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*Newfoundland & Labrador*

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

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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**

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**DECISION AND ORDER  
OF THE BOARD**

**ORDER NO. A.I. 3(2016)**

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**BEFORE:**

**Andy Wells  
Chair and Chief Executive Officer**

**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. 3(2016)**

**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:**

Andy Wells  
Chair and Chief Executive Officer

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 May 22, 2015 seeking approval of  
5 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 February 1, 2016, as follows:

<b>Proposed Taxi Rate Increases<sup>1</sup></b>			
	<b>Third Party Liability</b>	<b>Accident Benefits</b>	<b>Uninsured Automobile</b>
Proposed % Increase	+74.7%	+141.9%	+180.1%
Proposed Average \$ Increase	+\$2,481	+\$258	+\$85

9 Facility also proposes to implement territory differentials for Taxis based on the three standard  
10 rating territories in Newfoundland and Labrador as approved by the Superintendent of Insurance.  
11 As a result, the proposed overall rate increases will vary by territory throughout the Province as  
12 follows:

<b>Proposed Taxi Rate Increases<sup>2</sup></b>			
<b>Territory</b>	<b>Third Party Liability</b>	<b>Accident Benefits</b>	<b>Uninsured Automobile</b>
Avalon Peninsula	+81.8%	+154.8%	+180.1%
Island, Outside Avalon	+60.0%	+120.7%	+180.1%
Labrador	+66.8%	+124.4%	+180.1%

13 Rates for Physical Damage<sup>3</sup> coverages are proposed to decrease: Collision by 29.8%;  
14 Comprehensive and Specified Perils by 17.4%; and All Perils by 25.7%. Facility estimates that  
15 its Application proposals, if approved, will result in an increase of 74.1% in its overall rate level  
16 in the Province for all coverages combined, and a proposed average premium of \$6,433 per  
17 vehicle.

18  
19 **2. Background**

20  
21 This Application is Facility’s third request for an increase in rates for its Taxis class of business  
22 since 2013. Prior to 2013 rates for Taxis had not changed since 1993 as Facility did not file any  
23 applications for rate changes in the intervening 20-year period.

24  
25 On January 24, 2013 Facility filed an application requesting approval of an increase of 50% in  
26 rates for Third Party Liability, and an increase of 100% in rates for both Accident Benefits and

<sup>1</sup> Facility’s Actuarial Memorandum, Section 2, page 28. Individual policyholder increases will vary depending on coverage level and driving record.

<sup>2</sup> Facility’s Actuarial Memorandum, Section 2, page 30. Individual policyholder increases will vary depending on coverage level and driving record.

<sup>3</sup> Facility’s rates for Physical Damage coverage are based on a percentage of its Private Passenger Automobile rates.

1 Uninsured Automobile. While the review by the Board's actuaries identified some issues for the  
2 Board's consideration, Facility's proposed rates were not found to be too high based on the  
3 justification provided. In Order No. A.I. 9(2013) the Board approved the rate proposal from  
4 Facility for its Taxis class of business, with new rates effective August 1, 2013.

5  
6 On March 6, 2014 Facility filed a further application, proposing rate increases of 50% for Third  
7 Party Liability, 294% for Accident Benefits and 329% for Uninsured Automobile, to be effective  
8 no earlier than August 1, 2014. Facility's proposals would result in an increase of 54.1% in its  
9 overall rate level for all coverages combined, including Physical Damage. The Application also  
10 proposed a number of additional changes, including increased limits for Third Party Liability and  
11 Physical Damage coverages, elimination of certain discounts, rating amendments and other rule  
12 changes. Following a public hearing the Board issued Order No. A.I. 11(2015) on April 2, 2015  
13 denying Facility's application.

14  
15 On April 22, 2015 Facility applied for approval of a revised rating program for Taxis  
16 incorporating the Board's findings set out in Order No. A.I. 11(2015). In Order No. A.I.  
17 15(2015), issued on May 4, 2015, the Board approved Facility's revised rating program proposal  
18 to be effective no sooner than August 1, 2015, which resulted in an overall rate increase of  
19 19.3%.

### 20 21 **3. Procedural Matters**

22  
23 The Application was referred to the Board's actuarial consultants, Oliver Wyman Limited  
24 ("Oliver Wyman"), for review. On August 10, 2015 the Board extended the 90-day review  
25 timeline due to delays by Facility in responding to information requests from Oliver Wyman.  
26 Oliver Wyman filed a report on September 1, 2015 outlining its review of the actuarial  
27 justification provided in the Application. Facility filed comments in response to Oliver Wyman's  
28 report on September 14, 2015, to which Oliver Wyman responded on September 22, 2015.

29  
30 On October 7, 2015, at the request of the Board, Oliver Wyman filed an addendum to its  
31 September 1, 2015 report addressing Facility's proposed introduction of base rate changes that  
32 vary by territory.

33  
34 A Notice of Application was published in newspapers throughout the Province starting October  
35 28, 2015 inviting comments on the Application. Two written comments were received.

36  
37 No further reports or evidence were filed and the record was deemed complete as of November  
38 16, 2015.

### 39 40 **4. Public Comments**

41  
42 Written comments on the Application proposals were received from Mr. Doug McCarthy, an  
43 independent taxi owner/operator from Mount Pearl, and from Mr. Todd Edmunds, a Director of  
44 Star Taxi Limited in Corner Brook.

45  
46 Mr. McCarthy disagrees with the Application. He states that if this Application is approved, it  
47 will be the third increase in premiums in just over three years and rates will have increased

1 145.5% in that time. According to Mr. McCarthy this will have a drastic impact on the consumer,  
2 the business and the industry.

3  
4 Mr. Edmunds also opposes the Application. He notes that the previous increases of 50.1% and  
5 19.3% along with increases proposed in this Application mean the insurance rates for his  
6 business have gone up over \$4,000 per vehicle. He states that independent drivers are  
7 considering once again leaving this line of work and, as owners of the business, they are re-  
8 evaluating their position. Increasing costs in addition to the higher insurance rates have had a  
9 serious impact on their business. He also suggests that there should be a consultative approach  
10 between operators of the taxi industry and Facility, and that more investigation into the reasons  
11 for the accidents and high claim costs for the Taxi industry is required. Mr. Edmunds states:

12  
13 *We recognize that there are higher than normal costs associated with providing insurance*  
14 *for high risk drivers. However, their livelihood should not be threatened by a government-*  
15 *mandated program that places such a huge burden on their employer.*

16  
17 *This request for another rate increase is devastating given the huge increases already*  
18 *granted.*

19  
20 Mr. Edmunds requests that the rate increase be denied.

21  
22 **5. Review of Application Proposals**

23  
24 In the Application Facility presents its rate level need using three sets of assumptions for cost of  
25 capital and return on investment.<sup>4</sup> Facility's overall rate indications and proposed changes based  
26 on 0% cost of capital and 2.8% return on investment are shown below:<sup>5</sup>

Coverage	Overall Rate Indication (0% cost of capital and 2.8% ROI)	Overall Proposed Rate Change
Third Party Liability	+74.4%	+74.7%
Accident Benefits	+139.0%	+141.9%
Uninsured Automobile	+172.1%	+180.1%
Collision	-32.5%	-29.8%
Comprehensive	-19.2%	-17.4%
Specified Perils	+25.7%	-17.4%
All Perils	-22.6%	-25.7%
<b>Total</b>	<b>+73.8%</b>	<b>+74.1%</b>

27 Facility is proposing overall rate level changes by coverage that are similar to its indications  
28 using 0% cost of capital and 2.8% return on investment. Facility is also proposing to vary its  
29 Third Party Liability and Accident Benefits rates based on the three standard rating territories as  
30 approved by the Superintendent of Insurance.

<sup>4</sup> Facility presents three rate level indications based on: i) 12% cost of capital and 0.41% return on investment; ii) 0% cost of capital and 0.41% return on investment; and, iii) 0% cost of capital and 2.80% return on investment. In Order No. A.I. 11(2015) the Board accepted a 0% cost of capital and 2.80% return on investment. The overall rate level indication for each of these scenarios is +108.7%, +86.2% and +73.8% respectively.

<sup>5</sup> Oliver Wyman Report, September 1, 2015, page 4.

1 With respect to Facility's ratemaking methodology Oliver Wyman noted that Facility confirmed  
2 it has not changed its overall process as set out in its March 2014 filing. As a result a number of  
3 Facility's current proposals are based on assumptions contrary to the Board's findings as set out  
4 in Order No. A.I. 11(2015). Oliver Wyman identified issues and considerations for the Board  
5 with respect to Facility's methods and assumptions used for: i) the loss trend rates; ii) the full  
6 credibility standard for Third Party Liability; iii) the basis for the complement of credibility; and  
7 iv) the territorial differentiation.

8  
9 The assumptions and methods used for all other parameters were found to be reasonable on the  
10 basis proposed and/or in accordance with the Filing Guidelines and the Board's findings in Order  
11 No. A.I. 11(2015).

## 12 13 **6. Board Findings**

14  
15 The Board is cognizant that there are a wide range of possible outcomes in any prospective  
16 ratemaking exercise. The Board must be satisfied that the proposed rate changes are supported  
17 based on the information filed and are not too high in the circumstance. In making this  
18 determination the Board looks to the professional judgement of the actuaries, as well as the  
19 support and explanation for their respective positions. The Board notes that neither Facility nor  
20 Oliver Wyman took the position that each other's work was unreasonable or contrary to actuarial  
21 practice standards.

22  
23 The Board has reviewed the record of the proceeding, including Facility's Actuarial  
24 Memorandum, Oliver Wyman's reports on its review of the Application, and Facility's responses  
25 to Oliver Wyman's reports and the information requests. The issues to be addressed are: i) the  
26 loss trend rates; ii) the full credibility standard; iii) the complement of credibility; and vi)  
27 territorial differentiation. These issues, along with the Board's findings on each, are discussed in  
28 the following sections.

### 29 30 **6.1 Loss Trend Rates**

31  
32 Loss trend rates are applied to the experience period incurred losses to adjust for the cost levels  
33 that are anticipated during the policy period covered by the proposed rates. The selection of the  
34 appropriate loss trend rate by coverage is a matter of actuarial judgment in the statistical analysis  
35 of the underlying data. Because the industry experience for Taxis is too limited for use in  
36 selecting loss trend rates, Facility bases its selected loss trend rates on the NL Industry  
37 Commercial Vehicles loss experience.

38  
39 In its March 2014 filing Facility proposed alternate loss trend rate selections in place of the  
40 Board's guideline loss trend rates approved for use at the time. This factor accounted for a  
41 significant variation in the rate indications of Facility and Oliver Wyman and was the subject of  
42 considerable discussion during the public hearing. Of particular concern was a change in  
43 Facility's loss trend analysis methodology from its 2013 filing which resulted in loss trend  
44 selections being premised on loss trend adjustments occurring around the 2004-H2 period  
45 without any support of cause. In Order No. A.I. 11(2015) the Board found that Facility had not  
46 justified its loss trend rate selections.

1 In this Application Facility selects loss trend rates based on its review of NL Industry  
 2 Commercial Vehicles data as of June 30, 2014. Oliver Wyman notes that the underlying  
 3 methodology used by Facility in its trend analysis has not changed significantly since its 2014  
 4 filing and that the issues identified by the Board in Order No. A.I. 11(2015) are still present. In  
 5 particular Oliver Wyman notes that Facility's trend selections are still premised on loss cost  
 6 adjustments around the 2003/2004 period without any support of cause. Oliver Wyman states:

7  
 8 *FA finds there to be statistical evidence that there was a change in cost level around the*  
 9 *time of the Bodily Injury reforms introduced in August 2004 for every coverage. FA*  
 10 *refers to this as a "scalar change," and calculates a scalar change for every coverage<sup>6</sup>*  
 11 *within its loss trend regression models. The term "scalar change" is sometimes referred*  
 12 *to as a "level change" and means that there was a one-time cost (frequency and/or*  
 13 *severity) increase (or decrease), beyond what would be considered to be within the*  
 14 *normal bounds of variability, and costs continued to stay at the new level, subject to the*  
 15 *annual trend rate thereafter.<sup>7</sup>*

16  
 17 Oliver Wyman further states:

18  
 19 *Typically a "shift" in cost level is associated with some event such as a product reform,*  
 20 *although in this case while FA's scalar changes are coincident with the 2004 Bodily*  
 21 *Injury reforms, FA does not state that its scalar changes are attributed to the 2004*  
 22 *reforms.<sup>8</sup>*

23  
 24 Oliver Wyman does not agree that loss cost level changes occurred in the 2003 to 2004 period  
 25 and finds that the year-to-year changes in the loss cost amounts from 2003 to 2004 are no more  
 26 unusual than what occurred in other periods.<sup>9</sup>

27  
 28 Oliver Wyman reviewed Facility's loss trend rate selections against the Board's published  
 29 guideline loss trend rate selections as of June 2014. Oliver Wyman also reviewed Facility's  
 30 selections against the loss trend selections for December 2014, which became available during  
 31 the course of the review of the filing. Based on its review Oliver Wyman found that Facility's  
 32 selected loss trend rates were generally higher than the Board's June 2014 guideline loss trend  
 33 selections and slightly higher than the trend rates selected by Oliver Wyman based on the  
 34 December 2014 industry data. The alternate trend selections are shown below:

<b>Loss Trend Rate Selections<sup>10</sup></b>			
	<b>Facility June 2014</b>	<b>Board Guideline June 2014</b>	<b>Oliver Wyman December 2014</b>
Bodily Injury	+4.4%	+1.0%	+3.0%
Property Damage	+3.3%	+1.0%	+3.0%
Accident Benefits	+9.3%	+9.0%	+7.0%
Collision	+2.4%	-0.5%	+0.0%
Comprehensive	+1.8%	+0.5%	+1.5%

<sup>6</sup> The exceptions to this are Uninsured Auto and Specified Perils.

<sup>7</sup> Oliver Wyman Report, September 1, 2015, page 21.

<sup>8</sup> Oliver Wyman Report, September 1, 2015, page 21.

<sup>9</sup> Oliver Wyman Report, September 1, 2015, page 22.

<sup>10</sup> Oliver Wyman Report, September 1, 2015, page 22.



1 Oliver Wyman states that the differences in the trend rate selections are generally due to different  
2 judgements regarding: i) the trend measurement period; ii) the selected loss development factors;  
3 iii) the inclusion/exclusion of loss adjustment expenses; iv) Facility's application of a level  
4 change adjustment in the 2003/2004 time period; and v) a difference in the data valuation date.  
5 Oliver Wyman suggests that the loss trend rates based on more recent data through December  
6 2014 should be considered by the Board in reviewing the Application. Oliver Wyman states that,  
7 given the uncertainty and volatility of the underlying loss experience, Facility's selected loss cost  
8 trends are not unreasonable.

9  
10 In this Application Facility has used a similar approach to its loss trend rate selections as its 2014  
11 filing by including lost trend adjustments without any support of cause. On this basis the Board  
12 does not accept Facility's proposed loss trend rate selections. Oliver Wyman suggests that, since  
13 its selected loss trends based on the December 2014 NL Industry Commercial Vehicle data are  
14 close to those selected by Facility, these trends should be considered. However the Board notes  
15 that, in accordance with the Board's Filing Guidelines, the filing is based on the most recent data  
16 available at the time of the filing, which in this case is the data as of June 2014. While the Board  
17 acknowledges that updated loss trend selections became available during the review of the filing,  
18 the Board is of the view that the filing should be reviewed against the June 2014 NL Industry  
19 data, which is the basis of the original filing. The Board notes Oliver Wyman's opinion that  
20 Facility's selections are not unreasonable given the uncertainty and volatility of the underlying  
21 experience but, in the circumstances, finds that Facility has not justified its selection of alternate  
22 loss trend rates in place of the Board's guideline loss trend rates.

23  
24 **The Board finds that Facility has not justified the proposed selected loss trend rates.**

## 25 26 **6.2 Full Credibility Standards**

27  
28 The standard of full credibility determines the weight given to the latest Facility Taxi experience  
29 in the rate change indication. In its 2013 filing Facility selected full credibility claim standards  
30 with reference to a study completed in 2004 by Facility's former external actuarial services  
31 provider using 2003 Atlantic Commercial Vehicle data. This approach was accepted by the  
32 Board. In its March 2014 filing Facility proposed to reduce its full credibility standard from that  
33 used in its 2013 filing based on an internal actuarial judgment decision to harmonize the  
34 credibility standards to be consistent at the coverage level across all jurisdictions. This reduction  
35 gives more weight to actual experience and results in higher proposed Third Party Liability  
36 rates.<sup>11</sup> In Order No. A.I. 11(2015) the Board found that Facility had not provided sufficient  
37 actuarial support for its proposed change to the full credibility standard.

38  
39 In this Application Facility again proposes to lower its full credibility standard as proposed in its  
40 2014 filing which was not accepted by the Board. This proposal results in a rate level indication  
41 that is approximately 7% higher than would be otherwise. Oliver Wyman notes that Facility has  
42 not provided additional technical support for the proposed change beyond what was provided in  
43 the 2014 filing. As part of its review Oliver Wyman updated the data from Facility's 2003  
44 Atlantic Commercial Study to include results for accident years 2009, 2010 and 2011 as of

---

<sup>11</sup> In its review of the 2014 filing Oliver Wyman estimated the impact of the lower full credibility standard to be +7% for Third Party Liability rates, assuming no changes in other assumptions.

1 December 31, 2013. Based on this analysis Oliver Wyman concluded that Facility's approach to  
2 the full credibility standard as used in its 2013 filing continues to be supported.

3  
4 In its response Facility does not agree with Oliver Wyman's contention that additional technical  
5 support for a change in the full credibility standard was not provided in this filing. Facility  
6 reiterated its position that reducing the full credibility standard provides an appropriate and  
7 reasonable balance between Facility's actual experience and the complement of credibility.

8  
9 The Board believes there is value in taking a consistent approach from filing to filing and that  
10 any proposed changes that result in rate increases must be properly explained and supported. The  
11 Board also accepts that the selection of a full credibility standard is a matter of actuarial  
12 judgment. In Order No. A.I. 11(2015) the Board found that Facility had not adequately justified a  
13 change in the full credibility standard for Newfoundland and Labrador. In this filing Facility  
14 proposes to use the same credibility standards as proposed in its 2014 filing, but has not provided  
15 any additional actuarial support or justification to demonstrate that the rate increase resulting  
16 from the full credibility standard change will not result in rates which are too high. In the  
17 absence of justification to support the proposed change the Board will not accept Facility's  
18 proposed full credibility standard.

19  
20 **The Board finds that Facility has not justified the proposed change to the standard of full**  
21 **credibility.**

### 22 23 **6.3 Complement of Credibility**

24  
25 Actuaries use credibility procedures to improve estimates by blending together two of more sets  
26 of experience. The complement of credibility refers to the availability and value of any other data  
27 with which an insurer's experience is credibility weighted. In this Application Facility adjusts its  
28 target loss ratio for: i) the rate inadequacy it believes exists due to the difference between its  
29 prior application rate indication compared to the rate change approved by the Board; and, ii) the  
30 net premium/loss trend rate for the period of time between the effective date of the current rating  
31 program and the effective date of the proposed rating program.

32  
33 Facility included an adjustment for rate inadequacy in its 2014 filing. In Order No. A.I. 11(2015)  
34 the Board did not accept Facility's position that there was rate inadequacy at the time of approval  
35 of the 2013 Taxis filing, based on the fact that the Board found Facility's proposed rate increase  
36 of 50.1% in the 2013 filing to be justified. The Board went further to state that recovery in future  
37 rates of a deficiency from a prior period based on a difference between rates approved in 2013  
38 and Facility's indications at the time is inconsistent with the prospective nature of rate setting.

39  
40 Oliver Wyman notes that the selected credibility standard has a material impact on rates and that  
41 the changes to both the full credibility standard and the complement of credibility increases the  
42 rate change indication by 31%. Oliver Wyman notes that, while making no adjustment for rate  
43 inadequacy is consistent with the Board's approach in the prior application, the net trend  
44 approach used by Facility to determine its complement of credibility is slow to recognize  
45 Facility's poor Taxis experience due to the low number of risks and high level of uncertainty.  
46 This results in less credibility weight being applied to Facility's actual experience which  
47 increases the potential for understating the rate level need.

1 Oliver Wyman noted that Facility's Taxis experience continues to be poor and, assuming a  
2 continuation of this poor experience, it will likely submit rate filings proposing relatively large  
3 rate increases for several years. According to Oliver Wyman this situation was largely brought  
4 on by Facility not submitting a Taxis filing for many years.

5  
6 The Board accepts that the net trend approach used by Facility is a reasonable and appropriate  
7 methodology used by other actuaries. The Board also accepts that this approach is highly  
8 dependent on the assumed level of rate adequacy underlying the current rates. However, in the  
9 Board's opinion, any perceived rate inadequacy by Facility in its current rates is largely the result  
10 of Facility's own actions over the years since 1993. Had Facility filed for rate increases to reflect  
11 its declining Taxis experience in the intervening period it is likely that the proposals for large  
12 increases that have been filed in 2013, 2014 and 2015 would have been much lower. The Board  
13 accepts that Facility's Taxis experience is poor and is continuing to decline. However it seems  
14 unreasonable for Facility to propose that large increases should be imposed over a short time on  
15 current Taxis policyholders to reflect rate inadequacy caused by its own decisions.

16  
17 **The Board finds that Facility has not justified the proposed complement of credibility.**

#### 18 19 **6.4 Territorial Differentiation**

20  
21 Facility proposes to implement Third Party Liability and Accident Benefits rates that vary by the  
22 three standard rating territories in Newfoundland and Labrador approved by the Superintendent  
23 of Insurance. The territories recognize the different risk exposures in the Province. Prior to this  
24 filing Facility's Third Party Liability and Accident Benefits rates for Taxis were not  
25 differentiated by territory in the same manner as the rates for Private Passenger Automobiles.  
26 The optional Physical Damage coverages have been subject to separate base rates for the rating  
27 territories since they are derived based on Private Passenger Automobile rates.

28  
29 The issue of territorial differentiation of rates for Taxis was raised during the hearing of  
30 Facility's 2014 Taxis filing. In Order No. A.I. 11(2015) the Board noted that territorial  
31 differentiation would not impact Facility's overall rate requirements because the overall rate  
32 requirements would still be collected from the total pool of insureds. The Board agreed that it  
33 would be reasonable to assume that there may be a risk-based reason to separate Taxis into  
34 territories for rate setting but recognized that the limited Taxis experience may not be a sound  
35 basis on which to establish differentiated rates for Taxis in the Province. The Board found that  
36 there was not sufficient evidence at the time to enable the Board to make any finding on whether  
37 territorial differentiation for Facility's Taxis rates may be reasonable or actuarially justified and  
38 left the issue of territorial differentiation for Taxis in the Province to be addressed by Facility as  
39 part of its next rate filing for Taxis.

40  
41 In this Application Facility has determined indicated territory relativities by: i) estimating the  
42 ultimate loss ratio separately for Third Party Liability and Accident Benefits in each territory  
43 based on the latest five years of Facility taxi experience in the Province; ii) measuring the  
44 credibility of its experience in each territory using the full credibility standards from its 2014  
45 filing;<sup>12</sup> and, iii) applying the balance of credibility weight to a relativity factor of 1.00

---

<sup>12</sup> 3,246 claims for Third Party Liability and 2,164 claims for Accident Benefits.

1 representing the provincial average. Facility proposes territory relativities identical to the  
2 indicated relativities.

3  
4 In its review Oliver Wyman found that Facility's approach to select territory relativities to be  
5 reasonable except for its full credibility standard for Third Party Liability. Oliver Wyman noted  
6 that, if the Board finds that Facility has not supported its requested change for the full credibility  
7 standard for Third Party Liability from 5,410 claims to 3,246 claims, then the Third Party  
8 Liability territory relativities proposed by Facility will also not be supported. Oliver Wyman's  
9 calculated impacts of using the higher full credibility standard for Third Party Liability rates  
10 compared to the lower standard selected by Facility are as follows:

Territory	Facility Proposed Relativities		Oliver Wyman Calculated Relativities	
	TPL	AB	TPL	AB
Avalon	1.040	1.053	1.026	1.053
Island, Outside Avalon	0.916	0.913	0.929	0.913
Labrador	0.955	0.927	0.959	0.927
<b>Total</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>

11 The Board accepts Facility's methodology for determining territory rate relativities for its Third  
12 Party Liability and Accident Benefits rates. However, as discussed in the previous section, the  
13 Board does not accept Facility's proposed change to the full credibility standard on the basis that  
14 it is not supported by the evidence. This means that the proposed territorial rate relativities for  
15 Third Party Liability are also not supported as they result in rates which are too high in the  
16 circumstances. If Facility wishes to pursue its proposal for territorial rates for Taxis then further  
17 justification must be provided to support its choice of full credibility standard for Third Party  
18 Liability territory relativities or, alternatively, the indicated territory relativities calculated by  
19 Oliver Wyman may be substituted.

20  
21 **The Board finds that Facility has not justified the proposed territory relativities for Third**  
22 **Party Liability.**

## 23 24 **6.5 Conclusion**

25  
26 The Board finds that Facility has not justified its proposals in relation to:

- 27 i) the loss trend rates;
- 28 ii) the full credibility standard;
- 29 iii) the complement of credibility; and
- 30 iv) the territory relativities for Third Party Liability.

31  
32 Facility's proposals result in an average overall rate level increase for all coverages combined of  
33 74.1%. The Board notes that Oliver Wyman calculated an indicated increase of +28.9%<sup>13</sup> using  
34 the Board's June 2014 loss trend rates and the credibility assumptions accepted by the Board in  
35 Order No. A.I. 11(2015). The Board finds that the rates proposed by Facility are too high in the  
36 circumstances.

<sup>13</sup> Oliver Wyman Report, September 1, 2015, page 16.

1 Based on the Oliver Wyman indications the Board accepts that a rate increase for Facility's  
2 Taxis class of business appears to be justified. Facility may file a revised application with further  
3 justification for its assumptions or, alternatively, substitute the indications provided by Oliver  
4 Wyman using the Board's guideline selections and findings as discussed above.

5  
6 In making these findings the Board acknowledges that rates for Taxis in the Province may  
7 potentially increase for the third consecutive year. The frequency of filings for significant rate  
8 increases by Facility is concerning for the Board, especially in light of the fact that Facility did  
9 not make any applications for increases for the 20-year period 1993 to 2013. The Board also  
10 notes Facility's comments in its cover letter to its filing that its NL Taxi experience continues to  
11 be poor, with the latest 10 accident years having generated an indemnity loss ratio (ultimate) of  
12 179%. Facility states:

13  
14 *Even with the 50% rate increase effective August 1, 2013 and the recent 19.3% rate*  
15 *increase granted effective September 1, 2015, our projection of the indemnity loss ratio*  
16 *that will be generated for policies effective February 1, 2016 for a 12-month term is 161%*  
17 *(based on the most recent 5 years of experience), well above our 61% target.*

18  
19 At the Board's request Oliver Wyman reviewed Facility's experience in the Province based on  
20 GISA data. Over the 10-year period 2004-2013 Facility collected total premiums of  
21 approximately \$15 million with reported claim costs for the same period in excess of \$24  
22 million. For the 2013 accident year Facility estimates its claims costs to be \$4.2 compared to a  
23 collected premium of \$1.9 million. The 2014 accident year data shows a continuation of poor  
24 results with \$3.0 million in reported claims costs and \$2.4 million in earned premiums. In the  
25 Board's view the significant increases proposed by Facility in each of the last three years is due,  
26 in large part, to Facility not having kept the premium levels adequate for the preceding 20-year  
27 period.

28  
29 The Board is cognizant of the impact that large premium increases have on Taxi operators, as  
30 expressed by those who provided comments to the Board in this Application and in the previous  
31 filing. The Board's role is to ensure that the rates proposed by Facility are not too high in the  
32 circumstances, and are actuarially justified. The underlying Taxi experience data used by Facility  
33 to determine its rate level need is based on a small sample (859 exposures in the Province) and  
34 exhibits considerable volatility, which makes it difficult to assess rate adequacy and to  
35 actuarially justify proposed increases in rates. However, it is clear based on the evidence that the  
36 Taxis experience in the Province has been and continues to be very poor. In the absence of some  
37 intervention, there is no indication that this experience will improve. This means additional  
38 filings for rate increases for Taxis may be forthcoming in the short term.

1 7. Order

2

3 **IT IS THEREFORE ORDERED THAT:**

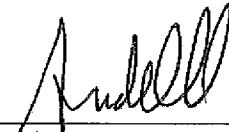
4

5 1. The Application by Facility Association is denied.

6

7 2. Facility Association will pay all costs of the Board, including the cost of the actuarial  
8 review, arising from this Application.

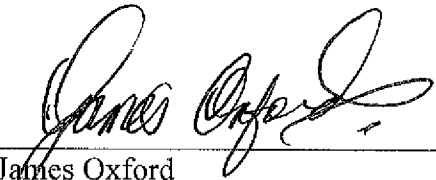
**DATED** at St. John's, Newfoundland and Labrador, this 18<sup>th</sup> day of January 2016.




Andy Wells  
Chair & Chief Executive Officer



Darlene Whalen, P.Eng.  
Vice-Chair



James Oxford  
Commissioner



Cheryl Blundon  
Board Secretary

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*Newfoundland & Labrador*

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