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January 14, 2015

Public Utilities Board
120 Torbay Road
Prince Charles Building
Suite E-210
St. John's, NL A1A 5B2

HAND DELIVERED

**Attention: G. Cheryl Blundon, Director of Corporate Services
and Board Secretary**
cblundon@pub.nl.ca

Dear Ms. Blundon:

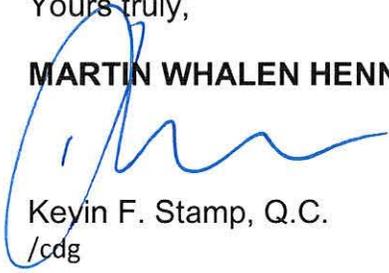
**Re: Facility Association
Newfoundland and Labrador
Taxi Rate Filing 2014**

Attached is the electronic copy of Reply Submissions By Facility Association in connection with the above-mentioned rate filing. Paper copies of these submissions will be delivered to the Public Utilities Board's office by hand.

We trust this is satisfactory.

Yours truly,

MARTIN WHALEN HENNEBURY STAMP



Kevin F. Stamp, Q.C.

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Enclosures

IN THE MATTER OF an Application
by Facility Association for approval
of revised rates to be charged for
Public Vehicles – Taxis and
Limousines Insurance Category

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REPLY SUBMISSIONS BY FACILITY ASSOCIATION

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JANUARY 14, 2015

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Martin Whalen Hennebury Stamp
Solicitors on behalf of the Applicant
PO Box 5910, 15 Church Hill
St. John's, NL A1C 5X4
Per: Kevin F. Stamp, Q.C.

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1 **Part I, Section (iv) History of the Matter**

2 1. We note the reference on pages 7 (line 13) and 8 (line 12) of a “minimum
3 additional premium increase”. The amounts quoted are average premium
4 increases, and not the minimum increase. Obviously, some renewals will fall
5 below the average increase and some will fall above the average.

6 **Part IV, Section (iii) Key Areas of Difference, (a) Commercial Vehicle Loss Trend**
7 **Rates**

8 2. In the final paragraph of page 14, the Consumer Advocate has stated “... *the*
9 *Facility Association’s approach to determining a loss trend rate does not appear to*
10 *take into consideration the fact the parties to this Application are dealing with*
11 *exceedingly challenging experience data.” We do not believe this to be an*
12 *accurate representation, as Facility Association recognizes this explicitly in its*
13 *modeling approach via statistical analysis of the results, explicitly reviewing model*
14 *fits and residuals. This is clearly indicated in Mr. Doherty’s testimony (examples*
15 *provided below), as well as in his overall review of the Facility Association process,*
16 *as found in testimony on November 5, page 90 through to*

17 *“I think, before that, one, it seems to be very volatile. I’m not sure why there was*
18 *so much volatility in the claims frequency for commercial vehicles in*
19 *Newfoundland prior to 2004, but I think there was significant volatility there, and I*
20 *think there was at least one trend.” (Nov 5, page 103)*

21 *“... then further analysis is, is that relationship you’ve identified statistically valid*
22 *and significant or is it just a result of the mechanics of the process, and that’s the*
23 *key part.” (Nov. 5, page 106)*

24 *“The second step of the process, though, is to look at the results of the*
25 *regression to see whether or not it’s an actual statistically valid connection*
26 *between the two of them.” (Nov 5, page 107)*

27 *“To do the second part, which is establishing whether or not there’s a statistically*
28 *valid relationship between the two of them means that you have to look at other*

1 regression statistics that come of that. The ones that help us to determine
2 whether or not it's a valid relationship, one that you can rely on, or is it simply a
3 determination based on the noise." (Nov 5, pages 108 and 109)

4 "So when we're looking at the P values in our coefficients, we want to select P
5 values that are low. That is, there's a low chance that the relationship you've
6 identified is because of randomness and not really a relationship at all." (Nov. 5,
7 page 126).

8 "So, the overall process that we go through on the trend analysis is that we first
9 do it internally, so there's an analyst who does the initial regression views, and
10 they start with the standards, but then they will start building other models as
11 they deem appropriate. After that it comes to me. ... if I feel it necessary, I will
12 also look at different periods. ... we hand [sic] it off to our external partner, EY
13 [sic]. ... They may throw in some options of their own." (Nov 5, pages 121 and
14 122)

15 "... are you really representing the data or are you ignoring the fact that there's a
16 lot of volatility here? ... I would be challenged if my analyst came to me and said
17 I've decided to knock out those four earlier data points, I would say, you know
18 what, there's just a lot of volatility ..." (Nov 5, page 141)

19 "...pre-2004 seemed to be flat but quite volatile and post-2004 it's been
20 increasing and perhaps not quite as volatile as what it was previously." (Nov 5,
21 page 144)

- 22 3. On page 15, the Consumer Advocate correctly points out that in the Facility
23 Association's 2013 Taxi filing, it was stated that the BI severity trend selected was
24 based on private passenger, not commercial vehicle data, as there was not
25 sufficient data to support the determination of an underlying BI severity trend from
26 the commercial data, mainly due to its volatility over the periods considered in
27 various regression models. However, since that filing, the whole of accident year
28 data from 2012 has become available, and Facility Association has, with this

1 additional data and its current modeling, been able to find a satisfactory statistically
2 significant model for BI severity based on the NL industry commercial vehicle data.

- 3 4. On pages 15 and 16, the Consumer Advocate quotes the testimony of Ms. Elliot
4 from November 17, with the last line being “*We think that by excluding the high*
5 *and low points, it’s helping to give a more stable measurement of the trend rate.*”
6 While not offering a definition of “stable measurement”, it is appears clear that this
7 aim is not being achieved, as evidenced by summarizing and comparing the
8 regression results from undertaking U-17. While data in that undertaking was not
9 provided in sufficient detail to do this review for Commercial Vehicles, it was
10 provided for Private Passenger, and is summarized in the table below. This data
11 does NOT support the conclusion that excluding highs and lows stabilizes trend
12 rate estimates, as estimates based on the exclusions seem less stable. It actuals
13 supports the conclusion that, for the most part, exactly the opposite occurs. In
14 seven of the ten periods identified in U-17 and outlined in the table below, the
15 variation (as measured by the difference between the highest and lowest estimates
16 over time) was greater where the regressions were completed with data
17 exclusions.

NL Industry PPV, OW Regression results, as per U-17

	for 10-year period ending Dec 2012				for 5-year period ending Dec 2012			
by report:	Dec-12	Jun-13	Dec-13	hi less low	Dec-12	Jun-13	Dec-13	hi less low
no exclusions	2.1%	2.0%	2.0%	0.1%	5.8%	5.8%	5.6%	0.2%
with exclusions	1.8%	1.7%	1.6%	0.2%	5.2%	5.5%	5.2%	0.3%
	for 10-year period ending Jun 2012				for 5-year period ending Jun 2012			
by report:	Jun-12	Dec-12	Jun-13	hi less low	Jun-12	Dec-12	Jun-13	hi less low
no exclusions	1.6%	1.6%	1.6%	-	5.3%	5.0%	5.0%	0.3%
with exclusions	1.2%	2.2%	1.2%	1.0%	5.0%	4.3%	4.8%	0.7%
	for 10-year period ending Dec 2011				for 5-year period ending Dec 2011			
by report:	Dec-11	Jun-12	Dec-12	hi less low	Dec-11	Jun-12	Dec-12	hi less low
no exclusions	1.3%	1.4%	1.3%	0.1%	4.3%	4.5%	3.6%	0.9%
with exclusions	0.8%	1.7%	1.8%	1.0%	3.6%	3.5%	3.1%	0.5%
	for 10-year period ending Jun 2011				for 5-year period ending Jun 2011			
by report:	Jun-11	Dec-11	Jun-12	hi less low	Jun-11	Dec-11	Jun-12	hi less low
no exclusions	0.8%	0.8%	1.1%	0.3%	3.1%	3.9%	4.5%	1.4%
with exclusions	0.7%	0.8%	1.2%	0.5%	2.4%	3.5%	3.9%	1.5%
	for 10-year period ending Dec 2010				for 5-year period ending Dec 2010			
by report:	Dec-10	Jun-11	Dec-11	hi less low	Dec-10	Jun-11	Dec-11	hi less low
no exclusions	(1.0%)	(0.1%)	0.3%	1.3%	1.9%	3.8%	4.5%	2.6%
with exclusions	0.1%	0.7%	0.6%	0.6%	3.4%	1.7%	3.2%	1.7%

1 As this data demonstrates, the exclusions by the Consulting Actuary of various
2 data points creates greater variation in the estimated trend rates in seventy
3 percent of Consulting Actuary's selected periods. The claim, therefore, to more
4 stable measurements is unsupported.

- 5 5. On page 17, the Consumer Advocate argues that "... *this approach of Oliver*
6 *Wyman is more reasonable and responsive to the limitations and extreme*
7 *variability in this case.*" This view ignores Ms. Elliot's testimony with respect to her
8 acknowledged competing goal of stability, and does not address the issue that Ms.
9 Elliot's selected trends do not fit the Facility Association's taxi experience. It
10 further ignores Ms. Elliot's admission that she abandoned her approach with
11 respect to how highs and lows were identified, because, by her own admission, it
12 did not work.

13 **Part IV, Section (iii) Key Areas of Difference, (b) Standard of Full Credibility**

- 14 6. On page 18, the Consumer Advocate states that it "... *does not believe that Facility*
15 *Association should have elected to decrease its full credibility standard, and thus*
16 *increase its rate change indications at a time when taxi drivers and owners are*
17 *already struggling to absorb the 2013 Facility Association rate increases.*" It
18 should be recognized that Facility Association's 2013 requested rate increase was
19 significantly less than the rate indication. It should be further noted that the
20 position posed by the Consumer Advocate has no actuarial foundation. As Mr.
21 Doherty testified:

22 "*I made an actuarial [sic] judgement of application across all jurisdictions for*
23 *setting the full credibility standards that I feel comfortable with for each individual*
24 *coverage, ...*" (Nov 6, page 92)

25 "*We knew that the change overall would tend to give more weight to experience,*
26 *the actual experience underlying it. In some classes of business that means that*
27 *because the experience is better than the underlying it would improve the results,*
28 *i.e. rate indications would drop. In some classes, some jurisdictions, it would go*
29 *the other way.*" (Nov 7, page 124)

1 The Facility Association's change in credibility standard was based on Mr.
2 Doherty's actuarial judgement, and is applied consistently across all jurisdictions
3 and all rating classes. If the Consumer Advocate's approach were to be followed,
4 at the extreme, it would mean never changing the credibility standard, as no doubt
5 some rating class in some jurisdiction would be adversely impacted.

6 **Part IV, Section (iii) Key Areas of Difference, (c) Rate Inadequacy in the**
7 **Complement of Credibility**

8 7. On page 19, the Consumer Advocate states, with reference to the use of a
9 complement of credibility in the rate making process: "*It may also serve to limit the*
10 *size of the rate change from one filing to the next.*" We find no indication upon
11 review of the transcripts that either Mr. Doherty or Ms. Elliot made this statement.

12 **Part IV, Section (iv) Other Issues, (a) Expense Provision**

13 8. On page 21, the Consumer Advocate indicates agreement with Ms. Elliot's
14 testimony that Facility Association review certain cost elements as ways to "bring
15 down the premium". The Consumer Advocate then recommends "... *that the*
16 *Board recommend this be done in its Order prior to Facility Association's next rate*
17 *filing in this province.*"

18 9. This recommendation seems to implicate all rate classes, and impose a significant
19 work effort on the part of Facility Association that ignores the main issue at hand
20 with respect to the taxi experience in NL – that issue being that it is loss costs,
21 primarily bodily injury, that is driving the rate need, not expenses. Bodily injury
22 claims are a result of accidents caused by taxi drivers, having an adverse impact
23 on and generating claims for damages by third parties.

24 10. On an all coverages basis over at least the 10 accident year history provided in the
25 Facility Association 2014 filing, indemnity amounts have surpassed premium levels
26 by more than 58% (2014 filing, Exhibit D-1 column [7]) or \$8.3 million (or \$1,164
27 per taxi).

1 11. This has placed a significant burden on the insurance industry and represents a
2 de-facto subsidy from the insurance industry to the taxi industry. Over the most
3 recent five accident years, this per taxi shortfall (again, just to cover claims
4 indemnity costs) has increased to \$1,682. The 2013 approved rate change
5 increased average written premium by only \$950, clearly not sufficient to address
6 this continued gap in premium and indemnity costs. As per Mr. Doherty's
7 testimony:

8 *"... but if the experience is really reflective of the underlying cost and it continues*
9 *at that level, and eventually we will get there if it continues like that, the actual*
10 *indication would be about 126 percent increase."* (Nov 6, page 79)

11 12. The 2014 rate application assumed that the underlying rate change would be
12 effective August 1, 2014. Clearly, this effective date is not achievable. If updated
13 taxi experience indicates that loss costs indeed continue at levels higher than
14 those projected for inclusion in the current rate level indications, the rate increase
15 being proposed will still not be sufficient to cover claims indemnity costs, let alone
16 be sufficient to cover any expenses. In light of this, it is not unreasonable to
17 assume that Facility Association will want to take further action on rate as soon as
18 possible.

19 13. In all of the above discussion, we have not referenced the added financial impact
20 on the industry associated with the public rate hearing process.

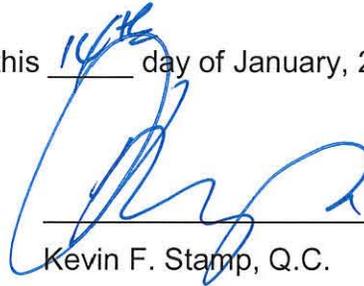
21 **Part IV, Section (iv) Other Issues, (b) Removal of Owner Driven Discount**

22 14. On page 22, the Consumer Advocate states that, based on his testimony, Mr.
23 Doherty *"believes that there is a risk-based basis to differentiate between vehicles*
24 *that are owner-driven versus employee or contractor driven."* [emphasis added].
25 Mr. Doherty's testimony was that such a view *"would make sense"* (Nov 7, page
26 42), but not that such a differentiation actually exists.

27 15. On that same page, the Consumer Advocate states that *"Keeping the discount in*
28 *place will not attract Facility Association more business ..."* We agree with this

1 statement. However, removing the discount *may* make such drivers more
2 attractive to the regular market (i.e. insurers serving the market voluntarily) and
3 therefore entice other insurers to enter the market.

4 All of which is respectfully submitted this 14th day of January, 2015.

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Kevin F. Stamp, Q.C.

7 Counsel for Facility Association