is a change in
 40 approach by Facility from its prior analysis and results in an increase in the selected Bodily
 41 Injury frequency trend rate from -2.3% to 0.0% despite the fact that Bodily Injury claims
 42 frequency continued to decline over this period. While the Board acknowledges that Facility

⁹ Facility considers absolute values of correlation over 80% to be very strong, 51% to 80% to be strong, 21% to 50% to be moderate, and 0% to 20% to be weak-to-none.

¹⁰ Response to Oliver Wyman Question 11(b), January 9, 2017.

¹¹ Oliver Wyman Report, page 11; *Board Guideline Loss Trend Report, Response to FA Comments*, October 12, 2016.

1 provided statistical measures in an attempt to demonstrate that a correlation may exist in the
 2 claims frequency among “result of collision” type coverages, the Board finds that these statistics
 3 do not justify the proposed Bodily Injury frequency trend rate of 0.0%. The Board finds the
 4 underlying Bodily Injury loss experience indicates that claims frequency has continued to decline
 5 and that approval of a 0.0% Bodily Injury frequency rate will result in rates that are too high in
 6 the circumstances.

7
 8 With respect to the Accident Benefits loss trend selection the Board notes that, while Oliver
 9 Wyman did not specifically take exception to the approach used by Facility, Oliver Wyman did
 10 acknowledge that the Accident Benefits data is very volatile making it difficult to discern a trend
 11 pattern. The Board also notes that Facility’s Accident Benefits loss trend selection of 0.0% is less
 12 than the Board’s Guideline selection of +7.0%. The Board is satisfied that Facility’s Accident
 13 Benefits loss trend selection of 0.0% will not result in rates that are too high in the
 14 circumstances.

15
 16 **The Board does not accept Facility’s proposed Bodily Injury loss trend selection.**

17
 18 **4.2. Full Credibility Standards**

19
 20 The standard of full credibility determines the weight given to the latest Facility Taxis
 21 experience in the rate change indication. While there is science underlying the selection of the
 22 full credibility standards, considerable judgement is exercised by actuaries in selecting the
 23 standards. The full claim count credibility standard for each automobile insurance coverage is
 24 typically referenced in the context of Collision, with a full credibility claim count standard for
 25 Collision at 1,082.

26
 27 In its 2013 Taxis filing Facility selected full credibility standards with reference to a study
 28 completed in 2004 by its former external actuarial services provider, Eckler Ltd. (“Eckler”),
 29 using 2003 Atlantic Commercial Vehicle data (the “Eckler Study”). The full credibility claim
 30 count standards resulting from the Eckler Study are as indicated below:

Coverage	Full Credibility Standard
Third Party Liability	5,410
Bodily Injury	2,164
Property Damage	3,246
Accident Benefits	2,164
Uninsured Automobile	2,164
Underinsured Motorist	2,164
Collision	1,082
Comprehensive	3,246
Specified Perils	3,246

31 Based on the actuarial support provided, this approach was accepted by the Board in Order No.
 32 A.I. 9(2013).

1 In its subsequent Taxis filings Facility proposed to move away from the full credibility standards
 2 supported by the Eckler Study.¹² In each case the Board found that Facility had not provided
 3 sufficient support for its proposed changes to the full credibility standards and Facility's
 4 effective rates have continued to reflect the Eckler Study since 2013.¹³ Facility stated that it has
 5 included additional information in this filing in an attempt to address this issue.

6
 7 In this Application Facility proposed to use the same full credibility standards as proposed in its
 8 March 2014 and May 2015 filings as indicated below:¹⁴

Coverage	Full Credibility Standard
Third Party Liability	3,246
Bodily Injury	2,164
Property Damage	1,082
Accident Benefits	2,164
Uninsured Automobile	2,164
Underinsured Motorist	2,164
Collision	1,082
Comprehensive	1,082
Specified Perils	1,082

9 Facility's selections are based on an internal actuarial decision to update and harmonize the
 10 credibility standards to be consistent at the coverage level across all jurisdictions. This occurred
 11 during 2013 as part of Facility's transition to bring pricing work in-house when Eckler was no
 12 longer Facility's actuarial services provider. The proposed credibility standards reflect 2 times
 13 Collision for "long tailed" coverages and 1 times Collision for "short tailed" coverages.¹⁵ In
 14 relation to the Eckler Study, this reduces the Property Damage, Comprehensive and Specified
 15 Perils multiplier from 3 times Collision to 1 times. Facility stated that, by reducing the full
 16 credibility standards, more weight is given to actual experience and less weight is given to the
 17 complement of credibility which, according to Facility, is a more reasonable balance. It is also
 18 Facility's view that these selections make more intuitive sense than the Eckler Study where the
 19 short tailed coverages were given higher claims standards than long tailed coverages.

20
 21 Facility submitted that the full credibility standards resulting from the Eckler Study are no longer
 22 appropriate for use, nor is an update of the study reasonable in the circumstances.¹⁶ In particular,
 23 Facility noted that the Eckler Study was based on combined 2003 Atlantic Commercial Vehicle
 24 data at a time when the Third Party Liability coverages (i.e. Bodily Injury and Property Damage)

¹² Taxis filings submitted March 2014, May 2015 and March 2016.

¹³ See Order Nos. A.I. 11(2015), A.I. 3(2016) and A.I. 14(2016).

¹⁴ In its March 2016 filing Facility proposed to adopt the full credibility standards included in the Board's Filing Guidelines based on the assumption that the Board's guideline standards would be de facto acceptable to both Oliver Wyman and the Board. In Order No. A.I. 14(2016) the Board found that Facility had not provided sufficient support for its proposed changes to the full credibility standards.

¹⁵ Long Tailed - claims that typically have long settlement periods including Bodily Injury, Accident Benefits and Uninsured Auto. Short Tailed - claims that typically have short settlement periods including Property Damage Comprehensive and Specified Perils.

¹⁶ Facility's Actuarial Memorandum, Section 2, pages 30-31.

1 were generally consistent across the Atlantic jurisdictions. With the introduction of product
 2 reforms in 2004 and subsequent, the results of an updated study based on the combined Atlantic
 3 data would not be relevant for Newfoundland and Labrador which adopted reforms significantly
 4 different than the other jurisdictions. Facility also noted that Newfoundland and Labrador does
 5 not have sufficient data for a credibility study based on the province's experience alone.

6
 7 Oliver Wyman noted that its stated position in Facility's prior Taxis filings was that the
 8 explanations and graphs provided by Facility were not strong enough rationale to change its
 9 credibility standards. In Facility's 2015 Taxis filing Oliver Wyman further supported this
 10 position by updating the Third Party Liability analysis performed by Eckler using more recent
 11 industry Atlantic data.¹⁷ The results of the updated study were found to be in line with those of
 12 Eckler.

13
 14 In the current Application Oliver Wyman found that Facility's rationale still does not support the
 15 credibility standards it has proposed but acknowledged the limitations of an update to the Eckler
 16 Study. Oliver Wyman agreed with Facility that using the more recent combined Atlantic
 17 Provinces data could distort an analysis of the credibility standards. Oliver Wyman noted that
 18 Facility does not object to the use of the Board's guideline full credibility standards¹⁸ and that an
 19 important difference in this filing as compared to prior Facility filings is that the adoption of the
 20 Board's guideline standards would not result in materially different rate indications.¹⁹ Oliver
 21 Wyman stated:

22
 23 It is our understanding that a lower rate indication alone does not meet the Board's
 24 requirement for rationale/support for a change in assumption. However, we are of the
 25 view that because adopting the Board Guideline Standards would not result in a
 26 materially higher rate indication that the bar that FA must meet should now be lower.²⁰

27
 28 Oliver Wyman recommended that the Board allow Facility to use the Board's Guideline
 29 standards given: (a) the limitations of an update to the Eckler Study, (b) that Facility does not
 30 object to the use of the Board's Guideline standards, (c) that adoption of the Board's Guideline
 31 standards would not result in a materially higher rate level indication, and (d) that every other
 32 insurer uses the Board's Guideline standards.

33
 34 Facility submitted that it prefers the Board's Guideline standards to the Eckler standards, but it
 35 does not support Oliver Wyman's rationale of recommending this change on the basis that use of
 36 the Board's Guideline standards does not result in a materially higher indication. Facility stated:

37
 38 For our purposes, we wish to ensure that rates ultimately reflect the underlying
 39 experience of a class, while recognizing that natural volatility of results, particularly for
 40 smaller portfolios, can make it challenging to estimate the underlying exposure to claims.
 41 We believe our selected full credibility claim counts achieve this balance, whereas the
 42 "Eckler standards" tilted too far away from giving the experience due weight in terms of

¹⁷ Accident Year 2009, 2010 and 2011 as of December 31, 2013.

¹⁸ Bodily Injury (3,246), Property Damage (1,082), Accident Benefits (2,164), Uninsured Auto (3,246), Collision (1,082), Comprehensive (1,082) and Specified Perils (1,082).

¹⁹ The difference in the rate indication in comparison to the Eckler selections is approximately 1 percentage point.

²⁰ Oliver Wyman Report, page 15.

1 its inherent “ability” to “predict” its own future experience. It has nothing to do with rate
2 indication levels in general, nor a desire to materially increase or decrease indications, all
3 else being equal. We do not believe that the OW assessment of the FA standards should
4 consider the impact on indications other than acknowledging that the overall impact was
5 actually “favourable” to classes of policyholders overall²¹.
6

7 Facility submitted that the credibility standards proposed in this Application are the same
8 standards used by Facility in all jurisdictions since 2013 and have been included in over 60 rate
9 filings requiring actuarial support. Their use has not been an issue in those other jurisdictions.
10

11 The Board accepts that the selection of a full credibility standard is largely a matter of judgement
12 and that it must look to the professional judgement of the actuaries, as well as the support and
13 explanation for their respective positions, in making a decision. When an insurer chooses to
14 provide its own assumptions in a particular area it must justify to the Board's satisfaction that the
15 alternative assumptions are reasonable and appropriate in the circumstances. Any future changes
16 to those assumptions must also be similarly justified. The approval of Facility's 2013 Taxis filing
17 based on full credibility standards referenced in the Eckler Study establishes the requirement that
18 supporting justification be provided in order for Facility to deviate from those credibility
19 standards.
20

21 In the current Application both Facility and Oliver Wyman have identified limitations with
22 respect to the continued use and update of the credibility standards resulting from the Eckler
23 Study. The Eckler Study was conducted using 2003 combined Atlantic data at a time when the
24 Third Party Liability coverage was generally consistent across the Atlantic jurisdictions. The
25 Board accepts that this data may no longer be appropriate and that using the more recent
26 combined Atlantic data to update the Eckler Study could distort the analysis given the various
27 product reforms introduced in the interim. In addition, update of the study using only
28 Newfoundland and Labrador data is not an option as the province does not have sufficient data
29 for a credibility study.
30

31 The Board notes that Facility provided a thorough explanation of how it determined its proposed
32 credibility standards and identified the specific reasons for the proposed change in the
33 Application. While Oliver Wyman found that Facility's explanations and graphs were not strong
34 support for the proposed standards, the Board notes that Oliver Wyman did not provide any
35 specific support and explanation for this finding to support a finding that Facility's proposed
36 credibility standards are unreasonable in the circumstances. The Board finds that sufficient
37 justification has now been provided for Facility to deviate from the credibility standards
38 supported by the Eckler Study.
39

40 **The Board accepts Facility's proposed credibility standards.**

41 **4.3. Complement of Credibility**

42
43
44 Actuaries use credibility procedures to improve estimates by blending together two or more sets
45 of experience. The complement of credibility refers to the availability and value of any other data

²¹ Facility's Response to the Oliver Wyman Report, page 6.

1 with which an insurer's experience is credibility weighted. In the Application Facility adjusts its
2 target loss ratio for: i) the rate inadequacy it believes exists due to the difference between its
3 prior application rate indication compared to the rate change approved by the Board; and, ii) the
4 net premium/loss trend rate for the period of time between the effective date of the current rating
5 program and the effective date of the proposed rating program.
6

7 In its last Taxis filing Facility proposed an overall average rate increase of +27.4% based on the
8 Board's Guideline full credibility standards, the Board's Guideline loss trend rates, a
9 complement of credibility without any adjustment for rate inadequacy, a cost of capital of 0.0%
10 and a return on investment of 2.8%. In Order No. A.I. 14(2016) the Board approved a rate
11 change of +25.7%. The difference between the proposed and approved rate change was due to
12 the full credibility standards applied. The Board found that Facility had not provided sufficient
13 support to adopt the Board's Guideline standards and directed Facility to continue using the
14 Eckler standards.
15

16 Facility considers that its rate level need at the time of the March 2016 filing should have been
17 based on its selected full credibility standards, its selected loss trend rates and the complement of
18 credibility with an adjustment for rate inadequacy, which resulted in a rate level indication of
19 approximately +60%.²² As a result, in the current Application Facility makes what it finds to be a
20 reasonable adjustment to the net trend for its perceived current rate inadequacy.
21

22 Oliver Wyman stated that, while the net trend approach used by Facility to determine its
23 complement of credibility is a reasonable and appropriate methodology used by other actuaries,
24 it is highly dependent on the previously assumed level of rate adequacy underlying the current
25 rates. According to Oliver Wyman the difference between the Board's view and Facility's view
26 of rate adequacy was largely brought on by the long lag between Facility's 2013 rate filing and
27 its previous rate filing dated 1993, combined with the relatively low level of credibility of
28 Facility's experience.²³
29

30 Oliver Wyman stated that the Board should consider Facility's continued poor experience in
31 making its decision about the complement of credibility. Oliver Wyman noted that, while
32 making no adjustment for rate inadequacy is consistent with the Board's approach in the prior
33 application, the fact that Facility's experience continues to deteriorate suggests that net trend
34 alone is not a true representation of Facility's rate level need. The net trend approach coupled
35 with the Board's estimate of Facility's current rate level adequacy is slow to recognize Facility's
36 poor Taxis experience due to the low number of risks and low credibility. Assuming a
37 continuation of this poor experience, Oliver Wyman suggested that Facility will likely submit
38 rate filings proposing relatively large rate increases for several years.²⁴
39

40 Facility submitted that it does not support Oliver Wyman's conclusion that the difference in
41 views of rate adequacy between the Board and Facility is due to the long lag between the 1993
42 and 2013 filings, but rather due to differing assumptions used by the Board relative to Facility.

²² Facility Taxis Filing Cover Letter, March 16, 2016, page 2.

²³ Oliver Wyman Report, page 16.

²⁴ Ibid., page 17.

1 Facility stated that there would be no difference in view regarding the current rate level had the
2 Board adopted Facility's assumptions in relation to its 2014 and subsequent rate filings.²⁵

3
4 The Board accepts that the net trend approach used by Facility is a reasonable and appropriate
5 methodology used by other actuaries, and also that this approach is highly dependent on the
6 assumed level of rate adequacy underlying the current rates. In Order No. A.I. 14(2016) the
7 Board approved a rate change of +25.7%, which was only 1.7% less than the rate level proposed
8 by Facility. The Board does not accept that there was significant rate inadequacy at that time as
9 suggested by Facility in this Application.

10
11 The Board acknowledges Oliver Wyman's comment that the net trend approach coupled with the
12 Board's estimate of Facility's current rate level adequacy is slow to recognize Facility's poor
13 Taxis experience. The Board is also cognizant, however, of the impact of large premium
14 increases on Taxi operators. The Board's role is to ensure that the rates proposed by Facility are
15 not too high in the circumstances, and are actuarially justified. The underlying Taxis experience
16 data used by Facility to determine its rate level need is based on a small sample and exhibits
17 considerable volatility, which makes it difficult to assess rate adequacy and to actuarially justify
18 proposed increases in rates. It is clear, based on the evidence, that the Taxis experience in the
19 Province has been and continues to be very poor, which suggests that additional filings for rate
20 increases for Taxis may be forthcoming in the short term. However, the Board is not satisfied
21 that a rate inadequacy adjustment is appropriate in the circumstances and, as a result, Facility's
22 adjustment for rate inadequacy is not accepted.

23
24 **The Board does not accept Facility's proposed complement of credibility.**

25
26 **4.4. HST Adjustment**

27
28 In its original filing Facility omitted an adjustment to its historical loss experience to account for
29 the change in HST in the province from 13% to 15% effective July 1, 2016. On January 20,
30 2017, in response to questions from Oliver Wyman, Facility filed an amended rate level
31 indication to account for the HST change, increasing its historical loss experience for all
32 coverages by +1.8% with a resulting increase in its overall rate level estimate from +29.7% to
33 +31.9%.²⁶

34
35 Oliver Wyman stated that its understanding is that the HST rate is only applicable to the Property
36 Damage portion of Third Party Liability and to the physical damage coverages. While the exact
37 split of Bodily Injury and Property Damage for Taxis is unknown, Facility's estimate of average
38 non-PPV ultimate losses for the last ten years is 86% for Bodily Injury and 14% for Property
39 damage. On this basis, Oliver Wyman estimated the change to the HST rate would increase
40 Facility's original overall rate level indication from +29.7% to +30.1%.²⁷

41
42 Facility acknowledges that the HST impact is not likely to be fully applicable to Bodily Injury
43 claims under tort, but does not agree that it will have no impact on such claims. In examining

²⁵ Facility Response to the Oliver Wyman Report, page 6.

²⁶ Response to Oliver Wyman Question 4.

²⁷ Oliver Wyman Report, page 8.

1 Bodily Injury, Accident Benefits and Uninsured Automobile coverages, Facility noted that some
2 heads of damage will be impacted by the HST change but has not determined to what extent.
3 Facility noted that one of the challenges when a relatively small change occurs is the ability to
4 measure the impact at some future date when the underlying data is already quite volatile. Given
5 the level of volatility, Facility stated that it will be very difficult to see the +1.8% HST impact it
6 has proposed as it will be drowned out in the data noise.²⁸

7
8 The Board accepts the evidence presented by Facility to demonstrate that certain heads of
9 damage for the Bodily Injury, Accident Benefits and Uninsured Automobile coverages will be
10 impacted by the HST change. The Board also acknowledges that the ability to measure the
11 impact of the change in HST is quite difficult given that the underlying data is already quite
12 volatile. The Board is satisfied that the HST adjustment proposed by Facility will not result in
13 rates which are too high in the circumstances.

14
15 **The Board accepts Facility's adjustment to its historical loss experience to account for HST**
16 **changes.**

17 **4.5. Conclusion**

18
19
20 The Board has accepted Facility's proposals and assumptions contained in the filing with the
21 exception of the proposed Bodily Injury loss trend rate and complement of credibility. Based on
22 the record for this Application the Board accepts that a rate increase for Facility's Taxis class of
23 business appears to be justified. Facility may file a revised application incorporating the Board's
24 findings in this Decision and Order.


²⁸ Facility Response to the Oliver Wyman Report, page 8.

1 **6. Order**
2
3

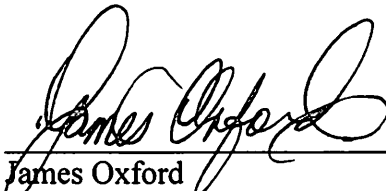
4 **IT IS THEREFORE ORDERED THAT:**
5

- 6 1. The Application by Facility Association is denied.
7
8 2. Facility Association will pay all costs of the Board, including the cost of the actuarial review,
9 arising from this Application.

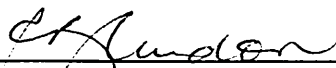
DATED at St. John's, Newfoundland and Labrador, this 13th day of June, 2017.



Darlene Whalen, P.Eng.
Vice-Chair



James Oxford
Commissioner



Cheryl Blundon
Board Secretary