

## IR #2

COMPANY:	Facility Association (FA)
PREPARED BY	Oliver Wyman
DATE:	May 9, 2022
PROVINCE:	Newfoundland and Labrador
FILING TYPE:	Mandatory Rate Filing
VEHICLE TYPE:	Taxis and Limousines (Taxi)
PROPOSED EFFECTIVE DATES	
NEW BUSINESS	April 1, 2023
RENEWAL BUSINESS:	April 1, 2023

### Expenses

1. The Board previously directed FA to include consideration of the finance fee revenues paid by policyholders to the servicing carriers in calculating the rate level change need. In A. I.3 (2019), the Board stated, “In the Board’s view finance fee revenues should be reflected in the rates since they are revenues collected by insurers in premiums paid monthly.” In conclusion, the Board stated, “The Board does not accept the exclusion of finance fees revenues.”

Given the clear position of the Board, provide the rate indications including a provision for the finance fee revenues to be collected for taxis.

### Loss Development

2. Is our understanding of FA’s response to prior IR#1, Q 7.2 correct that the net-zero IBNR Method was selected for the 2013-2 to 2017-2 period because it has been selected in the past for multiple prior evaluations, and that FA would find the Incurred Method to be reasonable? Does FA find the Incurred Method *more* reasonable in this circumstance?
3. If downward development does exist for the FA portfolio of claim amount estimates, what is the rationale of presenting or considering a Net Zero IBNR Method for FA?
4. FA makes the statement, “It is generally believed among our subject matter experts that the COVID pandemic and subsequent restrictions on public mobility and economic activity have likely created delays in the process of claims development.” Contrary to this position, another view is that the pandemic-induced decline in claim frequency led to more speedy claim settlement process (proportionately more claims handling resources available for fewer claims) for some

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coverages and commensurate lower development patterns emerging for those claims. Has FA considered the actual recent emergence patterns in making its response statement?

5. In the prior 2018 taxi filing, FA selected a TPL estimate of ultimate loss amounts for 2016, 2017 and 2018 at \$3.159 million, \$ 3.890 million, and \$2.920 million, respectively. In our review of that filing, we found those selections appeared to be high in consideration of the range of estimates presented.

In this filing, the estimated ultimate loss amounts for 2016, 2017 and 2018 reduced to \$2.688 million, \$ 3.055 million, and \$2.401 million, respectively; or decreases of 15%, 21%, and 18%, respectively. Which in hindsight, may be evidence the prior ultimate loss amounts were too high based on the method results selected by FA.

- 5.1. Can FA explain why the original ultimate loss amount estimates for each of these three years (2016 to 2018) are significantly lower in this review?
- 5.2. Given this, does FA continue to find its selection of the Expected Loss Ratio Method instead of the B-F Method to be reasonable?

### Loss Trend

6. FA's Exhibit D-5b estimate of the modelled loss cost for TPL includes a loss cost provision for bodily injury, and the same loss cost estimate for each of property damage and DCPD. For example, for 2020, the bodily injury is \$206.20, property damage is \$98.96, and DCPD is \$98.96; for a total TPL loss cost of \$404.12. Is there an inadvertent double counting of the \$98.96 which should be the total for both property damage and DCPD, and instead is counted twice? If that is the case, then the loss trend factors calculated based on these TPL loss cost amounts may be incorrect.

Please confirm if there is a double counting oversight, and provide any corrections necessary to the rate indications, as well as responses to IR#1 as appropriate.

7. In response to IR#1, Q#10.2, FA estimates that by removing the bodily injury scalar parameter at 2016-1, this serves to reduce the frequency trend rate, from -2.3% to -4.8%.
  - 7.1. Does FA find this frequency model (without the scalar parameter) to be statistically supported?
  - 7.2. What rationale is there for a scalar parameter in the PPV frequency trend model at 2009-2, and a scalar parameter in the CV model at 2016-1 – both associated with drops in the frequency level that result in a higher loss trend rate after the scalar is included in the model? Specifically, why is it reasonable that there is a drop in the bodily injury frequency at two separate time periods for each of PPV and CV risks?

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8. Has FA considered that other models may show a scalar to be significant at different time periods, with good statistical support?
  - 8.1. If a scalar was added at 2007-1 and the 2016-1 scalar removed from FA's model, (with maintaining the scalar at 2004-2) what would the statistics of this model show, and would FA consider this model reasonable?
  - 8.2. And if the statistics of the above noted model were similar to FA's model (i.e., adjusted R-squared >80% p-values <5%, and residuals are random) what would this mean regarding the placement of scalars in a model?
9. The estimate of the ultimate number of bodily injury claims for each accident semester is relatively small, at an average of approximately 60 each semester over the last ten years. Using FA's full credibility standard for bodily injury of 2,164, the credibility of the bodily injury data in each semester is relatively low, at approximately 17%. Given this, what consideration has FA given to the concept that the scalar for the downward shift at 2016-1 is more "noise" due to lack of credibility and is simply part of the pattern of a continued decline in the frequency level instead of a one-time shift (i.e., scalar).
10. FA's bodily injury severity model has a low adjusted R-squared value of 24%. As a sensitivity test, can FA provide the bodily injury severity model with a scalar parameter at 2013-1. Does FA find this model to be statistically reasonable and an improvement over FA's model?
11. In the case of property damage frequency, did FA consider that there may be a change in the trend rate around 2014-1 whereby the more recent time frame since 2014-1 has a steeper declining trend rate? As a sensitivity test, provide an alternative frequency model to that selected by FA, but that has a change in the trend rate beginning 2014-1.