

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

AN ORDER OF THE BOARD

NO. A.I. 9(2017)

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

5 **IN THE MATTER OF** an application by
6 Facility Association for approval of revised
7 rates for its Newfoundland and Labrador
8 School 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 9, 2017 seeking approval of
15 increased rates for its Newfoundland and Labrador School Bus class of business (the
16 “Application”).
17

18 This Application is Facility’s third application for an increase to rates for its School Bus class of
19 business since 2015. For Facility’s prior School Bus applications, overall rate increases of 6.8%
20 and 9.2% were approved.
21

22 Facility proposes an overall rate change of +10.4% based on its indication using 0% cost of
23 capital and 2.80% return on investment as follows:

Coverage	Overall Rate Indication (0% cost of capital and 2.8% ROI)	Overall Proposed Rate Change
Third Party Liability	+15.4%	+15.4%
Accident Benefits	-1.8%	-1.8%
Uninsured Automobile	+14.1%	+14.1%
Collision	+2.5%	+2.5%
Comprehensive	-1.8%	-1.8%
Specified Perils	+3.3%	+3.3%
Total	+10.4%	+10.4%

1 The Application proposed that the new rates be effective no earlier than 100 days post approval
 2 for both New Business and Renewals rounded to the 1st of the following month or October 1,
 3 2017 whichever is later.

4
 5 The Application was referred to the Board's actuarial consultants, Oliver Wyman Limited
 6 ("Oliver Wyman"), for review. On January 12, 2017 Oliver Wyman filed questions on Facility's
 7 actuarial analysis and Facility filed responses on January 24, 2017. On March 3, 2017 Oliver
 8 Wyman filed a report outlining its review of the actuarial justification provided in the
 9 Application. Facility filed comments in response to Oliver Wyman's report on March 13, 2017
 10 and Oliver Wyman filed a reply on March 16, 2017. On April 10, 2017 the Board extended the
 11 90-day review timeline.

12 13 **2. Board Findings**

14
 15 The issues to be addressed, as identified in the report of Oliver Wyman, are: i) the selected loss
 16 trend rates; ii) the full claim count credibility standards; iii) the complement of credibility; and
 17 iv) the HST adjustment. These issues, along with the Board's findings on each, are discussed in
 18 the following sections.

19 20 **2.1 Loss Trend Rates**

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

Loss Cost Trend Rates	Facility Selection	Board Guideline
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%

28 Oliver Wyman stated that, with the exception of the Bodily Injury trend, Facility's selected loss
 29 trend rates were not unreasonable in the circumstances.² With regards to Bodily Injury trend,
 30 Oliver Wyman does not agree with Facility's rationale for selecting a 0% Bodily Injury
 31 frequency trend rate, noting that industry data through December 31, 2015 shows that Facility's
 32 Bodily Injury claim frequency continued to decline in comparison to December 31, 2014 data.
 33 Oliver Wyman stated that Facility changed its approach to a more judgement based approach and
 34 selected 0.0%. According to Oliver Wyman had Facility taken the same approach, it would have

¹ Oliver Wyman Report, March 3, 2017, page 9.

² Ibid, page 11.

1 selected -1.6%.³ Oliver Wyman noted that a -2.0% frequency trend rate for Bodily Injury would
2 be reasonable. By substituting the Board's Guideline Bodily Injury trend rate instead of
3 Facility's selections and with no other changes in assumptions, Facility's rate indication for
4 Third Party Liability would decrease from +15.4% to +13.8%.⁴

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

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

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

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

33
34 **The Board does not accept Facility's proposed Bodily Injury loss trend selection.**

35 36 2.2 Full Credibility Standards

37
38 The standard of full credibility determines the weight given to the latest Facility School Bus
39 experience in the rate change indication. In rate filings prior to 2014 Facility's full credibility
40 standards were selected with reference to a study completed in 2004 by Facility's former external
41 actuarial services provider using 2003 Atlantic Commercial Vehicle data (the "Eckler Study").
42 This approach was accepted by the Board. In subsequent Taxi and School Bus filings since 2015
43 Facility has proposed to move away from the full credibility standards supported by the Eckler

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

⁴ Oliver Wyman Report, page 10.

1 Study.⁵ In each case the Board found that Facility had not provided sufficient support for its
 2 proposed changes to the full credibility standards, and Facility's effective rates for School Buses
 3 have continued to reflect the Eckler Study. In this Application Facility proposes to use the same
 4 full credibility standards as proposed in its June 2015 and March 2016 School Bus filings as
 5 indicated below:

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

6 Facility submitted that the full credibility standards resulting from the Eckler Study are no longer
 7 appropriate for use, nor is an update of the study reasonable in the circumstances. Facility stated
 8 that its selections are based on an internal actuarial decision to update and harmonize the
 9 credibility standards to be consistent at the coverage levels across all jurisdictions.

10

11 In Facility's prior Taxi and School Bus filings Oliver Wyman expressed its opinion that the
 12 explanations and graphs provided by Facility were not strong enough rationale to change its
 13 credibility standards. In the current Application Oliver Wyman stated that Facility's rationale
 14 still does not support the credibility standards it has proposed but recommended that the Board
 15 allow Facility to use the Board's Guideline standards.

16

17 In Order No. A.I. 4(2017) related to Facility's Taxis filing, the Board accepted the proposed
 18 changes in credibility standards. The Board found that the data used in the Eckler Study which
 19 was based on 2003 combined Atlantic data may no longer be appropriate. The Board stated:

20

21 The Board notes that Facility provided a thorough explanation of how it determined its
 22 proposed credibility standards and identified the specific reasons for the proposed change
 23 in the Application. While Oliver Wyman found that Facility's explanations and graphs
 24 were not strong support for the proposed standards, the Board notes that Oliver Wyman
 25 did not provide any specific support and explanation for this finding to support a finding
 26 that Facility's proposed credibility standards are unreasonable in the circumstances. The
 27 Board finds that sufficient justification has now been provided for Facility to deviate
 28 from the credibility standards supported by the Eckler Study.

⁵ Taxi filings submitted March 2014, May 2015 and March 2016 and School Bus filings submitted June 2015 and March 2016.

1 Facility proposes to use the same credibility standards accepted by the Board in Order No. A.I.
2 4(2017) and has provided the same actuarial support for the change in credibility standards for its
3 School Bus class of business.

4
5 **The Board accepts Facility's proposed credibility standards.**

6 7 **2.3 Complement of Credibility**

8
9 In this Application Facility adjusts its target loss ratio for: i) the rate inadequacy it believes exists
10 due to the difference between its prior application rate indication compared to the rate change
11 approved by the Board; and, ii) the net premium/loss trend rate for the period of time between
12 the effective date of the current rating program and the effective date of the proposed rating
13 program.

14
15 In its prior School Bus filing Facility proposed an overall average rate increase of +9.7% based
16 on the Board's Guideline full credibility standards, the Board's Guideline loss trend rates, a
17 complement of credibility without any adjustment for rate inadequacy, a cost of capital of 0.0%
18 and a return on investment of 2.8%. In Order No. A.I. 19(2016) the Board approved a rate
19 change of +9.2%, which was only 0.5% less than the rate level proposed by Facility.

20
21 The Board does not accept that there was significant rate inadequacy at that time as suggested by
22 Facility in this Application. The Board's role is to ensure that the rates proposed by Facility are
23 not too high in the circumstances, and are actuarially justified. The underlying School Bus
24 experience data used by Facility to determine its rate level need is based on a small sample and
25 exhibits considerable volatility. The Board is not satisfied that a rate inadequacy adjustment is
26 appropriate in the circumstances.

27
28 **The Board does not accept Facility's proposed complement of credibility.**

29 30 **2.4 HST Adjustment**

31
32 In its original filing Facility omitted an adjustment to its historical loss experience to account for
33 the change in HST in the province from 13% to 15% effective July 1, 2016. On January 24,
34 2017, in response to questions from Oliver Wyman, Facility filed an amended rate level
35 indication to account for the HST change, increasing its historical loss experience for all
36 coverages by +1.8% with a resulting increase in its overall rate level estimate from +10.4% to
37 +12.3%.⁶

38
39 A similar omission was identified by Oliver Wyman during its review of Facility's 2016 Taxis
40 filing. Oliver Wyman noted that it was its understanding that the HST rate is only applicable to
41 the Property Damage portion of Third Party Liability and to the physical damage coverages, but
42 the exact split of Bodily Injury and Property Damage for School Buses is unknown.

⁶ Response to Oliver Wyman Question 3.

1 Facility's estimate of average non-PPV ultimate losses for the last ten years is 86% for Bodily
2 Injury and 14% for Property Damage. On this basis Oliver Wyman estimated the change to the
3 HST rate would increase Facility's original overall rate level indication from +10.4% to +11.0%
4 for this Application.⁷

5
6 While Facility acknowledged that the HST impact is not likely to be fully applicable to Bodily
7 Injury claims under tort, it did not agree that it will have no impact on such claims. In examining
8 Bodily Injury, Accident Benefits and Uninsured Automobile coverages, Facility noted that some
9 heads of damage will be impacted by the HST change but has not determined to what extent.⁸

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

17
18 **The Board accepts Facility's adjustment to its historical loss experience to account for HST**
19 **changes.**

20
21 **2.5 Conclusion**

22
23 The Board has accepted Facility's proposals and assumptions contained in the filing with the
24 exception of:

- 25
26 (i) the proposed Bodily Injury loss trend rate; and
27 (ii) the complement of credibility.

28
29 Facility may file a revised application incorporating the Board's findings in this Decision and
30 Order.

⁷ Oliver Wyman Report, pages 7-8.

⁸ Facility Response to the Oliver Wyman Report, page 7.

1 **3. Order**

2

3 **IT IS THEREFORE ORDERED THAT:**

4

5 1. The Application by Facility Association is denied.

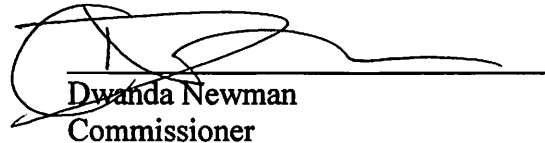
6

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

DATED at St. John's, Newfoundland and Labrador, this 31st day of July, 2017.



Darlene Whalen, P.Eng.
Vice-Chair



Dwanda Newman
Commissioner

Sara Kean
Assistant Board Secretary