

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

**AN ORDER OF THE BOARD**

**NO. A.I. 10(2017)**

1 **IN THE MATTER OF** the *Automobile*  
2 *Insurance Act*, RSNL 1990, c. A-22, as  
3 amended (the “*Act*”);  
4

5 **IN THE MATTER OF** an application by  
6 Facility Association for approval of revised  
7 rates for its Newfoundland and Labrador  
8 Public Bus class of business.  
9

10  
11 **1. The Application**  
12

13 Facility Association (“Facility”), as operator of the residual market mechanism for automobile  
14 insurance in the province, filed a Category 2 application on January 11, 2017 seeking approval of  
15 increased rates for its Newfoundland and Labrador Public Bus class of business (the  
16 “Application”). Facility has not applied for rate changes for its Public Bus class of business since  
17 1985.  
18

19 Facility proposes an overall rate change of +10.8% based on its indication using 0% cost of  
20 capital and 2.80% return on investment as follows:

<b>Coverage</b>	<b>Overall Rate Indication (0% cost of capital and 2.8% ROI)</b>	<b>Overall Proposed Rate Change</b>
Third Party Liability	+15.1%	+13.1%
Accident Benefits	+20.8%	+18.8%
Uninsured Automobile	+12.2%	+10.3%
Collision	-4.7%	-6.4%
Comprehensive	+7.4%	+5.5%
Specified Perils	-0.9%	-2.6%
<b>Total</b>	<b>+12.7%</b>	<b>+10.8%</b>

21 The Application proposed that the new rates be effective no earlier than 100 days post approval  
22 for both New Business and Renewals rounded to the 1<sup>st</sup> of the following month or October 1,  
23 2017 whichever is later.

1 The Application was referred to the Board’s actuarial consultants, Oliver Wyman Limited  
 2 (“Oliver Wyman”), for review. On January 16, 2017 Oliver Wyman filed questions on Facility’s  
 3 actuarial analysis and Facility filed responses on January 26, 2017. On March 3, 2017 Oliver  
 4 Wyman filed a report outlining its review of the actuarial justification provided in the  
 5 Application. Facility filed comments in response to Oliver Wyman’s report on March 13, 2017  
 6 and Oliver Wyman filed a reply on March 16, 2017. On April 10, 2017 the Board extended the  
 7 90-day review timeline.

## 8 9 **2. Board Findings**

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11 The issues to be addressed, as identified in the report of Oliver Wyman, are: i) the selected loss  
 12 trend rates; ii) the experience period and weights; iii) the full credibility standards; and iv) the  
 13 HST adjustment. These issues, along with the Board’s findings on each, are discussed in the  
 14 following sections.

### 15 16 **2.1 Loss Trend Rates**

17  
18 Facility’s selected loss trend rates are based on its review of NL Industry Commercial Vehicles  
 19 data as of December 31, 2015. Facility selected its loss cost trend rates for each coverage by  
 20 separately selecting frequency and severity trend rates and then combining these selected trend  
 21 rates to arrive at its selected loss cost trend rates. Facility uses the same trend rate for both past  
 22 and future trend periods. The following table summarizes the loss trend rates selected by Facility  
 23 and those approved by the Board as of December 31, 2015:<sup>1</sup>

<b>Loss Cost Trend Rates</b>	<b>Facility Selection</b>	<b>Board Guideline</b>
Bodily Injury	+3.5%	+2.0%
Property Damage	+2.1%	+2.0%
Accident Benefits	+0.0%	+7.0%
Uninsured Auto	+8.1%	+7.0%
Collision	+0.0%	+0.0%
Comprehensive	+0.0%	+0.0%

24 Oliver Wyman stated that, with the exception of the Bodily Injury trend, Facility’s selected loss  
 25 trend rates were not unreasonable in the circumstances.<sup>2</sup> With regards to Bodily Injury trend,  
 26 Oliver Wyman does not agree with Facility’s rationale for selecting a 0% Bodily Injury  
 27 frequency trend rate, noting that industry data through December 31, 2015 shows that Facility’s  
 28 Bodily Injury claim frequency continued to decline in comparison to December 31, 2014 data.  
 29 Oliver Wyman stated that Facility changed its approach to a more judgement based approach and  
 30 selected 0.0%. According to Oliver Wyman had Facility taken the same approach, it would have  
 31 selected -1.6%.<sup>3</sup> Oliver Wyman noted that a -2.0% frequency trend rate for Bodily Injury would  
 32 be reasonable. By substituting the Board’s Guideline Bodily Injury trend rate instead of

<sup>1</sup> Oliver Wyman Report, March 3, 2017, page 9.

<sup>2</sup> Ibid, page 11.

<sup>3</sup> Board Guideline Loss Trend Report, Response to FA Comments, October 12, 2016, page 3.

1 Facility's selections and with no other changes in assumptions, Facility's rate indication for  
2 Third Party Liability would decrease from +13.1% to +10.3%.<sup>4</sup>

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

9  
10 The Board notes that Facility's approach to its loss trend rate selection is the same as that taken  
11 in its 2016 Taxis and Limousines and 2017 School Bus filings. The Board's concerns with  
12 Facility's proposed Bodily Injury trend selection were previously identified and discussed in  
13 Order No. A.I. 4(2017), which stated:

14  
15 The Board notes that Facility's Bodily Injury loss trend selection relies on Facility's  
16 judgement that the Bodily Injury frequency trend should track with that of Property  
17 Damage, Collision and Accident Benefits, for which Facility selects a 0.0% frequency  
18 trend. This is a change in approach by Facility from its prior analysis and results in an  
19 increase in the selected Bodily Injury frequency trend rate from -2.3% to 0.0% despite the  
20 fact that Bodily Injury claims frequency continued to decline over this period. While the  
21 Board acknowledges that Facility provided statistical measures in an attempt to  
22 demonstrate that a correlation may exist in the claims frequency among "result of  
23 collision" type coverages, the Board finds that these statistics do not justify the proposed  
24 Bodily Injury frequency trend rate of 0.0%. The Board finds the underlying Bodily Injury  
25 loss experience indicates that claims frequency has continued to decline and that approval  
26 of a 0.0% Bodily Injury frequency rate will result in rates that are too high in the  
27 circumstances.

28  
29 Facility has not provided any additional actuarial support to justify use of the proposed Bodily  
30 Injury frequency trend rate of 0.0%.

31  
32 **The Board does not accept Facility's proposed Bodily Injury loss trend selection.**

## 33 **2.2 Experience Period and Weights**

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35  
36 In this Application Facility selected a ten year experience period and assigns 10% weight to each  
37 of the first 5 years, 11% weight to each of the next 4 years, and only 5% weight to 2015 due to a  
38 very low volume of claims and an extremely high loss ratio in that year.<sup>5</sup> In most other rate  
39 filings Facility selects a five year experience period and assigns equal weights of 20% to each  
40 year.

41  
42 Facility noted that its rate indications are heavily influenced by the high loss ratio related to the  
43 accident year 2015. As Facility does not view accident year 2015 as "usual", it attempted to limit

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<sup>4</sup> Oliver Wyman Report, March 3, 2017, page 10.

<sup>5</sup> Facility's reported loss ratio for accident year 2015 (as of December 31, 2015) for Public Buses is 475.8%,  
whereas the average reported loss ratio over accident years 2006 to 2014 (as of December 31, 2015) is 56.8%.

1 the rate impact by using ten years of experience and assigning 2015 less-than-uniform weight.  
 2 Facility noted that if its analysis was based on equal weight to each of the last ten accident years  
 3 the indication to generate a 12% after-tax ROE would increase from +26.3% to +137.0%; and if  
 4 the indication was based on equal weight to the most recent five accident years the indication  
 5 would increase to +189.8%.<sup>6</sup>

6  
 7 Oliver Wyman noted that the amount of weight to assign is a matter of actuarial judgement and  
 8 agreed that assigning a higher weight to the 2015 accident year would increase Facility's rate  
 9 indication considerably. Oliver Wyman found the selection of a ten year experience period and  
 10 assignment of a relatively low weight of 5% to the 2015 accident year to be reasonable in the  
 11 circumstances.

12  
 13 The Board notes that it is typically expected that more weight be given to the most recent  
 14 accident years unless it is demonstrated that doing otherwise is reasonable. The Board accepts  
 15 the rationale provided by Facility for its assigned experience period and weights and is satisfied  
 16 that the proposal will not result in rates which are too high in the circumstances.

17  
 18 **The Board accepts Facility's proposed experience period and weights.**

19  
 20 **2.3 Full Credibility Standards**

21  
 22 Prior to 2014, Facility's full credibility standards for other lines of business were selected with  
 23 reference to a study completed in 2004 by Facility's former external actuarial services provider  
 24 using 2003 Atlantic Commercial Vehicle data (the "Eckler Study"). In subsequent Taxis and  
 25 School Bus filings since 2015 Facility has proposed to move away from the full credibility  
 26 standards supported by the Eckler Study.<sup>7</sup> In each case the Board found that Facility had not  
 27 provided sufficient support for its proposed changes to the full credibility standards.

28  
 29 The Board notes that in this Application Facility proposed to use the same full claim count  
 30 credibility standards as proposed in the 2016 Taxis filing and the 2017 School Bus filing. The  
 31 proposed standards are based on an internal actuarial decision to update and harmonize the  
 32 credibility standards to be consistent at the coverage levels across all jurisdictions. In Order Nos.  
 33 A.I. 4(2017) and A.I. 9(2017) the Board found that sufficient justification had been provided to  
 34 accept the change in Facility's selected full claim count credibility standards.

35  
 36 **The Board accepts Facility's proposed full credibility standards.**

37  
 38 **2.4 HST Adjustment**

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 40 In its original filing Facility omitted an adjustment to its historical loss experience to account for  
 41 the change in HST in the province from 13% to 15% effective July 1, 2016. On January 26,  
 42 2017, in response to questions from Oliver Wyman, Facility filed an amended rate level

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<sup>6</sup> Facility's Actuarial Memorandum, Section 2, page 8.

<sup>7</sup> Taxi filings submitted March 2014, May 2015 and March 2016 and School Bus filings submitted June 2015 and March 2016.

1 indication to account for the HST change, increasing its historical loss experience for all  
2 coverages by +1.8% with a resulting increase in its overall rate level estimate from +10.8% to  
3 +12.7%.<sup>8</sup>  
4

5 A similar omission was identified by Oliver Wyman during its review of Facility's 2016 Taxis  
6 and 2017 School Bus filings. Oliver Wyman stated that its understanding is that the HST rate is  
7 only applicable to the Property Damage portion of Third Party Liability and to the physical  
8 damage coverages, but the exact split of Bodily Injury and Property Damage is unknown.  
9

10 Facility's estimate of average non-PPV ultimate losses for the last ten years is 86% for Bodily  
11 Injury and 14% for Property damage. On this basis, Oliver Wyman estimated the change to the  
12 HST rate would increase Facility's original overall rate level indication from +10.8% to +11.3%<sup>9</sup>  
13 for this Application.  
14

15 While Facility acknowledged that the HST impact is not likely to be fully applicable to Bodily  
16 Injury claims under tort, it did not agree that it will have no impact on such claims. In examining  
17 Bodily Injury, Accident Benefits and Uninsured Automobile coverages, Facility noted that some  
18 heads of damage will be impacted by the HST change but has not determined to what extent.<sup>10</sup>  
19

20 The Board accepts the evidence presented by Facility to demonstrate that certain heads of  
21 damage for the Bodily Injury, Accident Benefits and Uninsured Automobile coverages will be  
22 impacted by the HST change. The Board also acknowledges that the ability to measure the  
23 impact of the change in HST is quite difficult given that the underlying data is already quite  
24 volatile. The Board is satisfied that the HST adjustment proposed by Facility will not result in  
25 rates which are too high in the circumstances.  
26

27 **The Board accepts Facility's adjustment to its historical loss experience to account for HST**  
28 **changes.**  
29

## 30 **2.5 Conclusion**

31

32 The Board has accepted Facility's proposals and assumptions contained in the filing with the  
33 exception of the proposed Bodily Injury loss trend rate.  
34

35 Facility may file a revised application incorporating the Board's findings in this Decision and  
36 Order.

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<sup>8</sup> Response to Oliver Wyman Question 3.

<sup>9</sup> Oliver Wyman Report, pages 7-8.

<sup>10</sup> Facility Response to the Oliver Wyman Report, page 7.

1 **3. Order**

2

3 **IT IS THEREFORE ORDERED THAT:**

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5 1. The Application by Facility Association is denied.

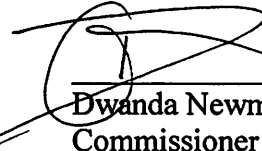
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7 2. Facility Association will pay all costs of the Board, including the cost of the actuarial review,  
8 arising from this Application.

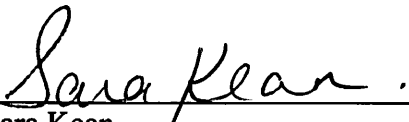
**DATED** at St. John's, Newfoundland and Labrador, this 1<sup>st</sup> day of August, 2017.



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Darlene Whalen, P.Eng.  
Vice-Chair



\_\_\_\_\_  
Dwanda Newman, LL.B.  
Commissioner



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Sara Kean  
Assistant Board Secretary