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<p>1 CHAIRMAN: 2 Q. So, I believe we are back to our continuation 3 of yesterday's exercise. 4 MS. PAULA ELLIOTT, (PREVIOUSLY AFFIRMED) CROSS- 5 EXAMINATION BY MS. JENNIFER NEWBURY (CONT'D) 6 MS. NEWBURY: 7 Q. Thank you, good morning. Good morning, Ms. 8 Elliott. 9 MS. ELLIOTT: 10 A. Good morning. 11 MS. NEWBURY: 12 Q. First of all I want to refer to the questions 13 submitted by Oliver Wyman to the Facility 14 Association dated March 21st, 2014. It's 15 Question Number 11. And if you just scroll 16 back, you can actually bring up the question, 17 the--I think it's at the bottom of the next-- 18 of the earlier page, the previous page. 19 That's it, perfect. Thank you. Now Ms. 20 Elliott, I believe from your evidence 21 yesterday you indicated that the reference 22 there to 2004 was a typographical error, is 23 that correct? 24 MS. ELLIOTT: 25 A. Yes, that's correct.</p>	<p>1 that there was a change at 2004. 2 MS. NEWBURY: 3 Q. Okay. 4 MS. ELLIOTT: 5 A. Yeah. 6 MS. NEWBURY: 7 Q. So then, I take it then from your question, if 8 it were corrected to refer to the year 2000, 9 that you saw that--when you looked at it, you 10 saw that the graph in the loss trend section 11 show for BI evidence of an upward frequency 12 trend prior to 2000, and then a decline in 13 frequency trend after 2000? 14 MS. ELLIOTT: 15 A. In that range, that--in around 2000 - 2001 16 area that the frequency rate was increasing in 17 the older period, and then after that time 18 there started to be a decline in the frequency 19 rate. 20 MS. NEWBURY: 21 Q. So around 2000? 22 MS. ELLIOTT: 23 A. Around 2000, and one of the things that's 24 important to remember in Newfoundland which 25 makes it more difficult to identify was there</p>
<p>1 MS. NEWBURY: 2 Q. Okay. And the year that you intended to refer 3 to was 2000, the year 2000? 4 MS. ELLIOTT: 5 A. Yes, that's correct. 6 MS. NEWBURY: 7 Q. Okay, and now did you alert anyone to that 8 error, typographical error, before yesterday's 9 evidence? 10 MS. ELLIOTT: 11 A. Did we do that? Well, certainly in my review 12 before the hearing there I might have 13 discussed that, yes. 14 MS. NEWBURY: 15 Q. Okay, there was nothing though to alert 16 Facility to the - 17 MS. ELLIOTT: 18 A. No, I did not send a follow-up question. 19 MS. NEWBURY: 20 Q. Okay. Okay, and why is that? Why would you 21 not have followed up with a question with the 22 correct date? 23 MS. ELLIOTT: 24 A. I read their response. I--my understanding 25 from their response was that they understood</p>	<p>1 was very large snowstorms in around that 2 period as well. I think the frequency rate 3 shot up to about 11 in that time period. 4 Right, in 2001 it was very high. 5 MS. NEWBURY: 6 Q. Okay. So if we just scroll down a little bit 7 to see the response from the Facility 8 Association to that, okay, so you're now 9 pointing out--and I don't know if we can make 10 that a little larger there, the graph on the 11 right, the actual fitted frequency. So you 12 can see that there are a couple of high peaks 13 I guess you would call it? 14 MS. ELLIOTT: 15 A. Um-hm, um-hm. 16 MS. NEWBURY: 17 Q. And one is around the year, you're saying 18 2001? Is that how you would read that graph? 19 MS. ELLIOTT: 20 A. Yes. 21 MS. NEWBURY: 22 Q. Okay. 23 MS. ELLIOTT: 24 A. I think so, um-hm. 25 MS. NEWBURY:</p>

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<p>1 Q. And is that--do you associate that with the 2 winter of 2001 that you're referring to?</p> <p>3 MS. ELLIOTT:</p> <p>4 A. Yes, that's my recollection.</p> <p>5 MS. NEWBURY:</p> <p>6 Q. Okay.</p> <p>7 MS. ELLIOTT:</p> <p>8 A. Yes.</p> <p>9 MS. NEWBURY:</p> <p>10 Q. So it's your evidence then I take it that the 11 decline in the frequency started at that time, 12 in 2001?</p> <p>13 MS. ELLIOTT:</p> <p>14 A. I think that the decline in the frequency 15 started before 2004, yes.</p> <p>16 MS. NEWBURY:</p> <p>17 Q. Okay, now the--just thinking generally now 18 about your evidence yesterday, I had 19 understood that the unusual winter of 2001 20 would really be an outlier? It would be out 21 of keeping with events typically in 22 Newfoundland?</p> <p>23 MS. ELLIOTT:</p> <p>24 A. There was an enormous amount of snow at that 25 time.</p>	<p>1 MS. NEWBURY:</p> <p>2 Q. Okay.</p> <p>3 MS. ELLIOTT:</p> <p>4 A. I think it's extremely high and I think it's 5 weather related, so it's unusual.</p> <p>6 MS. NEWBURY:</p> <p>7 Q. Okay.</p> <p>8 MS. ELLIOTT:</p> <p>9 A. Yes.</p> <p>10 MS. NEWBURY:</p> <p>11 Q. So if you take that point out then if it's an 12 outlier, and just thinking about it now from 13 the layperson's perspective -</p> <p>14 MS. ELLIOTT:</p> <p>15 A. Sure.</p> <p>16 MS. NEWBURY:</p> <p>17 Q. - you're saying that a layperson should be 18 able to look at these things and see?</p> <p>19 MS. ELLIOTT:</p> <p>20 A. I said that sometimes a layperson can do that.</p> <p>21 MS. NEWBURY:</p> <p>22 Q. Yes, you did.</p> <p>23 MS. ELLIOTT:</p> <p>24 A. Yes.</p> <p>25 MS. NEWBURY:</p>
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<p>1 MS. NEWBURY:</p> <p>2 Q. Yes, yes.</p> <p>3 MS. ELLIOTT:</p> <p>4 A. Yes.</p> <p>5 MS. NEWBURY:</p> <p>6 Q. And I was here so I do recall that, but would 7 that not be an outlier?</p> <p>8 MS. ELLIOTT:</p> <p>9 A. I think the frequency rate is very high at 10 that point in time. I think it's -</p> <p>11 MS. NEWBURY:</p> <p>12 Q. Yes.</p> <p>13 MS. ELLIOTT:</p> <p>14 A. The highest point that's there is 2001-1 I 15 believe is the peak.</p> <p>16 MS. NEWBURY:</p> <p>17 Q. Okay, and you wouldn't consider then that to 18 be an outlier?</p> <p>19 MS. ELLIOTT:</p> <p>20 A. I--sorry, I did not say that.</p> <p>21 MS. NEWBURY:</p> <p>22 Q. Okay. So you do--do you agree-is it an 23 outlier or is not an outlier?</p> <p>24 MS. ELLIOTT:</p> <p>25 A. I think it is an outlier.</p>	<p>1 Q. And so if we take out that particular point, 2 in terms of the frequency, how would the graph 3 look then to the layperson, is that high point 4 isn't there?</p> <p>5 MS. ELLIOTT:</p> <p>6 A. I think you'd start to see if that was there, 7 that the decline started as I said, more 8 towards 2000 - 2001. That's how I see it.</p> <p>9 MS. NEWBURY:</p> <p>10 Q. But that would depend on that high point being 11 in there, wouldn't it? If it -</p> <p>12 MS. ELLIOTT:</p> <p>13 A. No, if you drew it down so that it was 14 similar, more in line with the point at 2002, 15 then--and then started to decline there, it's 16 exactly what I said.</p> <p>17 MS. NEWBURY:</p> <p>18 Q. Yes, okay. Well I would suggest that if you 19 took out that high point in 2001, and put in a 20 point that's more similar to the prior year 21 and the subsequent year, that that point would 22 be much closer to the existing red line that 23 was drawn in my Mr. Doherty?</p> <p>24 MS. ELLIOTT:</p> <p>25 A. Well, I say that if you put it in, that that</p>

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<p>1 was closer to 2002-1. It makes my point. So 2 I mean, we're hypothetically saying, "What 3 would it be if the snowstorm didn't occur?" 4 But I believe that there was an upward pattern 5 that was occurring from the '93. It's very-- 6 it's convoluted here because of weather- 7 related issues, but I think the decline 8 started before 2004. We see that in other 9 provinces. We relate it. We see it in the 10 US, and we relate it to technology with 11 vehicles, the safety measures that have been 12 installed in vehicles. It takes time for this 13 to occur. Not every car is new on the road, 14 but I believe that there's a relationship with 15 vehicle safety and that the decline started, 16 you know, in around 2000 - 2001.</p> <p>17 MS. NEWBURY: 18 Q. Yes.</p> <p>19 MS. ELLIOTT: 20 A. I don't believe that the pattern changed in 21 2004 as FA has presented. I think it was 22 earlier. I think it's probably similar to the 23 other provinces that we're seeing.</p> <p>24 MS. NEWBURY: 25 Q. Okay. And is that the assumption that drove</p>	<p>1 Q. It's entered as an undertaking. 2 MS. NEWBURY: 3 Q. Oh, it is entered? 4 MS. GLYNN: 5 Q. Yes. 6 MS. NEWBURY: 7 Q. That's fine. So they are called I believe 8 Undertaking 20 through - 9 MS. GLYNN: 10 Q. It was all an undertaking. 11 MS. NEWBURY: 12 Q. Oh, was it all part of one package? Okay, 13 thanks. So Undertaking 20, and I would ask 14 that your refer to the first page of that, 15 which is basically your insertions on the 16 second page of Exhibit SD 2. And what you 17 have done, Ms. Elliott, and thank you for 18 that, you have circled the high points and low 19 points that you had previously excluded. You 20 determined that these were appropriately 21 excluded from your regression model. And I'm 22 going to request that you first of all go 23 through the points from left to right and 24 identify the nature of the point, whether it's 25 a low-point exclusion or a high-point</p>
<p>1 your conclusion about the trend, or did you 2 actually do any statistical analysis taking 3 out for example that 2001 outlier just to see 4 how the regression statistics would reveal 5 themselves on that point?</p> <p>6 MS. ELLIOTT: 7 A. Well I could do that, and we certainly have 8 done that. And if--yeah.</p> <p>9 MS. NEWBURY: 10 Q. But you haven't presented it in this 11 particular case thus far?</p> <p>12 MS. ELLIOTT: 13 A. I haven't been asked to present it.</p> <p>14 MS. NEWBURY: 15 Q. I'm going to turn now to the exercise that we 16 finished with at the end of the day yesterday. 17 And I believe the documentation has been 18 distributed to everybody.</p> <p>19 MS. GLYNN: 20 Q. Yes, it would be Undertaking 20.</p> <p>21 MS. NEWBURY: 22 Q. Okay, and I'm going to request that that be 23 entered as Exhibits--I'm not sure we start 24 with PE.</p> <p>25 MS. GLYNN:</p>	<p>1 exclusion, and also identify the value 2 associated with that particular point.</p> <p>3 MS. ELLIOTT: 4 A. Okay. I'm going to need a little more 5 information because I can't quite see.</p> <p>6 MS. NEWBURY: 7 Q. You might need to refer to the first page of 8 SD--the SD 1 through 4 Exhibits for this.</p> <p>9 MS. ELLIOTT: 10 A. All right. So there is 11-2, 7-2.</p> <p>11 MS. NEWBURY: 12 Q. Okay, but--sorry, could you start with just 13 reading from left to right, just to keep 14 consistent through this? The first point on 15 your left that you've circled, I understand 16 that would be 2003 H1?</p> <p>17 MS. ELLIOTT: 18 A. Yes.</p> <p>19 MS. NEWBURY: 20 Q. And is that a low point or a high point? 21 MS. ELLIOTT: 22 A. That would be representing the change from the 23 prior period of minus 40 percent.</p> <p>24 MS. NEWBURY: 25 Q. Yes, and what was that excluded because it's a</p>

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1 low point?
 2 MS. ELLIOTT:
 3 A. Yes.
 4 MS. NEWBURY:
 5 Q. Or a low change in percentage?
 6 MS. ELLIOTT:
 7 A. Yes.
 8 MS. NEWBURY:
 9 Q. Yes.
 10 MS. ELLIOTT:
 11 A. Yes.
 12 MS. NEWBURY:
 13 Q. Okay, and what is the value actually
 14 associated with the data point that was
 15 excluded?
 16 MS. ELLIOTT:
 17 A. Four thirty.
 18 MS. NEWBURY:
 19 Q. Okay, and the next point, if you go--move to
 20 the right?
 21 MS. ELLIOTT:
 22 A. Is 2005-1, 46 percent decrease and that value
 23 is 211, so a low point.
 24 MS. NEWBURY:
 25 Q. Okay.

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1 MS. ELLIOTT:
 2 A. And then the next point is 2007-2, a 65
 3 percent decrease, and that's 449.
 4 MS. NEWBURY:
 5 Q. I'm sorry, we've having--can you speak a
 6 little louder?
 7 MS. ELLIOTT:
 8 A. Oh yes.
 9 MS. NEWBURY:
 10 Q. Thanks.
 11 MS. ELLIOTT:
 12 A. I'm sorry, yeah. Okay, four forty -
 13 MS. NEWBURY:
 14 Q. Okay, so the third point was 449?
 15 MS. ELLIOTT:
 16 A. Right, that's 65 percent increase over the
 17 prior period. And the last one was 11-2, 475
 18 and a 57 percent increase. So in this case,
 19 as we acknowledged already, the percentage
 20 change approach you know was not perfect, and
 21 we have reverted back to the dollar point.
 22 And the most earliest point that was excluded,
 23 in hindsight we could have not excluded that
 24 point.
 25 MS. NEWBURY:

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1 Q. Okay, and I'm -
 2 MS. ELLIOTT:
 3 A. And chosen a different one.
 4 MS. NEWBURY:
 5 Q. I will ask you a bit more about that, but I
 6 want to go through this exercise first for
 7 each of the four exhibits.
 8 MS. ELLIOTT:
 9 A. Sure.
 10 MS. NEWBURY:
 11 Q. So if we turn to SD 2.
 12 MS. ELLIOTT:
 13 A. Okay, all right. 2008-2, 302, it's a low
 14 point, minus 33 percent from the prior period,
 15 and 11-2 again, 475, a 57 percent decrease.
 16 MS. NEWBURY:
 17 Q. And that's a high point?
 18 MS. ELLIOTT:
 19 A. Yes.
 20 MS. NEWBURY:
 21 Q. Okay, and SD 3?
 22 MS. ELLIOTT:
 23 A. Sorry. Okay. All right, 2002-2, seven--no,
 24 315, the 50 decrease from the prior period.
 25 MS. NEWBURY:

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1 Q. So is that a low or a high?
 2 MS. ELLIOTT:
 3 A. That's a low percentage change. 2005-1, 211,
 4 it's a 46 percent decrease, so a low point.
 5 MS. NEWBURY:
 6 Q. That's 211?
 7 MS. ELLIOTT:
 8 A. Yes.
 9 MS. NEWBURY:
 10 Q. Thank you.
 11 MS. ELLIOTT:
 12 A. 2007-2, 449, a 65 percent increase, so a high
 13 point; and 2011-2 again, 475, and again a 75
 14 percent increase, a high point.
 15 MS. NEWBURY:
 16 Q. And SD 4?
 17 MS. ELLIOTT:
 18 A. 2007-2, it's 448, a high point, 65 percent.
 19 Look at that--oh, I apologize. 2008-2, 302,
 20 minus 33 percent, and 11-2, 475, a 57 percent
 21 increase.
 22 MS. NEWBURY:
 23 Q. Okay. Sorry, can you repeat that again?
 24 MS. ELLIOTT:
 25 A. Okay.

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1 MS. NEWBURY:
 2 Q. What was the first point on your left for
 3 exclusion on SD Number 4?
 4 MS. ELLIOTT:
 5 A. Oh, I apologize, it's hard with all the Y and
 6 the yellows.
 7 MS. NEWBURY:
 8 Q. Yes.
 9 MS. ELLIOTT:
 10 A. Let me do it again. 2007-2, 267; 2008-2--
 11 sorry, the font is very small on this. It's
 12 very hard to read. 2008-2, 302, minus 33
 13 percent.
 14 MS. NEWBURY:
 15 Q. So--okay, so the first on the left is which
 16 year, 2007 H2? And what was the number
 17 associated with that one?
 18 MS. ELLIOTT:
 19 A. Four forty-nine.
 20 MS. NEWBURY:
 21 Q. Okay. And then the next point excluded was?
 22 MS. ELLIOTT:
 23 A. It's 302, 2008-2. Have I got that -
 24 MS. NEWBURY:
 25 Q. Okay. Okay, so the first one was a high and

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1 the second one was a low?
 2 MS. ELLIOTT:
 3 A. Um-hm.
 4 MS. NEWBURY:
 5 Q. Okay. Just going back now to SD--sorry, the
 6 first page of U20, which is there before you,
 7 so it's noted there that three of the outliers
 8 or excluded points that you have identified
 9 are actually above the line that is identified
 10 as your trend line, and only one of the
 11 excluded points is below the line. Now
 12 yesterday in your evidence you indicated that
 13 a layperson should sometimes be able to
 14 identify outliers simply from looking at the
 15 graph. Now how would a layperson comprehend
 16 that you have a low outlier which is the first
 17 one actually above the line?
 18 MS. ELLIOTT:
 19 A. I think my point if you want to refer to the
 20 point how would a layperson decide that
 21 something might be an outlier, I think they'd
 22 look at the 2000, the high point that's up
 23 there, it's \$700. And my point if you're
 24 asking how would a layperson look at a graph
 25 and say, "Gee, this"--"that might be a

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1 outlier," I think they'd look at that. If
 2 you're asking me how would a layperson look at
 3 these points and know that they were outliers,
 4 they'd have to look at the percentage change
 5 from the prior period. That's how they would
 6 do that.
 7 MS. NEWBURY:
 8 Q. Did you make a reference to 700? Was there a
 9 -
 10 MS. ELLIOTT:
 11 A. Yes, you asked me how would a layperson look
 12 at a graph, and I'm -
 13 MS. NEWBURY:
 14 Q. Yes.
 15 MS. ELLIOTT:
 16 A. And I'm suggesting a layperson would look at
 17 the graph and look at the high point. I said
 18 sometimes they could do that.
 19 MS. NEWBURY:
 20 Q. Okay.
 21 MS. ELLIOTT:
 22 A. That would be an example where I think
 23 sometimes they could do that. If you're
 24 looking at the points that have the red dots
 25 that we chose to exclude on a percentage

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1 basis, a layperson would have to get a
 2 calculator out, understand that we're looking
 3 at the percentage change, and then choose
 4 those dots.
 5 MS. NEWBURY:
 6 Q. Okay, so you still stand by your position that
 7 these are actually outliers?
 8 MS. ELLIOTT:
 9 A. I stand by my position that we chose this
 10 method hoping that that would finesse our
 11 model, our approach, on a percentage change
 12 basis. I've acknowledged we tried it. Not
 13 that great. You know it didn't work. We have
 14 now gone back to a dollar basis. I've
 15 acknowledged that if we use a dollar basis,
 16 our loss trend rate is at a larger negative
 17 than what we had calculated. So yes, you
 18 know, I agree, you know in hindsight looking
 19 back the percentage change approach wasn't the
 20 best approach. Yeah.
 21 MS. NEWBURY:
 22 Q. Okay. And now at the time of course in the
 23 model that's presented here in your report for
 24 the Board, the exercise has actually resulted
 25 in the exclusion of three data point that are

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1 on the higher end?
 2 MS. ELLIOTT:
 3 A. That's correct.
 4 MS. NEWBURY:
 5 Q. Yes, and only one below?
 6 MS. ELLIOTT:
 7 A. That's correct.
 8 MS. NEWBURY:
 9 Q. Which would tend to result in a lower line or
 10 lower -
 11 MS. ELLIOTT:
 12 A. Well -
 13 MS. NEWBURY:
 14 Q. - or decreasing trend?
 15 MS. ELLIOTT:
 16 A. I guess it's a perspective because as we said
 17 or I just stated, that if you use the dollar
 18 approach, and looked at the ones that are at a
 19 high and the low, we end up with a larger
 20 negative overall trend. So not necessarily
 21 what you have just said is correct.
 22 MS. NEWBURY:
 23 Q. Well, I'm focusing on this particular exercise
 24 here. I'm not looking at a comparison between
 25 the dollar points and the change in value.

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1 I'm just looking simply at this change of
 2 value.
 3 MS. ELLIOTT:
 4 A. Well, I was hoping my comment would be helpful
 5 MS. NEWBURY:
 6 Q. Okay. But looking again at this particular
 7 graph here, and seeing where those outliers
 8 were excluded, they are--if you look--aside
 9 from the one in around 2001, these are all the
 10 three of the highest points that you've
 11 excluded, and only one low point has been
 12 excluded?
 13 MS. ELLIOTT:
 14 A. That's correct.
 15 MS. NEWBURY:
 16 Q. And if we turn to the next graph, SD 2, both
 17 of the data points that you have excluded are
 18 actually above your line that you've derived,
 19 your trend line? One is slightly above, but
 20 the other is well over.
 21 MS. ELLIOTT:
 22 A. Yeah, and in fact the result is really
 23 indifferent to the exclusion of that point
 24 because it's effectively on the line. We get
 25 the same answer either way, but you're right

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1 that both points are effectively above the
 2 line, but the exclusion of that point 2008 has
 3 less of an impact.
 4 MS. NEWBURY:
 5 Q. But you're saying that if you exclude a point
 6 that's on the line, it doesn't matter, but
 7 you've talked about having the balance
 8 approach of excluding a high and excluding a
 9 low?
 10 MS. ELLIOTT:
 11 A. Yes. No, you're -
 12 MS. NEWBURY:
 13 Q. So you lose that effect?
 14 MS. ELLIOTT:
 15 A. You're absolutely right, that both points are
 16 above the line.
 17 MS. NEWBURY:
 18 Q. And if we turn to the next page, SD 1, you
 19 have two points that are above the line, one
 20 that is--I'm not sure if it's on the line or
 21 perhaps slightly below the line, but it's
 22 very, very close to the line.
 23 STAMP, Q.C.:
 24 Q. SD 2?
 25 MS. NEWBURY:

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1 Q. SD 3. And one is below the line, so the same
 2 sort of situation where you seem to be
 3 excluding more higher points than low points.
 4 And on the final graph, SD 4, you have two
 5 points that are above the line, one is very
 6 close to the line, but it's still above the
 7 line. And of course you lose the balancing
 8 effect that you've emphasized about excluding
 9 highs and lows in equal number, and you're
 10 agreeing with that?
 11 MS. ELLIOTT:
 12 A. Well I'm agreeing that we've taken the one
 13 high point out that's there. The other point
 14 is very close to the line.
 15 MS. NEWBURY:
 16 Q. Okay.
 17 MS. ELLIOTT:
 18 A. Yeah.
 19 MS. NEWBURY:
 20 Q. And there's no other lower point taken out to
 21 balance?
 22 MS. ELLIOTT:
 23 A. Um-hm.
 24 MS. NEWBURY:
 25 Q. And you didn't, as I understand it, do any

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1 sort of statistical tests to confirm your
 2 decision to exclude outliers? You've designed
 3 an approach, in fact you designed the approach
 4 well before your report for May 2014? It's an
 5 approach that you've used frequently, almost
 6 all the time. Every year you have high points
 7 and low points that you've excluded?
 8 MS. ELLIOTT:
 9 A. This is not from May '14.
 10 MS. NEWBURY:
 11 Q. Oh, but you've referred to this -
 12 MS. ELLIOTT:
 13 A. Yes.
 14 MS. NEWBURY:
 15 Q. - in your May 2014 report?
 16 MS. ELLIOTT:
 17 A. Yes.
 18 MS. NEWBURY:
 19 Q. So it's incorporated into your May 2014
 20 report?
 21 MS. ELLIOTT:
 22 A. That's correct.
 23 MS. NEWBURY:
 24 Q. And you didn't change it in your May 2014
 25 report?

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1 MS. ELLIOTT:
 2 A. No, uh-uh.
 3 MS. NEWBURY:
 4 Q. Okay, so you've endorsed this approach for
 5 your May 2014 report?
 6 MS. ELLIOTT:
 7 A. We have used the loss trend rates that we
 8 derived from our board line--guideline loss
 9 trend rates, yes.
 10 MS. NEWBURY:
 11 Q. Okay. And would you agree that none of these
 12 excluded points are true statistical outliers?
 13 They're basically data points that you've
 14 excluded based on your model of excluding
 15 highs and lows?
 16 MS. ELLIOTT:
 17 A. No, I wouldn't agree that none of them are
 18 true statistical outliers, no.
 19 MS. NEWBURY:
 20 Q. Okay. And--but you haven't done any tests,
 21 any testing to verify whether or not they are
 22 statistically speaking outliers?
 23 MS. ELLIOTT:
 24 A. I--we have taken an approach where we exclude
 25 the two high and the two low. We used a

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1 percentage change approach. In hindsight, we
 2 think staying with the dollar approach that we
 3 had used previously was a better approach for
 4 a variety of reasons. And you know, we
 5 acknowledge now that if we had used the dollar
 6 approach, our findings would have shown a
 7 lower loss cost trend rate, and we have used
 8 this approach of taking out two high and two
 9 low so that we have a stable approach in our
 10 review of loss trend rates that we do each six
 11 months.
 12 MS. NEWBURY:
 13 Q. Ms. Elliott, if you can turn to the page, the
 14 second page of Undertaking 20 and look at your
 15 first exclusion, your first data exclusion
 16 which is a low of 2008 H2. Is that a
 17 statistical outlier?
 18 MS. ELLIOTT:
 19 A. It's the low percentage change over the period
 20 that we're looking at. So we look at the
 21 percentage change and we were excluding the
 22 two low percentage changes and the two high
 23 percentage changes. That's what's those
 24 points are.
 25 MS. NEWBURY:

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1 Q. So I understand on your model that it is a
 2 point that you've decided to exclude, but my
 3 question, is there any sort of statistical
 4 support for that exclusion? Is there a test
 5 to show that this point is not a point that
 6 typically would happen? That's what I
 7 understood an outlier was.
 8 MS. ELLIOTT:
 9 A. It's the approach that we've used. We've used
 10 the--we have excluded two high and the two low
 11 points.
 12 MS. NEWBURY:
 13 Q. Okay.
 14 MS. ELLIOTT:
 15 A. That's what we've done. There's not a test
 16 that says that excluding the two high and the
 17 two low is--it's an averaging approach that
 18 we've used that we hope smooths out the loss
 19 trend rate.
 20 MS. NEWBURY:
 21 Q. Okay. But there's no statistical test that
 22 has -
 23 MS. ELLIOTT:
 24 A. There is -
 25 MS. NEWBURY:

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1 Q. - been used by you to support that?

2 MS. ELLIOTT:

3 A. No, it's an approach that we've used to

4 incorporate stability. We take this average,

5 we do it four different ways, we incorporate

6 our selection from the prior period. We're

7 trying to take a responsive and stable

8 approach.

9 MS. NEWBURY:

10 Q. So your emphasis, your objective here is

11 stability, and not necessarily identifying

12 outliers as you've described them yesterday?

13 MS. ELLIOTT:

14 A. Our approach is to provide a loss cost trend

15 rate that we think is stable and responsive to

16 the data. The data as we stated yesterday is

17 not credible, it's very volatile, it's very

18 challenging. So what we're trying to do here

19 is estimate a loss cost trend rate that we

20 think is reasonable, reflective of what we've

21 been doing in the past. That's what we're

22 achieving to do here.

23 MS. NEWBURY:

24 Q. You've described outlier yesterday, and I

25 guess I'm having great difficulty trying to

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1 understand your points that you've drawn in on

2 the graph as compared with your evidence

3 yesterday. I can't seem to fit the two

4 together. So yesterday for example you said,

5 "So if you take all your data and you run--try

6 to fit a line to it, and maybe you have a

7 really good fit, but you've got one piece of

8 data that's different from the actual

9 experience, is really why it's much higher or

10 much lower, whatever the case may be, you

11 consider that an outlier." But if I look at

12 that first point there, it's right on the

13 line. It doesn't seem different from the

14 experience at all.

15 MS. ELLIOTT:

16 A. Yes. So let me repeat myself again. The

17 points with the red dots are the high and the

18 low on a percentage change. Our approach was

19 to exclude on a five-year basis the one high,

20 the one low percentage change, and on a ten-

21 year basis, the two high and the two low

22 percentage change. That's what we chose to

23 exclude, and one commonly calls those points

24 that we exclude--you know, you make different

25 decisions to why you exclude them, but that's

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1 the approach that we used to exclude those

2 points. That's what they are.

3 MS. NEWBURY:

4 Q. Okay. Now the problem is of course you end up

5 excluding data points. I know that you've

6 derived it from the percentage change from the

7 previous season, from the previous year, but

8 you end up excluding a point that's basically

9 right in the midst of the rest of the data.

10 It seems to be totally in keeping with the

11 rest of the data.

12 MS. ELLIOTT:

13 A. Yeah, and you're right. So when you take away

14 a point that's on the line, you really don't

15 get much impact from removing that point.

16 You're right.

17 MS. NEWBURY:

18 Q. But the impact that you get is that your model

19 is based on excluding highs and lows equally?

20 MS. ELLIOTT:

21 A. Our model is providing, you know, an estimate

22 of excluding the two high percentage changes

23 and the two low percentage changes. I know

24 I'm repeating myself, but in hindsight we

25 think taking the dollar approach would have

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1 been preferable. We've reverted back to that.

2 I've expressed and I've provided to you that

3 if we use a dollar approach, we get a larger

4 negative trend rate. And you know, in

5 hindsight we tried something and as I

6 expressed, it didn't work and you know, we're

7 trying to look at the data and try things, and

8 in hindsight it didn't work. So -

9 MS. NEWBURY:

10 Q. Ms. Elliott, the percentage change approach--

11 it was the percentage change approached that

12 you used. From what I understand you've

13 referred to it in your December 2012 and your

14 June 2012 Trend Report for the Board, for the

15 Newfoundland Board, and you've also referred

16 to it in your May 2014 Report. It's the

17 underlying basis for your conclusions in your

18 May 2014 Report. What happened in 2013, did

19 you prepare any reports that used a different

20 approach?

21 MS. ELLIOTT:

22 A. Yes, we used a dollar approach.

23 MS. NEWBURY:

24 Q. Okay. And why when you did your May 2014

25 Report did you revert back to the percentage

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1 change approach?
 2 MS. ELLIOTT:
 3 A. We didn't revert back to it. In our review of
 4 the rate filing it's appropriate that if FA
 5 chooses to use the data as of the end of
 6 December 2012 and that those loss trend rates
 7 were provided for the guideline loss trend
 8 rates were provided to all insurers as a
 9 basis. When we test rate filings to be
 10 consistent and fair with all insurers, we
 11 would use the same numbers. If we had chosen
 12 to revert back, as I expressed, we'd have a
 13 larger negative and so the 20-odd percent rate
 14 increase that we have provided as what we find
 15 reasonable, would be even lower. So I don't
 16 think that would be fair to FA for us to do
 17 that.
 18 MS. NEWBURY:
 19 Q. Ms. Elliott, you've emphasized in your
 20 evidence and there's been a significant
 21 emphasis in the questions put to Mr. Doherty
 22 both in, you know, the written questions and
 23 answers and the examination here about the
 24 change in Facility's approach between this
 25 hearing and the last hearing, the last rate

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1 application, sorry. And you I believe have
 2 been critical of the fact that there have been
 3 changes in the approach and there seems to be
 4 some reluctance when an actuary changes his or
 5 her approach or in fact the Facility has
 6 different actuaries and there's been a change
 7 in approach, but here in the midst of this
 8 hearing you've changed a significant, I would
 9 suggest a very significant feature or element
 10 of your approach, and in fact not only have
 11 you changed it in the midst of the hearing,
 12 from those looking at it from our perspective,
 13 but it's been after the evidence has been
 14 given by Mr. Doherty.
 15 MS. ELLIOTT:
 16 A. I'm sorry, I haven't changed anything in the
 17 midst of the hearing. I've acknowledged that
 18 reports that we prepared as in June 2012 and
 19 at December 2012, they were different than the
 20 report we prepared previously. And then since
 21 that time for our reports using data as of
 22 June 2013 and December 2013 changed. The
 23 change did not occur in the middle of this
 24 hearing at any point in time.
 25 MS. NEWBURY:

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1 Q. But alerting the Board and alerting other
 2 participants in the hearing that you now have
 3 a--you now would look at this differently.
 4 You would not now look at the percentage
 5 change?
 6 MS. ELLIOTT:
 7 A. FA was provided a copy of our report for their
 8 comment. FA--my understanding is the Board
 9 provides FA a copy of all our loss trend
 10 reports. They have an opportunity to comment
 11 on those. They have an opportunity to read
 12 them and acknowledge that there was a change
 13 from percentage basis to a dollar basis. This
 14 is not new information at all. It's been
 15 provided to FA in the past.
 16 MS. NEWBURY:
 17 Q. But you're now saying in the hearing yesterday
 18 and I guess we had a hint of it on Friday when
 19 you provided some additional charts with the
 20 dollar values. That's new information to the
 21 participants in the hearing that you would now
 22 prefer the approach of looking at the dollar
 23 values, and you would not now focus on the
 24 percentage change.
 25 MS. ELLIOTT:

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1 A. I think me, sitting here, and articulating
 2 that quite clearly I hope, that we changed to
 3 a dollar basis, I think if you're an actuary
 4 reading the report, you would see that and
 5 read it, but if you're asking me that that
 6 subtle change that the Board read our report
 7 and understood that correctly, I don't know.
 8 I can't speak for the Board, but it is in our
 9 reports. We made a change. If you read our
 10 reports, you'll understand it. If you don't
 11 read the reports or not concerned about it,
 12 you won't know that.
 13 MS. NEWBURY:
 14 Q. You've also suggested that the reason for
 15 changing this is because the approach of the
 16 change of the percentages between consecutive
 17 seasons, it's difficult to follow, and that
 18 the dollar basis exclusion is cleaner and
 19 everyone call follow it, but I would suggest
 20 that it's more than just the comprehensiveness
 21 of your approach. You actually end up with
 22 different outliers. You end up with something
 23 that looks a bit peculiar to most people. You
 24 have outliers that are often above your line,
 25 and more high outliers than low outliers.

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1 MS. ELLIOTT:
 2 A. As I expressed, we thought this might be
 3 helpful because we're trying to measure the
 4 percentage change. That's what the loss trend
 5 rate is, what the change is from period to
 6 period. So the approach was to see if we
 7 excluded the high percentage change and the
 8 low percentage change, perhaps that would
 9 finesse the model. In hindsight, we
 10 acknowledge there's difficulties with it, so
 11 we've reverted back to the dollar basis for
 12 excluding the high points and the low points.
 13 It's easier for people to understand. That's
 14 -
 15 MS. NEWBURY:
 16 Q. And Ms. Elliott, in your reports--in your
 17 report to the Board, where do you describe the
 18 change in your approach? You said it was
 19 obvious for people to read that? Where do you
 20 insert that in your report?
 21 MS. ELLIOTT:
 22 A. There's a footnote in the reports at the
 23 bottom of it, you know, in the section that we
 24 reference that this is a change from our prior
 25 approach where we exclude the high-lows,

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1 that's provided.
 2 MS. NEWBURY:
 3 Q. And in your 2013 reports to the Board, do you
 4 then identify that you've changed back to the
 5 dollar-value approach?
 6 MS. ELLIOTT:
 7 A. I cannot remember at this point exactly what
 8 we said, I don't know.
 9 MS. NEWBURY:
 10 Q. I'm going to request that you check the 2013
 11 reports to see if you have identified there
 12 that you've reverted back to the dollar-value
 13 approach.
 14 MS. ELLIOTT:
 15 A. Okay.
 16 MS. NEWBURY:
 17 Q. Okay. I guess the concern, if you've put that
 18 information in a footnote as opposed to, you
 19 know, going into more detail when you've
 20 changed your approach, whether you're changing
 21 from dollar value to the percentage change or
 22 from percentage change back to dollar value,
 23 is that enough emphasis or description of that
 24 particular change?
 25 MS. ELLIOTT:

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1 A. I hope it is. That was the intent, that the
 2 reader could see that it was footnoted, you
 3 know, with the high/low and we had a footnote
 4 to that, what that meant, so I hope the reader
 5 read it.
 6 MS. NEWBURY:
 7 Q. Okay, and I guess I'm just comparing it with
 8 the--I guess the emphasis in this hearing and
 9 the questions leading up to it. I mean, Mr.
 10 Doherty's explained, but he's been asked in
 11 detail and it seems like what is requested of
 12 him is an elaborate explanation, a very
 13 detailed explanation of each and every change
 14 from this hearing to the previous rate
 15 application.
 16 MS. ELLIOTT:
 17 A. Well, I can list off at least four or five
 18 changes that FA has made from its prior
 19 approach to this rate filing. I don't think
 20 you can--I think this is a change that we've
 21 made, we've acknowledged the change. The
 22 changes that we have outlined that FA has made
 23 are quite substantive, including the reform
 24 factor change.
 25 MS. NEWBURY:

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1 Q. And but your footnote really is a passing
 2 comment on your change and not the same sort
 3 of elaborate explanation that has been
 4 requested of Mr. Doherty?
 5 MS. ELLIOTT:
 6 A. Well, if the users and readers of our report
 7 would have a question on that, we would have
 8 been more than happy to discuss it or explain
 9 it.
 10 MS. NEWBURY:
 11 Q. And referring now to Page 1 of CAOWOO1, and at
 12 the bottom page--the bottom paragraph, and
 13 we've referred to this yesterday but I'll go
 14 back to it again because this is of some
 15 importance. You state at the bottom, "for
 16 this reason we modeled the data several
 17 different ways in an attempt to identify the
 18 underlying trends during the experience period
 19 with and without certain data points that are
 20 considered to be statistical outliers, and
 21 over time periods that are longer than the
 22 experience period as a means of increasing the
 23 stability, reliability of the data being
 24 analyzed." So again you're referring to the
 25 excluded data points as statistical outliers,

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1 but yet you've not been able to provide or
 2 point to any statistical test that has been
 3 performed or could be performed to
 4 substantiate that.
 5 MS. ELLIOTT:
 6 A. Yes, as I said, the approach that we've taken
 7 is to exclude the two high and the two low on
 8 a percentage basis or on a dollar basis. That
 9 is the approach that we present in our report
 10 of what we're excluding.
 11 MS. NEWBURY:
 12 Q. Yesterday in your evidence you said "I don't
 13 think there's a statistical approach that I'm
 14 going to reference. It's the approach that
 15 we've taken to try to smooth out the effect of
 16 the highs and the lows." The extremes we are
 17 taking--I don't have--there's not a name for
 18 it.
 19 MS. ELLIOTT:
 20 A. That's correct. It's taking the two highs and
 21 the two lows, we--there's not, as far as I
 22 know, a name for that. That's the approach
 23 that we've taken, that's our judgment.
 24 MS. NEWBURY:
 25 Q. And now that you've reverted back to the

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1 dollar-value approach, you still have the same
 2 mechanical approach of excluding two highs and
 3 two lows for the ten years, and the one high
 4 and one low for five years?
 5 MS. ELLIOTT:
 6 A. I think the word mechanical might have a
 7 meaning that's not intended, but we do, on a
 8 consistent basis. We try to present our
 9 reports so that they are stable, and so what
 10 we do is take a ten year ending--in this
 11 particular example, a ten-year ending December
 12 12, a ten-year ending June 2012, we exclude
 13 the two high and the two low. WE do the same
 14 with the five-year data, excluding the one
 15 high and one low. We calculate those results,
 16 then we look at what we selected, the prior
 17 report, and we average that in. And we're
 18 trying to present a lost cost estimate that is
 19 stable from report to report. This data is so
 20 volatile that if we, you know, did different
 21 things each time, we would have very different
 22 numbers. We would have a report that one time
 23 is -5 and the next time is +5 every six
 24 months, and that's not really a good measure
 25 of what the changing costs are. So that's why

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1 we have the approach that we have, trying to
 2 make it both responsive and stable.
 3 MS. NEWBURY:
 4 Q. But how does the mechanical, and I think that
 5 meaning is intended because it certainly seems
 6 to be a mechanical approach. If you
 7 mechanically take out two highs and two lows,
 8 how does that eliminate the volatility in the
 9 data, especially when we look at situations in
 10 your Undertaking 20 where you're eliminating
 11 points that are right on the line. That
 12 doesn't seem to be taking care of any
 13 volatility issue.
 14 MS. ELLIOTT:
 15 A. As I said, we do think that going back to the
 16 dollar approach, in hindsight now, is better.
 17 We're doing that now. We acknowledge that if
 18 we had used the dollar approach, where you
 19 would definitely have the highs and lows that
 20 were excluded, you get a larger negative
 21 trend. I think the intention is to smooth out
 22 the loss trend rate that's calculated. We
 23 can't eliminate the volatility in the data, it
 24 is there, but it's an attempt to smooth out
 25 the points that are included in the regression

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1 model and see what that loss trend value is
 2 that you calculate.
 3 MS. NEWBURY:
 4 Q. And in terms of reverting back to the dollar
 5 value, there's nothing to show that you've
 6 done any statistical analysis to verify
 7 whether the excluded points are indeed
 8 outliers. So we could end up with the same
 9 types of problems that we have right here,
 10 where you have lows above the line and -
 11 MS. ELLIOTT:
 12 A. No, you wouldn't.
 13 MS. NEWBURY:
 14 Q. How would you know that if you don't do the
 15 test?
 16 MS. ELLIOTT:
 17 A. Because we would look at the--we have the
 18 fitted and the actual values.
 19 MS. NEWBURY:
 20 Q. And how would you know whether or not they are
 21 true outliers if you've actually excluded them
 22 before you've done your regression?
 23 MS. ELLIOTT:
 24 A. Well, we do the regression including all the
 25 data points and we do the regression excluding

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1 data points. So we would know.
 2 MS. NEWBURY:
 3 Q. But you don't present that, and you haven't
 4 presented it for the Board.
 5 MS. ELLIOTT:
 6 A. I could present it for the Board.
 7 MS. NEWBURY:
 8 Q. Yeah, but you haven't done that?
 9 MS. ELLIOTT:
 10 A. If I was asked, I would.
 11 MS. NEWBURY:
 12 Q. And you haven't done any P-values or T-
 13 statistics or look at the residuals, any of
 14 the types of exercises that Mr. Doherty does
 15 when he looks at that?
 16 MS. ELLIOTT:
 17 A. I do do that. I do -
 18 MS. NEWBURY:
 19 Q. But I haven't seen any for.
 20 MS. ELLIOTT:
 21 A. Well, you didn't ask for it.
 22 MS. NEWBURY:
 23 Q. Okay, but it was only now that I have learned
 24 that you've reverted back to the dollar value
 25 approach.

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1 MS. ELLIOTT:
 2 A. Well, maybe Mr. Doherty could have told you.
 3 MS. NEWBURY:
 4 Q. I'm not sure that it was clear to people that
 5 you've reverted back to an approach when we
 6 get the exhibits on Friday afternoon. And
 7 just referring back now to your Undertaking 20
 8 and to Mr. Doherty, as the one who has
 9 provided the P-values for your different
 10 models, and looking at those P-values, what do
 11 you think of these four models being used in
 12 your regression analysis?
 13 MS. ELLIOTT:
 14 A. So this is the one you have up here of five
 15 year? Sorry, is this the five-year--I want to
 16 match up--five year ending -
 17 MS. NEWBURY:
 18 Q. So SD1 is the ten-year ending December--well,
 19 it's 2012-2.
 20 MS. ELLIOTT:
 21 A. Okay. I think to answer that--okay, so I
 22 think the point was that when we look at--can
 23 we scroll to the top so I can see what this
 24 report is, please? All right. Thank you. I
 25 want to present an exhibit where we showed a

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1 summary of the R-squares, if we could have
 2 that on the screen, please.
 3 MS. NEWBURY:
 4 Q. I'm asking about the P-values.
 5 MS. ELLIOTT:
 6 A. I know.
 7 MS. NEWBURY:
 8 Q. Do you understand the P-value information
 9 that's here on this exhibit?
 10 MS. ELLIOTT:
 11 A. I do, yes.
 12 MS. NEWBURY:
 13 Q. Can you explain it?
 14 MS. ELLIOTT:
 15 A. I am going to. If we could have the R-square
 16 report up, please? There is it, great. So
 17 the reference, if I believe, is to the ten-
 18 year ending December 2012 report. We've
 19 provided here the lost cost trend rate at -1.7
 20 percent. The severity trend rate here is +1.9
 21 percent, and the frequency trend rate is -3.6
 22 percent, and the combination of -1.7. And one
 23 of the things that's important to remember
 24 when you're looking at a R-square, which is a
 25 quoted or (phonetic) or an adjusted R-square,

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1 is that sometimes that value can be
 2 misleading, and in this case we have to
 3 remember that the lost cost is made up of the
 4 frequency and the severity. So even though we
 5 might be referring in a lot of our discussion
 6 here, what we're looking at it lost cost. It
 7 really is frequency times severity gives you
 8 the lost cost. So in this case, when we look
 9 at R-square, the R-square for the frequency
 10 is, you know, relatively good. The adjusted
 11 R-square is .5788, it's superior--slightly
 12 better--I shouldn't use that word, anyone
 13 shouldn't--slightly better than FA's model at
 14 .5222. The severity trend, at 1.9 there's an
 15 R-square, and the severity trend, this is
 16 where we have that volatility in the data, up
 17 75,000 average amount, down to 35,000--very
 18 tough to fit that data. So when we look at
 19 the models, we see that the R-square here for
 20 this ten-year model is point--the adjusted R-
 21 square is .05, but that's not really a good
 22 measure of that model, because you can see the
 23 frequency is good, the severity is so/so, the
 24 severity is so/so for everything. So that is
 25 what you should focus on. So when you look at

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1 the lost costs and the adjusted R-square, it's
 2 poor, but that's not what we should be looking
 3 at. We should be looking at the frequency and
 4 severity which combined get a lost costs,
 5 those R-squares. So when you look at the
 6 regression stats on a lost-cost basis, and you
 7 look at the P-value and you look at the T-test
 8 and the R-square, when you have one trend
 9 going up and one trend going down, you're
 10 going to get close to zero and that lost cost
 11 statistics are going to be poorer, but the
 12 underlying statistics for the frequency and
 13 severity that make up that lost cost trend
 14 will be reasonable, as we're looking at here.
 15 So it's important to keep that in mind. So we
 16 go back to the P-test that was referenced.
 17 The P-value, if you're seeing--I understand
 18 the standard that FA likes to use is .05. So
 19 the P-value and R-square value or the adjusted
 20 R-square values--you can see them there,
 21 they're highlighted and they match what we
 22 were just looking at in the chart that we
 23 prepared. They are not good, but they're not
 24 a fair comparison. The real comparison is to
 25 frequency and severity. So you may look at

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1 these stats and say, oh, isn't that horrible,
 2 why would you use that? And the real answer
 3 is that we're not using that. We're looking
 4 at the frequency trend, which is declining,
 5 and we're looking at the severity trend that's
 6 increasing, and the two combine separately
 7 make up the lost cost trend. So when you want
 8 to look at your model and understand the
 9 results. It's flawed to just look separately
 10 at the lost cost stats if you have two
 11 underlying trends that are in different
 12 directions.
 13 MS. NEWBURY:
 14 Q. Now Ms. Elliott, I understand that it's been
 15 the approach of Facility to look at that, but
 16 it seems that our approach is to focus on the
 17 combined severity and frequency trend, and in
 18 this case here you have a situation where your
 19 P-value is not good for what--for the combined
 20 results. Should that still not mean that this
 21 is not reliable?
 22 MS. ELLIOTT:
 23 A. I'm sorry, perhaps you didn't hear me when I
 24 was just explaining that we look at the
 25 frequency, we look at the severity in every

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1 regression model that we run. We look at lost
 2 cost, frequency and severity and those
 3 statistics. So I don't think that saying that
 4 we don't look at them is correct.
 5 MS. NEWBURY:
 6 Q. Now you've mentioned that the frequency and
 7 severity, you multiply them to get your lost
 8 cost? Do you actually do a separate
 9 regression analysis of your lost cost, or do
 10 you take your regression -
 11 MS. ELLIOTT:
 12 A. We run all three at the same time.
 13 MS. NEWBURY:
 14 Q. You do do a separate regression analysis?
 15 MS. ELLIOTT:
 16 A. Well, not separate. All three are done at the
 17 same time, instantaneously, all three.
 18 MS. NEWBURY:
 19 Q. Okay, but do you take your results from your
 20 severity and multiply it by your frequency in
 21 order to get your regression statistics for
 22 lost cost?
 23 MS. ELLIOTT:
 24 A. Well, we look at the regression statistics for
 25 frequency, we look at the regression

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1 statistics for severity and we look at the
 2 produced, as in this case, regression
 3 statistics for lost costs.
 4 MS. NEWBURY:
 5 Q. What do you mean, the produced regression
 6 statistics?
 7 MS. ELLIOTT:
 8 A. Well, they're in front of you.
 9 MS. NEWBURY:
 10 Q. Okay.
 11 MS. ELLIOTT:
 12 A. So when you run an Excel model, you can
 13 incorporate regression statistics, which we
 14 do.
 15 MS. NEWBURY:
 16 Q. Refer to CAOWO01, and the bottom paragraph of
 17 that page--sorry, Page 3. Okay, and this is
 18 your trend report and this is a generally
 19 commentary about the consideration of
 20 severity, frequency and lost cost trend
 21 patterns, and you state that "in selecting
 22 past and future trend rates by coverage, we
 23 typically examine the separate trend patterns
 24 for claim severity and claim frequency, and
 25 then combine the selected severity and

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1 frequency trend rates to arrive at a selected
 2 lost cost trend rate. However, our review of
 3 the severity and frequency trend patterns over
 4 the recent pasts suggests to us that we may
 5 not fully reflect the correlation that
 6 seemingly exists between severity and
 7 frequency, if we select severity and frequency
 8 trend rates over different time periods. For
 9 this reason, we tend to select past and future
 10 trend rates by directly examining the trend
 11 pattern for lost cost."
 12 MS. ELLIOTT:
 13 A. Um-hm.
 14 MS. NEWBURY:
 15 Q. Okay. So this seems to suggest that you're
 16 focusing on a combined approach and that you
 17 don't look at the separate approaches anymore.
 18 MS. ELLIOTT:
 19 A. Yes. Well, I apologize a bit. If you're
 20 reading it that way, that was not the
 21 intention. I think the message that we wanted
 22 to get across here was that if you use
 23 different time periods to--maybe if you use 20
 24 years for severity and 5 years for frequency,
 25 that you can find a mismatch, that there may

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1 not be correlation--you're missing something
 2 between the impact of what might be happening
 3 with severity and what might be happening with
 4 frequency. Say for example if the frequency
 5 is really high because there's a--you know, a
 6 bad winter, and often those claims will be
 7 smaller claims, more bumper claims, and so
 8 often the severity might drop when the
 9 frequency goes up, because there's more small,
 10 little bumper claims. So if we use different
 11 time periods, maybe, you know, a long period
 12 for severity and a short period for frequency,
 13 you can kind of get a mismatch of the data.
 14 So what we were trying to express here is that
 15 we want to look over the same time period, but
 16 our model, which we've been using for a long
 17 time, calculates, at the same time, the
 18 severity trend rate, the frequency trend rate
 19 and the lost cost trend rate all together. So
 20 when I look at it, it's all on the screen, all
 21 three of them. I don't just look at lost cost
 22 and I don't just look at frequency and
 23 severity; I look at all three.
 24 MS. NEWBURY:
 25 Q. I don't see any reference here in that

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1 paragraph to time periods. You're talking
 2 about the reluctance to look at it separately,
 3 the frequency and severity separately, because
 4 differing time periods might not result in
 5 something logical, but I don't see a reference
 6 here to time periods at all, and why could you
 7 not look at severity and frequency separately
 8 using the same time periods?
 9 MS. ELLIOTT:
 10 A. We do look at frequency and severity and lost
 11 cost using the same time periods.
 12 MS. NEWBURY:
 13 Q. Okay. I'm going to request that you provide
 14 the P-values and T-statistics for the separate
 15 reviews that you've done on frequency and
 16 severity for each of your regression analyses
 17 that you've produced. (REQUEST)
 18 MS. ELLIOTT:
 19 A. Okay.
 20 MS. NEWBURY:
 21 Q. You have provided some reports recently to the
 22 Nova Scotia Board and I understand that you're
 23 approach might not have been the same for
 24 Newfoundland. Did you ever, for Nova Scotia,
 25 rely upon the percentage change approach?

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1 MS. ELLIOTT:
 2 A. To the best of my recollection, no, but I
 3 would have to check. I'm not positive.
 4 MS. NEWBURY:
 5 Q. Well, I would request that you just verify
 6 that. (REQUEST) And what would be your
 7 rationale in using a different approach to the
 8 Nova Scotia Board as your report to the
 9 Newfoundland Board?
 10 MS. ELLIOTT:
 11 A. In terms of Nova Scotia, there's a slightly
 12 larger volume of data. As I mentioned
 13 yesterday, the Newfoundland commercial is our
 14 most challenging piece of data to work with.
 15 There are only, roughly, for bodily injury,
 16 about 120-odd claims a year. It's very small.
 17 So we take a different approach, a slightly
 18 different approach in Newfoundland, and in
 19 each province. We do something different in
 20 Ontario, Alberta. They're all different.
 21 MS. NEWBURY:
 22 Q. But how would using a percentage approach
 23 address the fact that you have a smaller
 24 sample in this province?
 25 MS. ELLIOTT:

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1 A. Well, I think, as I expressed, that we were
 2 trying to find a way to do the best job we
 3 could, we thought that might help. It is the
 4 smallest volume of data that we're working
 5 with. It's something that we tried, and I
 6 acknowledged that we tried it and we think
 7 that doing what we previously did is better.
 8 MS. NEWBURY:
 9 Q. And wouldn't the focus on the percentage
 10 change from one period to the next really be a
 11 focus on the noise, the fluctuation in costs
 12 from year to year, and not on the overall
 13 trend?
 14 MS. ELLIOTT:
 15 A. Well, that's the idea, that when you have
 16 noise in your data or volatility--there's the
 17 old expression "noise and signal" that came
 18 from work--in radio frequency work, but when
 19 you have noise in your data, which we clearly
 20 do have here in Newfoundland because of the
 21 small volume, trying to exclude a large
 22 percentage change or a low percentage change--
 23 the idea is to try to minimize those extreme
 24 percentage changes from what you're trying to
 25 measure, the year-to-year change, what is the

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1 percentage change in costs over time.
 2 MS. NEWBURY:
 3 Q. I'm just going to refer to your evidence
 4 yesterday when you stated that you can run a
 5 20-year trend, if the data is large enough and
 6 stable enough, but that's not the case with
 7 the data here in Newfoundland, and you don't
 8 run 20 years because you don't have that
 9 large, stable database?
 10 MS. ELLIOTT:
 11 A. I'm sorry, I -
 12 MS. NEWBURY:
 13 Q. I can refer to the exhibit if you wish. I'm
 14 not sure if the exhibit is available to refer
 15 to. This is the exhibit from--or not the
 16 exhibit, the transcript from yesterday, is
 17 that available?
 18 MS. GLYNN:
 19 Q. We do have it electronically, we don't have
 20 paper copies.
 21 MS. NEWBURY:
 22 Q. Okay. Page 77 and starting at line 16, I
 23 believe. I'll just give you a moment to read
 24 the questions starting P.77, line 16, and your
 25 answer to that question. Perhaps we can

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1 scroll down a bit to show the rest of that
 2 answer. Have you had your chance to read
 3 that, Ms. Elliott?
 4 MS. ELLIOTT:
 5 A. Yes.
 6 MS. NEWBURY:
 7 Q. Okay, thanks, and now in this, I understand it
 8 that you're saying that you could run a 20-
 9 year trend if you thought that your data was
 10 large enough and stable enough, but that's not
 11 the situation here in this province, but
 12 generally speaking your thought is that large
 13 data can be used or a longer period of data
 14 can be used. Now I just want to refer to Page
 15 4 of your report, the CAOWO01 report on Page
 16 4. In the first paragraph there, you note
 17 that "while the five-year period is a
 18 reasonable time period for determining the
 19 underlying trend rates for the property
 20 damage, collision and comprehensive
 21 coverages." In the paragraph below, you say
 22 that "due to volatility of the data and the
 23 limited number of claims, in this review we
 24 also considered the indicated lost cost trend
 25 rate over the 10-year period ending December

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1 31st, 2012, and selecting lost trend rates for
 2 the property damage, collision and
 3 comprehensive coverages." So while I
 4 understand your typical approach is to look at
 5 five-year periods for property damage,
 6 collision and coverage, it was the volatility
 7 of the data and the limited number of claims
 8 that prompted you to expand your time period
 9 to ten years. Now why would you not take the
 10 same approach that for bodily injury, if
 11 you're looking at a ten-year period of time?
 12 You still have volatility in the data, you
 13 still have limited claims. Why not expand the
 14 period of time to 20 years or 15 years?
 15 MS. ELLIOTT:
 16 A. You know, there are judgements, as we
 17 expressed, there are judgements that actuaries
 18 make in choosing to select the time period
 19 that they're going to use, what exclusions,
 20 they have to consider the uncertainty of the
 21 data. So in this case we wanted to look at
 22 what happens over ten years. It's a very
 23 small volume of data, so we chose to look at
 24 ten years. There is a point in time where you
 25 begin to question what am I measuring back

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1 from 1993 to 1998--that's sort of the first of
 2 the five of the 20 years that is presented by
 3 FA. You know, I'm sure I said yesterday
 4 there's no harm in looking at it, that's fine,
 5 but when you go back to 1993 and 1998 and you
 6 have to ask yourself is what's happening there
 7 relevant to 2015--like where do you draw the
 8 line? We could go back 25 years, and is that
 9 really relevant? And so the actuary has to
 10 make some judgement where you draw the line of
 11 what you're going to include in your loss
 12 trend model, and if we had 20 years of really
 13 solid, stable data, yeah, you could run that
 14 and you could run five years and say, gee, I
 15 get the same answer, you know, I'm getting a
 16 really good fit. That's not the case here,
 17 and I had presented--we went through with the
 18 yellow highlights yesterday how it went up and
 19 down and up and down, and having more of that
 20 noisy data, volatile data, am I really going
 21 to get an answer over 20 years? I'm not
 22 certain of that. I'm not certain you get a
 23 better answer using more data that's highly
 24 uncertain. And even last year FA said they
 25 can't determine a loss trend rate for

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1 severity. This data is so volatile, so
 2 unstable, we can't do it. So they could have--
 3 they had 20 years, they could have had more
 4 years, and their choice was to say, you know,
 5 uncle, I give up, I can't get one model that
 6 I'm happy with, and we agree. I mean, that's
 7 why we take an averaging approach, because we
 8 know--we exclude one data point, a little bit
 9 shorter this or that, we get a different
 10 number. So you can choose to use 20 years,
 11 but I don't think in this case you're getting
 12 a better answer.
 13 MS. NEWBURY:
 14 Q. But your statistics could determine that. I
 15 mean, you could look at the 20 years and do
 16 what FA has done, which is identify different
 17 trends in that period of time.
 18 MS. ELLIOTT:
 19 A. You can look at statistics all you like. I'm
 20 an actuary, I look at statistics and they have
 21 value, but you have to look at it: are they
 22 reasonable? And a really good case in point
 23 is you look at the P-test and the T-test for
 24 the reform factor that FA has presented--we're
 25 not going to pull those up on the screen and

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1 look at them, but FA is saying that these P-
 2 tests and T-tests are statistically, you know,
 3 significant. And so therefore FA is saying
 4 that the P-tests and the T-tests are strong,
 5 and that the reforms caused accident benefits
 6 cost to reduce by 73 percent and you know--the
 7 P-test and the T-test are right, they're
 8 significant, and I'm going to accept that, and
 9 I don't agree with that approach. I look at
 10 it and say does this make intuitive sense? Is
 11 it reasonable? Can I really tell to a
 12 consumer that your costs reduced by 73 percent
 13 of the reforms in AB? And they're going to
 14 say to me, well, did you reduce my premium by
 15 73 percent because the cost went down? Well,
 16 the answer is no. Nobody came in--no rate
 17 filer came in with a reduction in cost for AB,
 18 anywhere near that or at all. Nobody came in
 19 with a reduction for BI of 37 percent. Nobody
 20 for private passenger, commercial, nobody, but
 21 FA is saying that the P-tests and T-tests are
 22 strong and reliable, and that's what the data
 23 says. I disagree with that approach. It's
 24 flawed. It's not intuitively reasonable that
 25 this occurred. So you can look at any P-test

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1 and T-test you want and say it's significant
 2 and it's perfect, but does it make any sense?
 3 And I think you have to look at it and ask
 4 yourself does it make sense, and I say it
 5 doesn't.
 6 MS. NEWBURY:
 7 Q. Ms. Elliott, on that point, you were involved,
 8 were you, in the--any reports given to the
 9 Board or any expertise regarding the reform in
 10 2004, either before or after the reform was
 11 introduced?
 12 MS. ELLIOTT:
 13 A. I was.
 14 MS. NEWBURY:
 15 Q. Okay, and was it your understanding that one
 16 of the objectives of the reform was to reduce
 17 lost costs, which would result in a reduction
 18 of premiums?
 19 MS. ELLIOTT:
 20 A. Yes. That was the plan, yes.
 21 MS. NEWBURY:
 22 Q. Okay. So that was the plan, and in light of
 23 your conclusion--your own conclusion that the
 24 2004 auto reforms had no impact on the trend
 25 for lost costs, then would this suggest that

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1 the auto reform was a failure, at least as it
 2 relates to the goal of reducing lost costs?
 3 MS. ELLIOTT:
 4 A. I don't think I'm in a position to describe
 5 the reforms in any which way. The reforms are
 6 what they are.
 7 MS. NEWBURY:
 8 Q. Why can't you describe that? I mean, you're--
 9 from an actuarial point of view?
 10 MS. ELLIOTT:
 11 A. Because there's other things beyond just what
 12 the numbers say to say that they're a failure.
 13 I don't know how it impacted other parties and
 14 other affected industries with it. Perhaps
 15 they were a success because--you know, because
 16 of the change to that. So to describe
 17 something like a piece of legislation as a
 18 failure, that's not my area of expertise. So
 19 I won't comment on your opinion that it was a
 20 failure.
 21 MS. NEWBURY:
 22 Q. That's not my opinion. It was a question.
 23 MS. ELLIOTT:
 24 A. Well, it's not my opinion, either.
 25 MS. NEWBURY:

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1 Q. Okay, but my question was did it fail to
 2 achieve the objective of reducing lost costs?
 3 MS. ELLIOTT:
 4 A. We had estimated, and I do not have that at my
 5 fingertips but--that there would be a small
 6 savings for these reforms. They were
 7 different than the reforms in Nova Scotia and
 8 New Brunswick, where a very substantial
 9 savings was introduced because they had a cap
 10 on the pain and suffering award. In this
 11 province, with the \$2,500 deductible, the
 12 expectation was that the severity would change
 13 slightly, that it would go down because of
 14 that deductible. That's not evident in the
 15 private passenger data at all. We're not
 16 seeing that. You know, in any of the tests
 17 that have been run, it is not there. That's
 18 unfortunate, and certainly it would be my
 19 opinion that if nobody can see it in the
 20 private passenger data, then it certainly--the
 21 savings isn't going to be in commercial data.
 22 What's being provided with significant P-tests
 23 and T-tests that there's this big savings in
 24 commercial of 37 percent on BI and 73 percent
 25 on AB, there's a flaw in the model. So it's

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1 not really a matter for me to have an opinion
 2 on whether the legislation was a success or
 3 now. You know, that's a separate issue.
 4 MS. NEWBURY:
 5 Q. But your point just a moment ago is that you
 6 can't just look at the P-values and the T-
 7 statistics, and you're saying you have to look
 8 at it and is it reasonable to expect that
 9 there would be a reduction in the lost costs?
 10 And I'm thinking that's exactly what the
 11 expectation would be. That would be the
 12 whole--or one of the points of the auto reform
 13 is to reduce lost costs.
 14 MS. ELLIOTT:
 15 A. Um-hm, and I'm telling you with private
 16 passenger auto experience, the severity, the
 17 P-tests and T-tests show you that there was no
 18 impact, and so you have to say with a larger
 19 body of data in Newfoundland, the same cars on
 20 the same roads in Newfoundland, and there's no
 21 savings on the private passenger data which is
 22 more stable, not as volatile as the commercial
 23 data, we're not seeing it there. Then you
 24 look at a small volume of commercial data,
 25 which is very volatile, and here is says

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1 there's a 37 percent savings. That just
 2 doesn't make any intuitive sense at all.
 3 MS. NEWBURY:
 4 Q. Well, it would make intuitive sense if you're
 5 expecting there to be a reduction in the lost
 6 costs. I mean, the fact that the test
 7 wouldn't -
 8 MS. ELLIOTT:
 9 A. We certainly are not expecting 37 percent
 10 reduction in BI, nobody is expecting that, and
 11 nobody is expecting 73 percent reduction in
 12 AB, nobody.
 13 MS. NEWBURY:
 14 Q. And what about the reduction in frequency? I
 15 mean, there's two issues here.
 16 MS. ELLIOTT:
 17 A. No. Certainly our opinion is that the decline
 18 in frequency happened well before the reforms,
 19 and anybody that's plugging in a reform
 20 parameter into the frequency--because it was a
 21 deductible change, that you're going to get
 22 \$2,500 less, and the anecdotal sort of
 23 comments that you hear is that people probably
 24 inflated their claims to offset some of this
 25 \$2,500 deductible, and so we're not seeing the

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1 savings. We don't have any evidence of that,
 2 but that's kind of the common thinking. And
 3 so it wasn't that they said, oh, I was going
 4 to go to court because I've lost wages and
 5 everything else, and now I'm not going to go
 6 because I get \$2,500 less on my deductible,
 7 I'm going to sort of embellish my pain and
 8 suffering to try to offset that \$2,500
 9 deductible, but I'm still going forward to get
 10 my wage loss. I'm not not going forward with
 11 my claim because of this deductible imposed on
 12 your pain and suffering award. You're going
 13 to court to get your wage losses, you're going
 14 to court to get extra money to pay for
 15 chiropractors and massage therapists and other
 16 medical benefits or attendant care; it's not
 17 about the deductible that's stopping you going
 18 forward.
 19 MS. NEWBURY:
 20 Q. Well, what about the claims that are valued
 21 less than \$2,500? Were there not a number of
 22 claims that fell into that category which, if
 23 eliminated, would reduce the frequency?
 24 MS. ELLIOTT:
 25 A. Right. It's very rare in my working knowledge

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1 that someone goes to court to get a pain and
 2 suffering award of--say it was \$3,000 and
 3 there was nothing else attached with it. They
 4 normally go in and they're saying I've lost
 5 wages, I had to go to the chiropractor, I had
 6 to hire someone to help me clean the house and
 7 cut the grass because someone else hit me, and
 8 so I need to be compensated for that, and at
 9 the same time, I should be given some pain and
 10 suffering. And so maybe my pain and suffering
 11 before was only worth \$3,000 and they're going
 12 to try to get a little bit more, but that
 13 doesn't stop them going forward with their
 14 claim to get compensated for their wage losses
 15 and other heads of damages that they require.
 16 MS. NEWBURY:
 17 Q. Ms. Elliott, did you identify a percentage or
 18 an expected proportion of claims that would
 19 have actually fallen under that deductible
 20 amount of \$2,500?
 21 MS. ELLIOTT:
 22 A. My understanding was the closed claims study
 23 would have had some of that information, yes.
 24 MS. NEWBURY:
 25 Q. Ms. Elliott, it's my understanding that it was

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1 a 15 percent amount, and I'm going to request
 2 that you undertake to review the report that
 3 you produced at that time to verify what that
 4 amount was that fell under that \$2,500
 5 deductible level. (REQUEST)
 6 MS. ELLIOTT:
 7 A. I will try to do so, yes.
 8 MS. NEWBURY:
 9 Q. Okay, thank you. Just a question or two on
 10 the loss development factors. There was some
 11 discussion of that yesterday morning in your
 12 evidence, but I want to refer to you May 16th
 13 report at Page 11.
 14 MS. GLYNN:
 15 Q. That's Facility's report, this is--you want
 16 Oliver Wyman's May 16th report?
 17 MS. NEWBURY:
 18 Q. Yes.
 19 MS. GLYNN:
 20 Q. Is that the right page?
 21 MS. NEWBURY:
 22 Q. I'm not sure, bear with me for a moment. Yes,
 23 that's correct, so it actually starts on the
 24 bullet on the previous page, Page 10. If we
 25 can just scroll there to get the full context.

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1 So it states here "both FA and Oliver Wyman
 2 independently select the claim count and loss
 3 development factors that apply to the industry
 4 CV experience data as of December 31st, 2012,
 5 but the factors selected by FA differ from
 6 those selected by Oliver Wyman. However, with
 7 the exception of AB, accident benefits,
 8 discussed below, we find FA's selected
 9 development factors to be reasonable." So is
 10 that still your position, that the selected
 11 development factors, with the exception of AB,
 12 are indeed reasonable?
 13 MS. ELLIOTT:
 14 A. We looked at the loss development factors that
 15 FA selected, and in looking at them and the
 16 averages that were provided, when we looked at
 17 them, we couldn't quite follow what they were--
 18 like, how did they pick those? They weren't
 19 too far off what was provided at the very--you
 20 know, they have a bunch of different averages,
 21 all-year weighted average, geometric average,
 22 but it didn't match up, and as I showed
 23 yesterday, it appears that FA selected the
 24 GISA factors that are based on losses and
 25 allocated loss adjustment expenses, although

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1 FA states that it selects them on just the
 2 losses. So there's a misstatement there. And
 3 so although the actual values aren't wildly
 4 off, and so, you know, we looked at it and
 5 said, okay, I don't quite follow, but they're
 6 not--it's not like the AB where they have 1.14
 7 and all the averages are less than 1. But
 8 when we looked at it and said, gee, you know,
 9 they--this doesn't appear to be appropriate to
 10 us that they select factors that are based on
 11 losses and ALAE versus losses, and so you're
 12 probably sitting--everyone's wondering, well,
 13 what does that really mean in terms of a loss
 14 trend. What it means is that if FA had
 15 selected the loss development factors based on
 16 losses only, as they said they would have or
 17 were doing, and use the same approach as GISA
 18 did but just use the losses only data, their
 19 4.4 loss cost trend rate would decrease by
 20 about a point, and so--that would bring that
 21 4.4 percent down to 3.5 percent. And so
 22 you're probably saying, well, why is there
 23 this disconnect between FA having 4.4 percent
 24 and Oliver Wyman is saying 1.5 percent, and
 25 we've talked about the ALAE and we've talked

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1 about the timeframe that's selected. And as
 2 we've just discussed about the reform factors,
 3 FA's model is premised on assuming that the
 4 reform factors reduced the cost significantly
 5 and that there was a change in the trend rate
 6 starting in 2004-2. My position is -
 7 MS. NEWBURY:
 8 Q. Ms. Elliott, sorry -
 9 MS. ELLIOTT:
 10 A. I'm trying to explain to the about the ALAE
 11 and the impact. My position is that if the -
 12 MS. NEWBURY:
 13 Q. Ms. Elliott, my question was about the
 14 reasonableness of the loss development
 15 factors. Have you changed your opinion about
 16 whether or not they're reasonable?
 17 MS. ELLIOTT:
 18 A. I'm trying to explain that.
 19 MS. NEWBURY:
 20 Q. But I'm not getting the answer, you're -
 21 MS. ELLIOTT:
 22 A. Okay. I'll get there. So if FA had used the
 23 loss development factors that were based on
 24 the losses only data, their loss trend rate
 25 would decrease by almost a point, and so when

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1 you're trying to understand why do we have
 2 this difference between the 4.4 and the -1.5
 3 between Oliver Wyman and FA, there's the loss
 4 development factors. And if FA was to use
 5 those loss development factors based on losses
 6 only and if they were to not think that the
 7 reforms reduced costs by 37 percent, and took
 8 a ten-year average, using those adjusted ALAE
 9 that they should have used, excluded two high
 10 and two low points, their loss trend rate as
 11 at December using the data through to December
 12 2012 or the data through to June 2012 would
 13 fall between -1.7 percent and -1.2 percent.
 14 So when we look at these ALAE factors and say
 15 are they reasonable or not, it's all part of
 16 the package of why we have differences between
 17 FA and Oliver Wyman. So the issue--I did not
 18 say that the factors were unreasonable. I've
 19 just said that it doesn't appear appropriate
 20 to base loss development factors on something
 21 different than what you stated that you were
 22 basing them on.
 23 MS. NEWBURY:
 24 Q. Okay. So Ms. Elliott, you didn't state that
 25 they're unreasonable, and in your report you

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1 have stated clearly that the selected loss
 2 development factors are reasonable other than
 3 with AB. So I put it to you that they are
 4 reasonable. You may not understand how they
 5 got to--how they derived that. We've made
 6 assumptions.
 7 MS. ELLIOTT:
 8 A. I think we do understand, and we showed
 9 yesterday, that they selected the identical
 10 factors to GISA and the GISA data is based on
 11 losses and ALAE, and FA stated that they were
 12 selecting their factors based on losses only,
 13 which--it would appear that they did not do
 14 that, and as a result of that, their loss
 15 trend rate is nearly a percentage point
 16 higher. So when you look at the individual
 17 factors in and of themselves, they're not--you
 18 know, they look in line with our averages, but
 19 really not what FA said they were doing.
 20 MS. NEWBURY:
 21 Q. But that is your inference. That wasn't put
 22 to Mr. Doherty in any written questions, nor
 23 was it put to him in examination, cross-
 24 examination, of him. So that's your
 25 inference.

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1 MS. ELLIOTT:
 2 A. Yes. We looked at each row, each column of
 3 factors, and they matched up.
 4 MS. NEWBURY:
 5 Q. And are you suggesting that if you looked at
 6 indemnity only, that you would have a
 7 difference in the factors?
 8 MS. ELLIOTT:
 9 A. Yes. When you look at--they were provided by
 10 FA, the factors for indemnity only, and they
 11 are generally lower than the GISA factors.
 12 MS. NEWBURY:
 13 Q. But wouldn't you have a different trend if you
 14 look at indemnity alone, which is what
 15 Facility has done?
 16 MS. ELLIOTT:
 17 A. And that's my point, that if FA had used the
 18 indemnity-only factors and did the exact model
 19 that they ran with starting with 2004-2, their
 20 trend rate would decline from 4.4 down nearly
 21 one point--percentage point down to 3.5
 22 percent.
 23 MS. NEWBURY:
 24 Q. But I understand in your report, you've
 25 actually stated there is no difference if you

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1 do indemnity or indemnity plus the expenses.
 2 MS. ELLIOTT:
 3 A. Oh, I think you are not understanding my
 4 point. My point is that if FA had used the
 5 loss development factors, based on losses
 6 only, and ran their model the same way, their
 7 trend rate would decline nearly a percentage
 8 point.
 9 MS. NEWBURY:
 10 Q. So if that's the case, why would you not have
 11 raised this in your report in any of your
 12 questions?
 13 MS. ELLIOTT:
 14 A. I'm trying to explain. You asked me about the
 15 reasonableness of the factors, and I'm trying
 16 to explain the impact of those factors.
 17 MS. NEWBURY:
 18 Q. Yes, but you didn't explain that in your
 19 report.
 20 MS. ELLIOTT:
 21 A. No. We didn't find their loss trend rates--
 22 we're taking issue with their loss trend
 23 rates. The bottom line was that the loss
 24 trend rates that they have put forth, the 4.4
 25 percent, we didn't agree with and we still

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1 don't agree with. One of the reasons is the
 2 loss development factors, that's a driver of
 3 the difference. We're trying to understand
 4 why does FA have 4.4 and why does Oliver Wyman
 5 have -1.5, and that's part of the reason.
 6 MS. NEWBURY:
 7 Q. But this is not something you identified in
 8 your report of May 16th, 2014?
 9 MS. ELLIOTT:
 10 A. No. I expressed it in my direct, that there
 11 was a difference, and I'm sharing more
 12 information today.
 13 MS. NEWBURY:
 14 Q. Now you have in your report, your trend report
 15 CA OW 001, you have a reference to a ULAE
 16 adjustment factor and I don't think it's
 17 described in your report. Can you point to
 18 anywhere in your report where you describe
 19 what that ULAE adjustment factor is?
 20 MS. ELLIOTT:
 21 A. ULAE is the un-allocated loss adjustment
 22 expense. There's an estimate that's provided
 23 for the industry, the data is collected for
 24 all insurers and it's provided by GISA and
 25 that factor is used widely, it's a calculated

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1 factor of what it is for each accident year.
 2 MS. NEWBURY:
 3 Q. It's an allocated factor, and you say it's -
 4 MS. ELLIOTT:
 5 A. It's called an unallocated loss adjustment
 6 expense, so it's the cost of insurers, their
 7 claims department, you know.
 8 MS. NEWBURY:
 9 Q. And you said it's based on accident year?
 10 MS. ELLIOTT:
 11 A. Yes. GISA would provide a factor for each
 12 accident year, so it varies by accident year.
 13 MS. NEWBURY:
 14 Q. And so it's not your view that it's based on
 15 calendar year?
 16 MS. ELLIOTT:
 17 A. Not my view? Well, the information is
 18 provided by GISA that is applied to each
 19 accident year. GISA provides that data that
 20 you can apply to each accident year.
 21 MS. NEWBURY:
 22 Q. And what is an accident year?
 23 MS. ELLIOTT:
 24 A. An accident year are the costs of claim--is
 25 the claims that occur in that calendar year.

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1 MS. NEWBURY:
 2 Q. And so you're saying that GISA provides that
 3 data based on the accident year and not the
 4 calendar year?
 5 MS. ELLIOTT:
 6 A. I'm saying that GISA provides a factor that is
 7 to be applied to each accident year.
 8 MS. NEWBURY:
 9 Q. It's noted that the Facility has provided in
 10 their application the position that since
 11 guideline factors included the loss adjustment
 12 expenses, both the allocated and unallocated,
 13 but that industry trends and loss adjustment
 14 factors don't apply, because of the manner in
 15 which the expenses are charged for Facility by
 16 the servicing carriers--given the apparent
 17 influence exerted by trends in the ULAE,
 18 wouldn't it seem reasonable that FA's trend
 19 selection based on indemnity only should
 20 apply, and not the indemnity plus expenses?
 21 MS. ELLIOTT:
 22 A. I believe I said that they impact reviewing
 23 whether the loss experience is just the
 24 indemnity portion only or the indemnity plus
 25 all the loss adjustment expenses. The

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1 difference is not very large; quite small. We
 2 looked at some of the time periods where there
 3 was no loss development, all the claims were
 4 pretty much closed and settled, so that wasn't
 5 an issue, and we weren't finding much
 6 difference in the trend rate. They're not--of
 7 course, not going to be identical because the
 8 data is different and if you look--you know,
 9 the same story if you looked at different time
 10 periods, you get different differences, but
 11 the difference in the trend rate is not the
 12 issue in this discussion. It's part of the
 13 difference, a small part of the difference,
 14 but it's not a large impact.
 15 MS. NEWBURY:
 16 Q. But would it be reasonable? My question was
 17 wouldn't it be reasonable for FA to base its
 18 trend selections on indemnity only? There is
 19 some influence.
 20 MS. ELLIOTT:
 21 A. Yes. We don't object to FA basing its trend
 22 rates on indemnity only, that's not--we don't
 23 object to that. We think that's fine, and in
 24 fact, if the indemnity costs were changing at
 25 a lower rate, then the--or a different rate,

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1 then the claims handling costs, you know, that
 2 would affect the trend rate for sure, but
 3 we're assuming that that's not the case, but
 4 we don't have an objection to FA basing its
 5 trend rates only on the indemnity. We don't
 6 object to that.
 7 MS. NEWBURY:
 8 Q. I request that you turn to Page 13 of that
 9 report, CAOWOO1, and perhaps we can make that
 10 a little larger, the columns at the top of
 11 the--page 13. So there's a column here--
 12 actually, can we go back to Page 13? Okay.
 13 So there's a column with the heading ULAE
 14 Adjustment, and if you look at the years, say,
 15 2006 up through 2009, 2010--actually, the
 16 first half of 2010, you're generally in the
 17 range of 1.07 and then it drops down, in the
 18 more recent years, to 1.052.
 19 MS. ELLIOTT:
 20 A. Um-hm.
 21 MS. NEWBURY:
 22 Q. And would you not consider this to be a
 23 significant difference in the ULAE adjustment?
 24 MS. ELLIOTT:
 25 A. Well, I think you have to understand that the-

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1 -the losses include the ALAE already. So if a
 2 company decides that I'm going to use more
 3 outside adjusters--so the loss adjustment
 4 expenses is a combination of allocated loss
 5 adjustment expenses and unallocated loss
 6 adjustment expenses, so in running your
 7 operation, the insurance company may decide
 8 that it wants to use more outside adjusters,
 9 and as such, their allocated costs would
 10 increase and their unallocated costs, all else
 11 being equal, would decrease. So maybe you
 12 decide, you know, I'm not going to use an in-
 13 house staff, I'm going to hire outside for all
 14 my resourcing, for settling claims, and when
 15 that happens, the ULAE will go down but the
 16 ALAE will go up. So if you do a regression
 17 analysis, it's my view that you should always
 18 either do indemnity only, as FA has done, and
 19 we don't object to that, or you do losses and
 20 all the claims handling costs together. So
 21 just because you have something with the ULAE
 22 declining, buried in there the allocated may
 23 be going up, but that is not identified here.
 24 MS. NEWBURY:
 25 Q. So you do note, then, that it is a significant

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1 drop. You're just saying that it could be
 2 explained on the other heading or the other
 3 side, the allocated losses.
 4 MS. ELLIOTT:
 5 A. Yes.
 6 MS. NEWBURY:
 7 Q. And it's still your view that these loss
 8 adjustments are based on accident year versus
 9 calendar year, and it's my understanding that
 10 it's based on calendar year, so I'm going to
 11 request that you undertake to confirm that
 12 with GISA. (REQUEST)
 13 MS. ELLIOTT:
 14 A. Okay.
 15 MS. NEWBURY:
 16 Q. I know we touched on this a little earlier,
 17 but I want to go back to Page 3 of this
 18 report, on the issue of the lost costs versus
 19 the severity and frequency, and this is under
 20 the heading Considerations of Severity,
 21 Frequency and Lost Cost Trend Patterns. And
 22 I'll repeat this again, but you were referred
 23 to this earlier, "review of the severity and
 24 frequency trend patterns over the recent past
 25 suggests that we may not fully reflect the

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1 correlation that seemingly exists between
 2 severity and frequency, if we separately
 3 select severity and frequency trend rates over
 4 different time periods. For this reason, we
 5 tend to select past and future trend rates by
 6 directly examining the trend patterns for lost
 7 cost. What is the correlation that you've
 8 identified there?
 9 MS. ELLIOTT:
 10 A. I think I had an example earlier, that if we
 11 see there's a bump in frequency, which is
 12 often due to weather-related incidents--so you
 13 know, the roads are icy and slippery and you
 14 have more claims, and they tend to be the
 15 smaller bumper claims, you can't--there's ice,
 16 you have a stop sign, you bump into the car in
 17 front of you. So those claims tend to be the
 18 smaller claim. So often we see when there's a
 19 bump in frequency, there can be a decline, a
 20 little decline in the severity, and so there's
 21 that matching--you know, it kind of makes
 22 sense and of course, you need a larger body of
 23 data to really, you know, see that. So if we
 24 decided to use a time period where that sort
 25 of--maybe there was that bump in frequency, we

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1 excluded that, but we included the--in our
 2 time period for severity, we included it. So
 3 the severity went down, but we didn't include
 4 the bump up in frequency, we're kind of
 5 getting a mismatch. So when we do the
 6 regression analysis, we think it's appropriate
 7 to use the same time period for frequency and
 8 severity so we don't miss that subtle
 9 possibility that anything that's affecting
 10 frequency and sort of offset in severity, that
 11 we miss it.
 12 MS. NEWBURY:
 13 Q. Okay, but you can actually look at these
 14 things separately, severity and frequency, and
 15 looking at the same time period?
 16 MS. ELLIOTT:
 17 A. And we do.
 18 MS. NEWBURY:
 19 Q. Okay, and so this is an inference on your
 20 part, then? You don't actually know that
 21 there's a correlation of the nature that you
 22 suggested?
 23 MS. ELLIOTT:
 24 A. Oh, we have seen it.
 25 MS. NEWBURY:

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1 Q. Have you seen it in this particular data?
 2 Have you actually looked--gone beyond the
 3 numbers and looked at -
 4 MS. ELLIOTT:
 5 A. No, no. I mean, and the problem here is the
 6 numbers. I mean, that's--you've hit the nail
 7 on the head. The problem is, in the bodily
 8 injury here that we're focused on, there's
 9 only about 120 claims a year. It's very
 10 difficult. This data has, you know, the
 11 noise, as you referred to it, and it's very
 12 hard to see that, but we know that phenomena
 13 does exist. We've seen it in other provinces
 14 and other coverages, so it's, you know, one of
 15 the things that we don't want to overlook.
 16 MS. NEWBURY:
 17 Q. So it's a correlation. You've given one
 18 example, you've referred to it twice now,
 19 about weather and you might have a lot more
 20 accidents of a less-significant nature. Have
 21 you verified statistically what the
 22 correlation is, and is there more than one
 23 correlation?
 24 MS. ELLIOTT:
 25 A. Well, I think what we're saying is we like to

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1 match up the time periods so that we don't
 2 inadvertently miss an correlation. That's
 3 what we're expressing here, that I don't want
 4 to take a frequency trend rate over five years
 5 and a severity trend rate over 20 years. We
 6 might get a mismatch there. That's the point
 7 that we're trying to make here.
 8 MS. NEWBURY:
 9 Q. Okay, and perhaps that point wasn't actually
 10 clear, because I don't see any references
 11 there to time periods and being concerned
 12 about looking at it separately with separate
 13 time periods. There's no reference there at
 14 all that I can see to time periods.
 15 MS. ELLIOTT:
 16 A. Okay. Well, that was the intention. I will
 17 take your note to maybe perhaps write it more
 18 clearly.
 19 MS. NEWBURY:
 20 Q. There's also a mention there of recent past.
 21 So it looks like you've come to a conclusion
 22 that there's a correlation, you haven't--you
 23 know, you've noted what it could be or what
 24 you think it is, but what is the recent past
 25 that you're referring to?

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1 MS. ELLIOTT:
 2 A. Well, I would have to acknowledge that when we
 3 do the report, that this paragraph might be--
 4 I'm pretty sure is repeated over, unless we've
 5 changed something, so--and we take this view
 6 in other provinces. We definitely have seen
 7 it. I mean, this is not--you can understand
 8 that there can be a bump in your frequency
 9 rate due to weather and smaller claims. So
 10 we're just trying to make the point here so
 11 that we have a--we don't have a mismatch in
 12 the timing, that we look at the same time
 13 period for frequency and severity and of
 14 course, therefore, lost cost in our review.
 15 MS. NEWBURY:
 16 Q. So the recent past, then, you can't identify
 17 five years?
 18 MS. ELLIOTT:
 19 A. No.
 20 MS. NEWBURY:
 21 Q. Was it either the past five years or the past
 22 12 years or -
 23 MS. ELLIOTT:
 24 A. I cannot for you.
 25 MS. NEWBURY:

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1 Q. Okay. So is this boilerplate language that
 2 you would put in your reports?
 3 MS. ELLIOTT:
 4 A. Yes. I just expressed that. This is our
 5 approach that we take, we take it in every
 6 province, every review that we do. We don't
 7 want to find that we're mismatching frequency
 8 and severity, so we do that in all our
 9 reviews, that's correct.
 10 MS. NEWBURY:
 11 Q. And you've also stated here that you tend to
 12 select past and future trend rates by directly
 13 examining the trend patterns for lost costs.
 14 What exceptions to this tendency have you made
 15 for this review, if any?
 16 MS. ELLIOTT:
 17 A. In this review, I don't believe there are any
 18 exceptions to looking at frequency, severity,
 19 lost costs over the same time period, no.
 20 MS. NEWBURY:
 21 Q. Okay. I'm going to refer to Exhibit PE#3.
 22 Actually, that's not the right exhibit. I'll
 23 come back to that question later, Ms. Elliott.
 24 I'm going to refer to page 5 of your report CA
 25 OW 001, trend report. And under the heading

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1 "seasonality", now I note there it says we
 2 refer to the first half of accident year XXXX.
 3 Now, I thought somewhere you had a report
 4 where that actually was filled in. Can you
 5 recall what the accident year--sorry, this is
 6 a different question. Okay, under this
 7 heading, you discuss frequency and severity,
 8 but your analysis ultimately was based on loss
 9 cost based on our previous discussion, is that
 10 correct? Your final analysis, you've gone
 11 with a loss cost because you want to take into
 12 account the correlation between the two?
 13 MS. ELLIOTT:
 14 A. I think if you--because I've tried to express
 15 when we review loss cost trend rates, we look
 16 at loss cost frequency and severity all at the
 17 same time. Our output, our data shows on one
 18 page the loss cost frequency and severity and
 19 so we look at it all together. And our point
 20 was that the two multiply together. If you
 21 use the same time period and do exactly the
 22 same thing, the result that you get for
 23 frequency times the result that you get for
 24 severity equals the loss cost result. It's
 25 the mathematics of it. So, that's what we're

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1 doing.

2 MS. NEWBURY:

3 Q. You note here in this heading that we find

4 that seasonality is sometimes evident and we

5 take this into consideration in our review of

6 the bodily injury trend rate patterns.

7 MS. ELLIOTT:

8 A. Um-hm.

9 MS. NEWBURY:

10 Q. And just can you explain what that means?

11 MS. ELLIOTT:

12 A. Yes, you know, again, this data is limited and

13 small and so sometimes we think, depending

14 upon--as I said before, we run lots of

15 different versions of this analysis and

16 sometimes depending upon the time period that

17 we pick, the T test that says it's significant

18 for seasonality is strong and other times it's

19 not. And that was the point that we're trying

20 to make there, that look at it and it's not

21 consistent, it's not consistently strong, the

22 seasonality for bodily injury. And, you know,

23 I can only assume it's because the data is so

24 small that we can't see any consistency in

25 that. That was the point that we were making.

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1 MS. NEWBURY:

2 Q. Now, if you turn to page 11 of your May 16,

3 2014 report and under the heading for "Bodily

4 Injury", second bullet. So, the second bullet

5 under "Bodily injury" heading it says, "we

6 find there to be evidence of seasonality is

7 the loss cost in the more recent years. The

8 parameter test we apply referred to as a T

9 test indicates that a seasonality parameter

10 should be applied in the regression model over

11 the 2005 to 2012 period". What regression

12 model are you referring to here in this

13 reference?

14 MS. ELLIOTT:

15 A. Most likely mine, but -

16 MS. NEWBURY:

17 Q. Did you do a 2005 to 2012 regression model?

18 MS. ELLIOTT:

19 A. Oh, sure, we did all sorts, as I said, I can't

20 even begin to tell you how many we did.

21 MS. NEWBURY:

22 Q. But it's not one that you've produced?

23 MS. ELLIOTT:

24 A. You know, the model produces it for me. I

25 don't print everything out. I'd have hundreds

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1 of pages.

2 MS. NEWBURY:

3 Q. No, but that you've produced for the Board?

4 MS. ELLIOTT:

5 A. Well, I produce them all and I provide a

6 report to the Board of the summary of our

7 selections; that's what we do.

8 MS. NEWBURY:

9 Q. I haven't seen in anything and I'm not sure,

10 maybe we don't get the same documentation

11 that's provided to the Board. I would have

12 assumed that we did.

13 MS. ELLIOTT:

14 A. You do.

15 MS. NEWBURY:

16 Q. Okay, well, I can't see any regression model

17 over the period 2005 - 2012. So, I'm

18 wondering why if you have seasonality in a

19 particular regression model, why don't we have

20 that regression model?

21 MS. ELLIOTT:

22 A. Well, you don't have all the ones that I ran.

23 I think I've expressed that we run numerous

24 models and we don't print them all out. So,

25 my point here was that what we said was

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1 seasonality, depending upon the time period

2 that you select and the data spin (phonetic),

3 it can show that it's significant. FA use the

4 time period 2004-2 to 2012 and didn't find

5 seasonality significant. When we looked at

6 our model over that time period which matched

7 up with what FA is effectively using, we were

8 seeing it. But, you know, it's a slippery

9 thing, this seasonality and this skinny data

10 that we have. Sometimes it's significant,

11 seasonality, and sometimes it's not. There's

12 only 120 claims, there's not a lot of data

13 here. That is the point. FA found that it

14 wasn't significant and, you know, it's not a

15 material issue, but we made note of it and

16 depending upon the time period that you use,

17 it can be significant.

18 MS. NEWBURY:

19 Q. But Ms. Elliott, the 2005 - 2012 period when I

20 asked you about that first, you said it would

21 have been your model. Now, you're thinking

22 it's the FA regression model, the time period

23 that they selected, but they didn't select

24 2005 - 2012 either.

25 MS. ELLIOTT:

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1 A. No, they selected 2204-2 to 2012 for the
 2 selected loss cost trend rate that they used.
 3 MS. NEWBURY:
 4 Q. And this is a different time period?
 5 MS. ELLIOTT:
 6 A. It's a half a year less, that's right.
 7 MS. NEWBURY:
 8 Q. But half a year can make a big difference
 9 based on some of the analysis that you've
 10 provided.
 11 MS. ELLIOTT:
 12 A. Yes, that's correct.
 13 MS. NEWBURY:
 14 Q. And but you haven't done a 2005 - 2012 period
 15 yourself?
 16 MS. ELLIOTT:
 17 A. No, I just said that we did. I mean, I
 18 wouldn't -
 19 MS. NEWBURY:
 20 Q. But not to produce for the Board?
 21 MS. ELLIOTT:
 22 A. If the Board would like me to produce it, if
 23 someone would ask me for that, I can provide
 24 that.
 25 MS. NEWBURY:

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1 Q. I assume that, you know, when you go through
 2 and you do different models and you pick
 3 different times periods, that ultimately you
 4 say, well, I'm not going to use all of them.
 5 I prefer this model over another model. Am I
 6 correct that you pick the best models and
 7 produce those for the Board, and if you didn't
 8 produce it, then for some reason it wasn't the
 9 best model to use?
 10 MS. ELLIOTT:
 11 A. Well, I'm not sure what you mean by "best".
 12 We look at the data to try to understand the
 13 patterns in the data, the patterns of how
 14 those costs are changing over time. We look
 15 at different time periods, with and without
 16 exclusions. We look at whether seasonality is
 17 a factor. We look at whether the reform is a
 18 factor. As I said, we have a flexible model
 19 that we can look at many runs. And the model
 20 is really nice and simple to use. I just
 21 click the fit button and put in some X's of
 22 what I want to see or not see and it does it
 23 in a second. So, we're able to look at
 24 numerous runs in a very short period of time
 25 and assess our understanding of the data, what

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1 are the patterns. That's what we do and as I
 2 expressed, seasonality may be a factor here
 3 for commercial data. The data is so thin it's
 4 hard to really tell for sure. We saw over
 5 some time periods it was and some time periods
 6 it wasn't, and we made that comment, that's
 7 all.
 8 MS. NEWBURY:
 9 Q. But, Ms. Elliott, it is a model that you
 10 haven't relied upon and you haven't produced
 11 for the Board, so otherwise this model wasn't
 12 your selected or preferable, I use the word
 13 "best", but maybe preferable model, from your
 14 perspective. So, why would you pick a
 15 different model to point out that you can run
 16 enough tests and find seasonality in some of
 17 them, when it's not actually a model that
 18 either you used or that the Facility used?
 19 MS. ELLIOTT:
 20 A. I think we were trying to point out that
 21 seasonality is a parameter that is not--it
 22 maybe an impact or it may not be an impact.
 23 It may add to you model, like it might be an
 24 element that you should consider in your
 25 model, but interestingly it depends upon the

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1 time period that you use, which again jus
 2 speaks back to limited data.
 3 MS. NEWBURY:
 4 Q. And I would put to you that the Facility did,
 5 in fact, consider that; they didn't just
 6 ignore it. They considered it and decided
 7 that it was not in evidence there to support
 8 that it should be included as a parameter.
 9 And you could only find it when you used
 10 actually a different model than either one of
 11 you. So, yes, it could happen and perhaps if
 12 you pick enough time periods you might find it
 13 in some of those models, but if you're
 14 otherwise rejecting that model or choosing not
 15 to rely upon it, then what's the value of
 16 pointing out that you can find seasonality
 17 during some timeframes and not in others?
 18 MS. ELLIOTT:
 19 A. It's a small value; it's a comment that we
 20 made.
 21 CHAIRMAN:
 22 Q. I think we'll--are you finished with that
 23 line, that -
 24 MS. NEWBURY:
 25 Q. Yes.

1 CHAIRMAN:
2 Q. Okay, well, we'll break now for half an hour.
3 (RECESS)
4 CHAIRMAN:
5 Q. Once more unto the breach.
6 MS. PAULA ELLIOTT (PREVIOUSLY SWORN) CROSS-EXAMINATION BY
7 MS. JENNIFER NEWBURY CONT'D
8 MS. NEWBURY:
9 Q. Thank you. Ms. Elliott, just a general
10 question now about your governance structure
11 that you use at Oliver Wyman when you're
12 changing your process. In particular the
13 percentage change to dollar value, when you
14 changed it from the dollar value to percentage
15 change, and then you changed it back, do you
16 have a governance structure in place that
17 would define how you move from one approach to
18 another?
19 MS. ELLIOTT:
20 A. Well our policy is that for all our work, all
21 our reports that are provided to clients, any
22 work product that's provided to a client, is
23 subject to peer review. So my colleague, Ted
24 Zubulake who works or who heads our
25 northeastern region, he resides in New York,

1 that's for sure.
2 MS. NEWBURY:
3 Q. And there was no specific testing of though
4 that you refer to?
5 MS. ELLIOTT:
6 A. No, no. We, both Mr. Zubulake and myself,
7 would have the same loss trend model and data.
8 He'd be to test, look at it, decide whether he
9 believed it was a reasonable change to make.
10 So it was not something that I did alone. It
11 would have in consultation with my colleague.
12 MS. NEWBURY:
13 Q. But were there any specific tests performed by
14 either one of you to your knowledge?
15 MS. ELLIOTT:
16 A. Well we would have tested what impact that is
17 on the loss trend rate. We would have looked-
18 -and I said, we run numerous examples, and my
19 colleague will often say to me, "Gee, you know
20 what about this? Why don't we do that?" So
21 it would have been looked at what is the
22 impact if we do that versus not doing that,
23 definitely.
24 MS. NEWBURY:
25 Q. Ms. Elliott, I've tried to elicit from you

1 he would have peer-reviewed and participated
2 in the preparation of this report, and any
3 changes in approach, yes.
4 MS. NEWBURY:
5 Q. And when you changed it back, would he also
6 have been involved in the peer review process?
7 MS. ELLIOTT:
8 A. He was involved in every loss trend report
9 that was prepared for the Province of
10 Newfoundland.
11 MS. NEWBURY:
12 Q. And was there any testing of the approach?
13 When you decided to change from one to the
14 other, did you take a broader analysis and
15 say, "We're going to see now whether this is
16 going to be a suitable approach," or did you
17 just make a change and -
18 MS. ELLIOTT:
19 A. It would have been discussed at the time in
20 making that decision. So as you know that's
21 going back a little bit of time for me, so I
22 don't remember the exact discussion, but it
23 definitely would have been discussed and
24 between my colleague, Ted Zubulake, and
25 myself. It was not something I did on my own,

1 information before about the P values and the
2 meaning of R values. I'm going to refer you
3 again to SD 1 through SD 4. I've got a
4 request that you identify. Let's look at SD 1
5 first. Just a moment for this to come up on
6 the screen. So page 2 of that document.
7 Okay. Can you identify the value associated
8 with the T statistic for this exhibit?
9 MS. ELLIOTT:
10 A. Yes, it's 1.704 for the intercept, and the all
11 years is minus 1.466.
12 MS. NEWBURY:
13 Q. Okay, and what is the P value?
14 MS. ELLIOTT:
15 A. Eleven percent for the intercept and 16.5 for
16 the all years.
17 MS. NEWBURY:
18 Q. Okay, and what are the degrees of freedom?
19 MS. ELLIOTT:
20 A. Well, let's see if I can explain it. You
21 know, I didn't prepare this report. I'm
22 trying to find it.
23 MS. NEWBURY:
24 Q. Okay.
25 MS. ELLIOTT:

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<p>1 A. I'm pretty -</p> <p>2 MS. NEWBURY:</p> <p>3 Q. So the top right-hand corner under Selected</p> <p>4 Trends Structure.</p> <p>5 MS. ELLIOTT:</p> <p>6 A. Okay. The degrees of freedom are 15.</p> <p>7 MS. NEWBURY:</p> <p>8 Q. How are the degrees of freedom calculated?</p> <p>9 MS. ELLIOTT:</p> <p>10 A. It's a measure of how many data points are in</p> <p>11 the model, and then it takes into account any</p> <p>12 parameters that are also used within the</p> <p>13 model. So the more data that you have, and</p> <p>14 the fewer parameters that are in your model,</p> <p>15 the larger that the degrees of freedom will</p> <p>16 be.</p> <p>17 MS. NEWBURY:</p> <p>18 Q. Okay. And how do you come up with the</p> <p>19 critical value for this particular regression?</p> <p>20 I mean what--how do you determine what is</p> <p>21 acceptable for this particular set of values?</p> <p>22 You've got your T statistic, you have your</p> <p>23 degrees of freedom.</p> <p>24 MS. ELLIOTT:</p> <p>25 A. Um-hm.</p>	<p>1 MS. NEWBURY:</p> <p>2 Q. And in this case here, I would suggest that</p> <p>3 the statistics from this regression would</p> <p>4 typically be rejected by most actuaries and</p> <p>5 most statisticians?</p> <p>6 MS. ELLIOTT:</p> <p>7 A. If you were looking at the frequency and the</p> <p>8 severity statistics, the answer to that would</p> <p>9 be no.</p> <p>10 MS. NEWBURY:</p> <p>11 Q. But we're looking at the loss cost. You've</p> <p>12 decided to combine them.</p> <p>13 MS. ELLIOTT:</p> <p>14 A. No.</p> <p>15 MS. NEWBURY:</p> <p>16 Q. I mean that's your decision that you -</p> <p>17 MS. ELLIOTT:</p> <p>18 A. No, I -</p> <p>19 MS. NEWBURY:</p> <p>20 Q. - have focused on looking at them together.</p> <p>21 MS. ELLIOTT:</p> <p>22 A. No, I think you're misstating it. What we</p> <p>23 said is that we look at the loss cost, we look</p> <p>24 at the frequency, we look at the severity. If</p> <p>25 you have to trend rates that are going in</p>
<p>Page 106</p> <p>1 MS. NEWBURY:</p> <p>2 Q. You have your P value.</p> <p>3 MS. ELLIOTT:</p> <p>4 A. Um-hm. Well, as I expressed, we look at the</p> <p>5 regression statistics that are provided, and</p> <p>6 in particular this is a good example. As I</p> <p>7 showed earlier we'll look at the regression</p> <p>8 statistics for the frequency, we'll look at</p> <p>9 the regression statistics for the severity,</p> <p>10 and they will be very different. And in this</p> <p>11 case, as I expressed earlier, the loss cost</p> <p>12 statistics will be different. So both--even</p> <p>13 though you're running a regression model</p> <p>14 that's based on the frequency, the severity</p> <p>15 and the loss cost, and those loss trends</p> <p>16 combine together for frequency and severity to</p> <p>17 be the loss cost trend rate. The regression</p> <p>18 statistics for frequency are different than</p> <p>19 the severity, and are different than loss</p> <p>20 cost.</p> <p>21 MS. NEWBURY:</p> <p>22 Q. Right.</p> <p>23 MS. ELLIOTT:</p> <p>24 A. And the loss cost is based on the combination</p> <p>25 of the frequency and the severity.</p>	<p>Page 108</p> <p>1 different directions, so a negative frequency</p> <p>2 trend rate and a positive severity trend rate,</p> <p>3 your regression statistics for the loss cost</p> <p>4 can be quite poor, but at the same time, and I</p> <p>5 showed the exhibit earlier, the regression</p> <p>6 statistics for the frequency can be acceptable</p> <p>7 and for the severity acceptable, while the</p> <p>8 loss cost is not. That is why we always,</p> <p>9 always look at loss cost, frequency, and</p> <p>10 severity. To show this exhibit and say that</p> <p>11 this is all that we looked at is a</p> <p>12 misunderstanding of our work.</p> <p>13 MS. NEWBURY:</p> <p>14 Q. Ms. Elliott, what is the cut-off for the P</p> <p>15 value that would be considered an acceptable</p> <p>16 value for a regression?</p> <p>17 MS. ELLIOTT:</p> <p>18 A. Well, FA has used .05. I don't object to</p> <p>19 that. We tend to look at the T stat, and</p> <p>20 typically we're looking at a number at least--</p> <p>21 we'd like it to be close to two. But again,</p> <p>22 none of the regression statistics that are</p> <p>23 presented by anybody on this set of commercial</p> <p>24 data are good. They're not. There's limited</p> <p>25 data. It's impossible to be good. So there</p>

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1 not good. So even if you set a standard that
 2 is--that you think is reasonable, it doesn't
 3 necessarily mean that you're getting--that
 4 that is the right choice. I guess that's what
 5 I'm trying to say, because you might run a
 6 model and have statistics that you think are
 7 appropriate and then one year later do the
 8 same thing, and you get completely different
 9 results. And if you pick that number, maybe
 10 it's a high number, a low number, and then run
 11 your regression analysis doing the same thing
 12 the next year, it can be quite different. And
 13 this all comes back to the same thing; we're
 14 dealing with a small data sample here.
 15 MS. NEWBURY:
 16 Q. Okay.
 17 MS. ELLIOTT:
 18 A. A hundred and twenty or so claims per year.
 19 MS. NEWBURY:
 20 Q. Ms. Elliott, so the P value that you've
 21 indicated that Facility uses is five percent
 22 or .05, and you don't take objection to that.
 23 And this value here is 16.5 percent which is
 24 well above that P value?
 25 MS. ELLIOTT:

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1 A. Yes.
 2 MS. NEWBURY:
 3 Q. Do you agree?
 4 MS. ELLIOTT:
 5 A. Yes, I do.
 6 MS. NEWBURY:
 7 Q. And the next exhibit, SD 1--SD 2, what is your
 8 P value?
 9 MS. ELLIOTT:
 10 A. A hundred percent it shows there.
 11 MS. NEWBURY:
 12 Q. And what does that mean?
 13 MS. ELLIOTT:
 14 A. That it's not a reliable parameter that should
 15 be included in the model.
 16 MS. NEWBURY:
 17 Q. Okay. And this is your model of five years?
 18 MS. ELLIOTT:
 19 A. Yes.
 20 MS. NEWBURY:
 21 Q. And five years ended which period?
 22 MS. ELLIOTT:
 23 A. I--sorry, I can't see the--yeah, I think
 24 December 2012.
 25 MS. NEWBURY:

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1 Q. Okay, and -
 2 MS. ELLIOTT:
 3 A. What it tells us is that there's no trend,
 4 that over time it's zero.
 5 MS. NEWBURY:
 6 Q. Right.
 7 MS. ELLIOTT:
 8 A. That there's -
 9 MS. NEWBURY:
 10 Q. There's no trend, that's correct.
 11 MS. ELLIOTT:
 12 A. There's no--you can't tell anything from the
 13 data. So -
 14 MS. NEWBURY:
 15 Q. And your degrees of freedom in this case, is
 16 that seven?
 17 MS. ELLIOTT:
 18 A. Yes.
 19 MS. NEWBURY:
 20 Q. Okay, and that would be based on the fact that
 21 you have a certain number of data points, how
 22 many data you have?
 23 MS. ELLIOTT:
 24 A. That's based on the number of data points,
 25 less the parameter in the model.

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1 MS. NEWBURY:
 2 Q. Okay, so it's eight data points less -
 3 MS. ELLIOTT:
 4 A. The one parameter for time.
 5 MS. NEWBURY:
 6 Q. One parameter?
 7 MS. ELLIOTT:
 8 A. Um-hm.
 9 MS. NEWBURY:
 10 Q. So it gives you seven. And the next, SD 3,
 11 what is your P value?
 12 MS. ELLIOTT:
 13 A. Point one percent for the intercept and .2
 14 percent for the all-year parameter.
 15 MS. NEWBURY:
 16 Q. Okay, and what does that mean?
 17 MS. ELLIOTT:
 18 A. That they're better than the 100 percent, that
 19 the results have, you know--are more--it tells
 20 you that it's stronger.
 21 MS. NEWBURY:
 22 Q. Okay, and the degrees -
 23 MS. ELLIOTT:
 24 A. A better test.
 25 MS. NEWBURY:

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<p>1 Q. And the degrees of freedom in this case?</p> <p>2 MS. ELLIOTT:</p> <p>3 A. Is 15.</p> <p>4 MS. NEWBURY:</p> <p>5 Q. Fifteen. And in SD Number 4, what is your P</p> <p>6 value?</p> <p>7 MS. ELLIOTT:</p> <p>8 A. A hundred percent.</p> <p>9 MS. NEWBURY:</p> <p>10 Q. Okay, and this again is a five-year model.</p> <p>11 And do you use the same stats for five-year</p> <p>12 models and ten-year models, or do you change</p> <p>13 the alpha? I've heard something about an</p> <p>14 alpha being used. Do you know what that is?</p> <p>15 MS. ELLIOTT:</p> <p>16 A. I don't know that the alpha is that you're</p> <p>17 referring to.</p> <p>18 MS. NEWBURY:</p> <p>19 Q. Okay. Okay.</p> <p>20 MS. ELLIOTT:</p> <p>21 A. No.</p> <p>22 MS. NEWBURY:</p> <p>23 Q. Do you know, is there any difference or do you</p> <p>24 have the same expectations when you move from</p> <p>25 a ten-year model to a five-year model for</p>	<p>1 you feel it's more responsive? So</p> <p>2 notwithstanding what the stats say, you think</p> <p>3 that inputting the five-year regression models</p> <p>4 into your overall trend rate actually improves</p> <p>5 your results?</p> <p>6 MS. ELLIOTT:</p> <p>7 A. I think again I'm repeating myself, that when</p> <p>8 we look at the regression statistics, and when</p> <p>9 you have a frequency rate that's declining,</p> <p>10 and you have a severity rate that is</p> <p>11 increasing, you're not going to get reliable</p> <p>12 or usable statistics. You should be looking</p> <p>13 at your frequency regression statistics and</p> <p>14 your severity regression statistics which we</p> <p>15 do. And the loss cost is not going to give</p> <p>16 you something that is useful. I've expressed</p> <p>17 this. I've told you that we look at our</p> <p>18 frequency statistics, we look at our severity</p> <p>19 statistics. FA produced this exhibit; not us.</p> <p>20 FA said that they looked at this. You're</p> <p>21 asking me to comment on it, but it is not what</p> <p>22 I looked at when we reviewed our models.</p> <p>23 MS. NEWBURY:</p> <p>24 Q. Ms. Elliott, have you looked at the frequency</p> <p>25 and severity models for your five-year</p>
<p>1 regression?</p> <p>2 MS. ELLIOTT:</p> <p>3 A. No, we would expect--whether you're looking at</p> <p>4 ten year or five year, you want to get a good</p> <p>5 fit for the data that you're looking at.</p> <p>6 MS. NEWBURY:</p> <p>7 Q. Yes.</p> <p>8 MS. ELLIOTT:</p> <p>9 A. Just because you have a shorter period doesn't</p> <p>10 mean that you would change your--what you</p> <p>11 think is a reasonable fit, yeah.</p> <p>12 MS. NEWBURY:</p> <p>13 Q. Okay. And in this case here you've got a P</p> <p>14 value again of 100 percent?</p> <p>15 MS. ELLIOTT:</p> <p>16 A. That's correct.</p> <p>17 MS. NEWBURY:</p> <p>18 Q. Which -</p> <p>19 MS. ELLIOTT:</p> <p>20 A. So we're saying that, right, that over the</p> <p>21 passage of time you can't measure a trend rate</p> <p>22 with this data. That's what that's saying.</p> <p>23 MS. NEWBURY:</p> <p>24 Q. But in your view it's--you've chosen to</p> <p>25 emphasize five-year periods of time because</p>	<p>1 regressions and determined that those results,</p> <p>2 the statistic results, are acceptable?</p> <p>3 MS. ELLIOTT:</p> <p>4 A. No, the data is very--I mean, the data is very</p> <p>5 thin. We wanted to look at the five year to</p> <p>6 see what's happening in the last five years.</p> <p>7 That's what we've done. We don't incorporate</p> <p>8 any one model. We don't say, "If I take the</p> <p>9 five years, I get the right number. If I take</p> <p>10 the ten years, then I get the right number."</p> <p>11 We're trying to look at this in a consistent</p> <p>12 approach. The more recent data might tell us</p> <p>13 if there's a direction that's a little bit</p> <p>14 different than the ten-year period. We look</p> <p>15 at that information. None of the models, none</p> <p>16 of the models are great fits. None. Not</p> <p>17 those presented by FA or those presented by</p> <p>18 Oliver Wyman. They're all relatively weak.</p> <p>19 MS. NEWBURY:</p> <p>20 Q. Ms. Elliott, I'm going to refer you to Exhibit</p> <p>21 D1. This the Facility's Report.</p> <p>22 MS. ELLIOTT:</p> <p>23 A. Um-hm.</p> <p>24 MS. NEWBURY:</p> <p>25 Q. All right. And there's a section there called</p>

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1 "TPL Indivisible"?

2 MS. ELLIOTT:

3 A. Yes. Um-hm.

4 MS. NEWBURY:

5 Q. That's the second band of data.

6 MS. ELLIOTT:

7 A. Um-hm.

8 MS. NEWBURY:

9 Q. So the first one is total, but then under that

10 it's TPL Indivisible.

11 MS. ELLIOTT:

12 A. Um-hm.

13 MS. NEWBURY:

14 Q. I'm going to refer you to the column that's

15 entitled "Ultimate Loss Costs."

16 MS. ELLIOTT:

17 A. Um-hm.

18 MS. NEWBURY:

19 Q. Now if we look down for the ultimate loss

20 costs for--yes, that's Column 8.

21 MS. ELLIOTT:

22 A. Um-hm.

23 MS. NEWBURY:

24 Q. And we start in 2004. We have ultimate loss

25 costs of 1610?

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1 MS. ELLIOTT:

2 A. Um-hm.

3 MS. NEWBURY:

4 Q. The next year, 1361, and then it goes up,

5 2224?

6 MS. ELLIOTT:

7 A. Um-hm.

8 MS. NEWBURY:

9 Q. Then it goes up to 2874; up to 2902; then it

10 goes up to 3029; then it goes up to 3530; down

11 slightly, 3412; down slightly, 3474. And so

12 I'm trying to look at this and understand your

13 evidence, and you have a downward trend rate?

14 MS. ELLIOTT:

15 A. Yeah.

16 MS. NEWBURY:

17 Q. Since 2004?

18 MS. ELLIOTT:

19 A. Yeah.

20 MS. NEWBURY:

21 Q. A continuing--year after year your trend rate

22 is going down. And I'm looking at the

23 ultimate loss costs here, and they seem to go

24 up pretty well every single year. A couple of

25 exceptions, but a layperson looking at this

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1 says, "Well, that's certainly an upward trend.

2 I'd rather be at the beginning years of those

3 ultimate loss costs rather than the end years

4 of those loss costs." How can you explain to

5 the layperson who looks at this, you know, to

6 see a trend and an eyeball will tell you that,

7 you know, this is an upward trend?

8 MS. ELLIOTT:

9 A. Um-hm. Well, that's an interesting question.

10 I have a couple of comments on that regard.

11 The first thing is the trends that are applied

12 to this data are based on commercial data

13 which does not include taxis. We're looking

14 at taxi data. This Column 8 is all the taxi

15 loss experience. So the trend rates that are

16 applied to it that we're measuring, and this

17 is a very large piece of the uncertainty,

18 we're using commercial data to estimate loss

19 trend rates and that -

20 MS. NEWBURY:

21 Q. Ms. Elliott, sorry, you've previously

22 indicated though that the use of the

23 commercial data is reasonable?

24 MS. ELLIOTT:

25 A. I've said that there really isn't a better

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1 choice.

2 MS. NEWBURY:

3 Q. Okay.

4 MS. ELLIOTT:

5 A. Yeah. So we're applying commercial trend

6 rates to taxi experience, but you know--and

7 the taxi experience is not credible. There

8 are very few claims there, but interestingly,

9 if you look at 2010, 11 and 12, and I am the

10 first to admit, and repetitive as I am, this

11 data is not credible, but anecdotally, we can

12 see that there's a decline from 2010 to 2011.

13 It went down 3.3 percent, and then it went

14 back up slightly, just under 2 percent from

15 2011 to 2012. So in the last three years,

16 kind of that average change if you will, minus

17 one percent or it's flattening out. So

18 perhaps the more recent information that we

19 see, limited as it is, is that the costs are

20 not continuing to increase as they have as--

21 you know, which is evident here with the taxi

22 experience that it's flattening out. So this

23 data is not reliable upon which to base a

24 trend rate. FA has acknowledged that and

25 they're using commercial experience to

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<p>1 calculate the trend rate. But looking at this 2 estimate of the cost for taxis, and focusing 3 in on the last three years, we see things that 4 are flattening out and declining there. So 5 it's very hard to really be convinced, you 6 know, what is the right number? Is plus 4.4 7 percent from commercial experience that FA has 8 presented - 9 MS. NEWBURY: 10 Q. But Ms. Elliott, your approach and your 11 conclusion is that there has been a downward 12 trend since 2004. 13 MS. ELLIOTT: 14 A. Um-hm. 15 MS. NEWBURY: 16 Q. You didn't talk about, oh, in the last couple 17 of years maybe there's a flattening out. 18 You've talked about a continual year-after- 19 year downward trend since 2004. 20 MS. ELLIOTT: 21 A. Right. 22 MS. NEWBURY: 23 Q. And I can't see that in these numbers. 24 MS. ELLIOTT: 25 A. Well you're--we're talking about commercial</p>	<p>1 and the reported losses for 2013 as of the end 2 of December 2013, compared to the report, 3 losses for accident year 2012, at the same 4 time period at December 2012, has decreased 5 for taxis. So--and that's not to say--this is 6 just, you know, one small little bit of data, 7 but to ask if the loss trend rate that has 8 been presented on commercial data, if it's 9 unreasonable for taxi data, is it the 10 information that we have. I stand by the 11 commercial trend rate that we calculated. FA 12 chose to apply a trend rate based on 13 commercial vehicles. 14 MS. NEWBURY: 15 Q. Okay. 16 MS. ELLIOTT: 17 A. The most recent taxi experience showed that 18 it's fattening, and the reported data as of 19 2013 shows that it's declined. 20 MS. NEWBURY: 21 Q. Okay. So I take it then from your answer that 22 the only reason that you see a downward trend 23 where these numbers seem to show an upward 24 trend, is that these numbers really aren't 25 credible? There's not enough data here to be</p>
<p>1 vehicle experience. Commercial vehicles do 2 not include taxis. They're the trucks and the 3 vans, the business cars, and business vehicles 4 on the road. Completely separate that we're 5 looking at, and that's very limited. You're 6 presenting here the experience for taxis, and 7 if you're asking me can we establish a trend 8 rate for a TPL, I can only say that FA chose 9 not to do so because it found the experience 10 was too limited to set a trend rate. I'm only 11 stating that in the more recent years it 12 appears to be flattening out. 13 MS. NEWBURY: 14 Q. But your trend rate though that you have 15 produced in since 2004, and it is a trend rate 16 that you have suggested should be or is 17 present and applicable to the taxi segment? 18 MS. ELLIOTT: 19 A. Right, we were trying to figure out how are 20 these costs--what are they going to be in--for 21 the policies that are going to be sold in 22 2015. And if I understand the question, it's 23 we're saying is this reasonable? We have a 24 minus 1.5 percent trend rate. And in fact, 25 the data for taxis for 2013 has been released</p>	<p>1 credible? 2 MS. ELLIOTT: 3 A. No. No, you're mis-speaking. We have been 4 talking yesterday, all week, about the 5 commercial vehicle trend rate. No one has 6 established a taxi vehicle trend rate. 7 MS. NEWBURY: 8 Q. But you're proposing that it be used for the 9 taxis? 10 MS. ELLIOTT: 11 A. FA is proposing. It's their filing. They 12 asked to use--or they have submitted a filing 13 using commercial vehicles. 14 MS. NEWBURY: 15 Q. But you've come up with your own trend rate, 16 have you not? 17 MS. ELLIOTT: 18 A. We look at commercial vehicles and establish a 19 loss trend rate. FA looked at the commercial 20 vehicle data - 21 MS. NEWBURY: 22 Q. Yes. 23 MS. ELLIOTT: 24 A. - which completely separate. Taxis are not a 25 subset of that. And they established a loss</p>

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<p>1 trend rate and said, "I'm going to use my 2 commercial vehicle loss trend rate to adjust 3 my taxi experience." That's what they 4 submitted in their filing. 5 MS. NEWBURY: 6 Q. Okay. Now Facility's trend rate is a positive 7 trend rate? 8 MS. ELLIOTT: 9 A. That's correct. 10 MS. NEWBURY: 11 Q. And yours is negative? 12 MS. ELLIOTT: 13 A. That's correct. 14 MS. NEWBURY: 15 Q. And so again you're saying that the trend rate 16 that you've identified should be applied to 17 the taxi experience? That's your position? 18 MS. ELLIOTT: 19 A. I'm saying that the commercial vehicle trend 20 rate, our measurement of it, is a negative for 21 bodily injury, minus 1.5 percent. FA has 22 submitted a taxi filing. FA has said, "I 23 can't use my taxi data to establish a trend 24 rate. I'm going to use commercial data." We 25 accept that. There's not a better</p>	<p>1 MS. ELLIOTT: 2 A. Yeah. 3 MS. NEWBURY: 4 Q. And there's two separate periods of time. 5 We've got 2008 to 2012 and we have 2006 6 through 2012, and both of them show an upward 7 trend and statistically proven. 8 MS. ELLIOTT: 9 A. What I said was for the 2010, 2011 and 2012, I 10 said that period was showing a decline. From 11 2010 to 2011 the decline was minus 3.3 12 percent. So what I had stated was that it was 13 flattening out over the more recent period, 14 and that the most recent statistics that have 15 been released by GISA for the taxi experience 16 shows that the reported losses for 2013 are 17 lower than the reported losses at the same 18 point in time for 2012. That was my comment. 19 MS. NEWBURY: 20 Q. Ms. Elliott, you've provided a number of data 21 tables and a summary at the end of your 22 report, the CA OW 001 Report. 23 MS. GLYNN: 24 Q. Do you have a page reference? 25 MS. NEWBURY:</p>
<p>1 alternative. 2 MS. NEWBURY: 3 Q. Okay. 4 MS. ELLIOTT: 5 A. It adds to the uncertainty of the findings. 6 MS. NEWBURY: 7 Q. Okay. I'm going to request that the response 8 to CA FA 06 be brought up. Okay, and if you 9 scroll down to the next page. Ms. Elliott, 10 are you familiar with this response from the 11 Facility Association? 12 MS. ELLIOTT: 13 A. May I see the question? 14 MS. NEWBURY: 15 Q. Sure. 16 MS. ELLIOTT: 17 A. Please. Okay, um-hm. 18 MS. NEWBURY: 19 Q. So my question is focused on these two graphs. 20 You've indicated that the taxi loss costs are 21 flattening out. I would suggest that these 22 graphs show otherwise, that there is no 23 flattening out if you did a regression 24 analysis over the periods of time covered 25 here.</p>	<p>1 Q. Yes, I'm going to refer to the--just to the 2 end of the report. So if you can go and look 3 through the last few pages. It's a general 4 question. So I think starting at about page 5 11. So page--actually it's page 12, 13, 14 6 and 15 and 16. There's summary tables there, 7 but there aren't any fitted values based on 8 your final selection of trends? 9 MS. ELLIOTT: 10 A. Um-hm. 11 MS. NEWBURY: 12 Q. Why don't you provide fitted values in your 13 reports? 14 MS. ELLIOTT: 15 A. We had--I thought I provided this in my 16 direct. Perhaps I didn't. We had a comment 17 that they would find the report, and this is 18 from an actuary, that they would find the 19 report more useful if they could see exactly 20 the data, what the loss costs were, what the 21 severity was and the frequency was that we 22 were using to derive our selections, and they 23 weren't all that interested in seeing the, you 24 know, the summary stats that we used to 25 provide in our reports. And so we took that</p>
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<p>1 and provided the data, and the user had said</p> <p>2 that they would find that more helpful, that</p> <p>3 they could use the data, drop it. Every</p> <p>4 actuary will have a regression model that they</p> <p>5 use. Drop it into their model, and test you</p> <p>6 know what they think the loss trend rate is</p> <p>7 and compare it our selection. And then they</p> <p>8 can provide comments to us if, you know, or</p> <p>9 the Board, if they had any alternative</p> <p>10 suggestions that they wanted to share. So</p> <p>11 that change was made for that reason.</p> <p>12 MS. NEWBURY:</p> <p>13 Q. So did the actuary actually tell you, "I don't</p> <p>14 want to see this. I want you to provide me</p> <p>15 something else?"</p> <p>16 MS. ELLIOTT:</p> <p>17 A. Yeah, it was pretty -</p> <p>18 MS. NEWBURY:</p> <p>19 Q. Or was it the matter of the actuary saying, "I</p> <p>20 would be helpful if you provided some</p> <p>21 additional data?" I'm trying to finish my</p> <p>22 question.</p> <p>23 MS. ELLIOTT:</p> <p>24 A. Okay.</p> <p>25 MS. NEWBURY:</p>	<p>1 MS. NEWBURY:</p> <p>2 Q. And he did not want to have any interest in</p> <p>3 where you actually put your line, because</p> <p>4 there's a judgement, I take it? You know,</p> <p>5 where do you put the line in, how do you</p> <p>6 determine the intercept? He wasn't interested</p> <p>7 in knowing what your position was on that?</p> <p>8 MS. ELLIOTT:</p> <p>9 A. No. Because he's going to do it himself, so</p> <p>10 that's what he wanted to know. What's your</p> <p>11 data, I'm going to test it and see if I agree,</p> <p>12 that was his point.</p> <p>13 MS. NEWBURY:</p> <p>14 Q. And when you did provide--and Ms. Elliott, on</p> <p>15 the basis of one request from one actuary that</p> <p>16 you remove a part of your report, you were</p> <p>17 comfortable with that, removing that bit of</p> <p>18 information? What if he'd asked you to remove</p> <p>19 other components of your report?</p> <p>20 MS. ELLIOTT:</p> <p>21 A. Well, we would have taken it into</p> <p>22 consideration, but yes, we listened, we</p> <p>23 understood his point, that any actuary is</p> <p>24 going to look at the work and do their own</p> <p>25 test to decide if they are in agreement and</p>
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<p>1 Q. Ms. Elliott?</p> <p>2 MS. ELLIOTT:</p> <p>3 A. Yes. Yes, the comment was--I do recall it and</p> <p>4 the person. They said, "Oh, that's kind of</p> <p>5 useless. I don't really want to look at your</p> <p>6 R squares." And I do remember being offended.</p> <p>7 MS. NEWBURY:</p> <p>8 Q. Yes.</p> <p>9 MS. ELLIOTT:</p> <p>10 A. But I said, "Okay. That's, you know, valid.</p> <p>11 We'll provide the data."</p> <p>12 MS. NEWBURY:</p> <p>13 Q. So then based on one actuary, you've decided</p> <p>14 to drop out your own fitted values?</p> <p>15 MS. ELLIOTT:</p> <p>16 A. Yeah. He's a very senior actuary and I</p> <p>17 respect his opinion, yeah.</p> <p>18 MS. NEWBURY:</p> <p>19 Q. Who is he?</p> <p>20 MS. ELLIOTT:</p> <p>21 A. Dr. Ron Miller.</p> <p>22 MS. NEWBURY:</p> <p>23 Q. Dr. Ron Miller?</p> <p>24 MS. ELLIOTT:</p> <p>25 A. Um-hm.</p>	<p>1 this was more helpful. I do, I highly respect</p> <p>2 Dr. Miller. He's testified here in front of</p> <p>3 the Board, he's testified in numerous places</p> <p>4 across the country. I highly value the</p> <p>5 comment that he provided, we thought it was</p> <p>6 helpful, and nobody has since said, gee, we</p> <p>7 want to see those stats. So if somebody sent</p> <p>8 in a comment and said we'd like to see that</p> <p>9 data and we also want to see your stats, then</p> <p>10 we would accommodate that.</p> <p>11 MS. NEWBURY:</p> <p>12 Q. And in the past when you have done your fitted</p> <p>13 values--so is it that you do fitted values and</p> <p>14 you just don't show them, or do you just not</p> <p>15 do the fitted values now?</p> <p>16 MS. ELLIOTT:</p> <p>17 A. As part of a regression model, you determine a</p> <p>18 fitted value. That's part and parcel of it.</p> <p>19 MS. NEWBURY:</p> <p>20 Q. So you've actually produced that, but you just</p> <p>21 haven't put it in your report?</p> <p>22 MS. ELLIOTT:</p> <p>23 A. That's correct.</p> <p>24 MS. NEWBURY:</p> <p>25 Q. And this is the first time that you eliminated</p>

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1 it from your report? I think the 2011 report
 2 you did include it.
 3 MS. ELLIOTT:
 4 A. No. We did not include the fitted values.
 5 What we included in the 2011 report were the
 6 regression statistics in that report, which is
 7 different from the fitted values.
 8 MS. NEWBURY:
 9 Q. However, to get to the regression statistics,
 10 you have to fit a line to the graph, otherwise
 11 you can't come up with the residuals or -
 12 MS. ELLIOTT:
 13 A. That's right. That's what a regression
 14 analysis is, it's determining a line and those
 15 values fall along that fitted line, that's
 16 right.
 17 MS. NEWBURY:
 18 Q. And when you do your fitted line, in order to
 19 do your regression analysis, do you use the
 20 full 15 years of data that you have in your
 21 report, or do you just do the smaller subsets
 22 of that?
 23 MS. ELLIOTT:
 24 A. As I expressed the other day, we prepare
 25 numerous runs on the data that we have, the 15

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1 years that we review. So yes, we run--the
 2 regression stats are produced at the same time
 3 as the fitted value is produced, and so
 4 they're all done at the same time. We've
 5 produced the regression stats and the fitted
 6 values.
 7 MS. NEWBURY:
 8 Q. And did you do the regression statistics and
 9 the fitted values for the -1.5 trend?
 10 MS. ELLIOTT:
 11 A. No. That would be a misunderstanding, if you
 12 ask that question, because the -1.5 percent is
 13 derived using averages. As I have stated, we
 14 look at ten years of experience ending
 15 December '12 and ending June, 2012, and then
 16 we look at the five years and we calculate
 17 that average, and then we draw in what we
 18 selected in our prior report. That number
 19 calculates to -1.5 percent.
 20 MS. NEWBURY:
 21 Q. But Ms. Elliott, you do have a line, so you
 22 have a trend rate of -1.5, and you have data
 23 and you have a line, so I know that you didn't
 24 derive that line directly from a regression.
 25 You took a model where you have four averages

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1 and then you averaged that with your prior
 2 rate selection, -
 3 MS. ELLIOTT:
 4 A. Yeah.
 5 MS. NEWBURY:
 6 Q. - but you still have a line, you still can
 7 take that line, put it on the data, fit it to
 8 the data, and do your regression statistics.
 9 Why not do that to see how that looks?
 10 MS. ELLIOTT:
 11 A. You could draw the line if you want, but you
 12 already have the line from the regression
 13 statistics that you're incorporating into your
 14 average, and if you put a chart up and you
 15 have a line that's -1.7 and that's on a graph
 16 for you, you could then draw a line that's 1.5
 17 because that's what your average works out to.
 18 I don't know if it's really going to tell me
 19 anyway. I already know that we've taken an
 20 approach to try to strike a balance between
 21 responsiveness and stability, and that's how
 22 we come up with our -1.5 percent. I grant you
 23 could draw a line if you like, but it's not
 24 going to tell me something new. I'm not
 25 trying to say if I draw a line of -1.5 and I

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1 back-fit it to find out what the regression
 2 stats are on that -1.5 and how does that
 3 compare, that fitted line, to the actual
 4 values--we've already established this data is
 5 not credible, we've already established that
 6 it's volatile. That's why we're picking an
 7 average, because it's not credible, it is
 8 volatile. So we take an averaging approach.
 9 It seems kind of silly to then draw a line for
 10 something that's based on an average, not from
 11 a regression model. You could do that if you
 12 want, but I don't--I think you're going in
 13 circles if you do that.
 14 MS. NEWBURY:
 15 Q. But Ms. Elliott, you've stated in your report
 16 that a key consideration in determining the
 17 lost cost trend rate include how well the
 18 regression model fits in a statistical sense,
 19 the actual historical data. So you've come up
 20 with a model by using averages and by
 21 comparing it with prior rate selection, and
 22 you've explained the reasons for that, but at
 23 the end of the day, you have one model and
 24 because you emphasized in your report -
 25 MS. ELLIOTT:

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1 A. We have one average.
 2 MS. NEWBURY:
 3 Q. It's still a model.
 4 MS. ELLIOTT:
 5 A. It's an average.
 6 MS. NEWBURY:
 7 Q. So you don't consider it to be a model, then?
 8 MS. ELLIOTT:
 9 A. No. I consider the -1.5 is based on an
 10 average of other models that we selected.
 11 Incorporated in that average is our prior
 12 selection. It is an average.
 13 MS. NEWBURY:
 14 Q. Okay. So then your comment, the key
 15 consideration in determining the lost cost
 16 trend rate, which includes how well the
 17 regression model fits in the statistical
 18 sense, that actually has no application to
 19 your line, which I had assumed was ultimately
 20 a model--it's a model based on averages, but
 21 you're saying that you don't have to see how
 22 that fits the actual data?
 23 MS. ELLIOTT:
 24 A. We just went through the discussion of how the
 25 data fits, I provided a summary of the R-

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1 squares. So we look at the fits for the ten-
 2 year model ending December, '12. We look at
 3 the fits by severity and frequency. We look
 4 at the ten-year models, we look at the five-
 5 year model. We exclude various points. We
 6 take an average, and then we incorporate our
 7 prior selection to strike a balance between
 8 responsiveness and stability. That is how the
 9 -1.5 percent is calculated. I know from the
 10 numbers that we're including in our average,
 11 just by how averages work, that -1.5 percent
 12 is going to fall in within the numbers that
 13 it's based upon, and that's what we select.
 14 MS. NEWBURY:
 15 Q. So Ms. Elliott, I would suggest that the--you
 16 know, the key consideration of how well the
 17 model fits the line, looking at regression,
 18 that doesn't apply to your underlying models
 19 that you've averaged, because you've talked
 20 about how those are poor results from a
 21 statistical point of view, and then you've got
 22 an ultimate line which you haven't even tested
 23 to see how it fits, because you don't see it
 24 to be a model that requires testing. So it
 25 seems that your emphasis on this key

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1 consideration to see how your model fits the
 2 data has not actually been followed through.
 3 MS. ELLIOTT:
 4 A. Do you have a question?
 5 MS. NEWBURY:
 6 Q. It's my comment. You can comment on that. I
 7 mean, where has that key -
 8 MS. ELLIOTT:
 9 A. I'll only repeat what I've said before, so I
 10 think that our approach strikes a balance with
 11 responsiveness and stability. The data,
 12 whether the models that you looked at that FA
 13 has produced, that's selected, or the models
 14 that we have selected, the regression
 15 statistics, the fits, are not good. Nobody's
 16 model is great. The data is not credible,
 17 it's very limited. So I don't think anyone
 18 can stand up in good conscience and say I've
 19 got the perfect fit, mine is great, mine is
 20 wonderful, I've got the right answer. That's
 21 not the case with this data. It's very
 22 limited and volatile, and that is the point
 23 that we're trying to make. By drawing in
 24 averages, we take in a wider range of
 25 possibilities. By picking just one number and

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1 saying that's it, got the right number, I
 2 think it's not--it's not the approach that we
 3 want to take, it's not what we've done. In
 4 our judgement, we've taken a different
 5 approach.
 6 MS. NEWBURY:
 7 Q. Ms. Elliott, you've testified before at
 8 another rate hearing, in 2002, and I believe
 9 the transcript is available to be brought up
 10 on the screen.
 11 MS. GLYNN:
 12 Q. Do you know which date?
 13 MS. NEWBURY:
 14 Q. Yes. December 19th, page 18. If we scroll
 15 down to line 64, and your question here, so
 16 what I want to try and make clear is that in
 17 terms of the loss development factors, your
 18 position is that you would use all the data
 19 points regardless of variability and your
 20 answer "we would use all the data points.
 21 It's a random selection that's provided. We
 22 don't know why they are what they are. We
 23 don't know the various, we have not been
 24 advised that there is an errors in the data,
 25 so the data that's provided in terms of loss

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1 development factors, what's there we believe
 2 could possibly happen again. No one has
 3 stated that there was an error in the data."
 4 And there's a couple of other references that
 5 I'll refer to. Page 20, and lines 57 through
 6 59, and you say "so as we understand the data,
 7 it's not an error, and that these data points
 8 have occurred and it's possible that they will
 9 occur again, and a five-year average is a good
 10 balance between responsiveness and stability,
 11 and we think that FA's selection of the five-
 12 year period of time is reasonable." So again,
 13 you're referring to--the data points have
 14 occurred and it's possible they will occur
 15 again. And if I can refer to Page 23 of that
 16 same transcript? Okay, and lines 13 to 16,
 17 you start off, "well, I think that's our
 18 point. We don't really understand why it's so
 19 low. We see that it's happened in the past,
 20 in the prior periods of time, and there's no
 21 reason to believe it won't happen again, it's
 22 plausible." And down on that page, or
 23 actually over across on that page, lines 48
 24 through 50, "that's exactly my point, we don't
 25 know why it's low. All we know is that it's

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1 happened before and there's no reason to say
 2 that it won't happen again. It's very
 3 plausible." So it appears here, a reluctance
 4 to exclude any data on your part, but
 5 notwithstanding that, when you're looking at
 6 the loss trend rates, you're routinely
 7 excluding data, and the data that you've
 8 excluded, if you look at those data points,
 9 they seem to be points that could happen
 10 again. Facility has done its statistical
 11 analysis of the data points that you've
 12 excluded and for the most part, none of them
 13 would be considered outliers. These are
 14 things that are not unusual, they're not out
 15 of keeping with the typical data. So why the
 16 reluctance here in 2002 to exclude data
 17 points? They happened before, they could
 18 happen again, there's no reason why there's--
 19 you don't know of any reason why they're so
 20 low, a reason that would exclude their use in
 21 the future. Why would you now, by a matter of
 22 course, five-year period, exclude high/low,
 23 ten-year period exclude two high/two low. And
 24 looking at the SD1 through SD4, the points
 25 don't seem out of keeping, they happen two or

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1 three times at the same level within the same,
 2 you know, short period of time.
 3 MS. ELLIOTT:
 4 A. Um-hm. So in the context of this hearing,
 5 2002, my recollection is that all these
 6 references are in regard to loss development
 7 factors, and in that hearing, if my
 8 recollection is correct, FA had excluded the
 9 high points, so when they were--I'm sorry, FA
 10 had excluded the low points. So when they
 11 were calculating their average of the loss
 12 development factors--not the loss trend rates
 13 but the loss development factors, they
 14 excluded the low points and included the high
 15 points, and that was the issue that was under
 16 debate in that hearing. And what these points
 17 or comments were made to at that time, that is
 18 a different issue than what we're debating
 19 here. We've taken an approach of excluding
 20 two high and two low for the ten-year trend
 21 rates based on the percentage change, and we
 22 acknowledge that if we had used the dollar
 23 approach, the highest value as opposed to the
 24 percentage change, as the basis for
 25 exclusions, we'd have even a larger negative

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1 trend rate. So these comments that we made in
 2 2002 were in reference to FA excluding the low
 3 values, and as a result of excluding those low
 4 values, its loss development factors, we found
 5 at the time, were too high and as a result of
 6 having loss development factors that are too
 7 high--results in loss trend rates that are too
 8 high. I mentioned this morning earlier, due
 9 to FA's choice in its loss development factors
 10 that it chose, its nearly--its loss trend rate
 11 is nearly one point higher, the 4.4 percent is
 12 nearly one point higher. So these comments
 13 were in regards to excluding the low points
 14 which caused their loss development factors
 15 and therefore, loss trend rates to be higher.
 16 MS. NEWBURY:
 17 Q. But Ms. Elliott, you're still excluding data.
 18 MS. ELLIOTT:
 19 A. Yes, it's -
 20 MS. NEWBURY:
 21 Q. You were reluctant to exclude data at all.
 22 You're saying it happened before, it could
 23 happen again. What's different about the data
 24 points that you're excluding now? They've
 25 happened before, they can happen again.

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1 MS. ELLIOTT:
 2 A. Right. So in 2002, the data that was being
 3 excluded by FA were the low points, and not
 4 the low and the high.
 5 MS. NEWBURY:
 6 Q. But it's still data, you agree? It's still
 7 valid data?
 8 VICE-CHAIR WHALEN:
 9 Q. Ms. Newbury, could you confirm with me, was
 10 this a taxi filing or was it--in 2002, what
 11 was the -
 12 MS. NEWBURY:
 13 Q. That was private passenger.
 14 VICE-CHAIR WHALEN:
 15 Q. It was -
 16 MS. NEWBURY:
 17 Q. Private passenger. Ms. Elliott, did you just
 18 indicate that when you have switched your
 19 approach from the change--percentage change to
 20 looking at the dollar value, that the trend
 21 rate has actually gotten worse or it's gone--
 22 it goes down even more?
 23 MS. ELLIOTT:
 24 A. What we looked at was that when we calculated
 25 the loss trend rate excluding the two high and

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1 the two low points, in some cases--I think
 2 there were different examples we presented.
 3 So for example, the ten-year ending June, the
 4 -3.6 percent changed to minus 2.9 percent.
 5 MS. NEWBURY:
 6 Q. And what are you referring to there?
 7 MS. ELLIOTT:
 8 A. The exhibit we presented at the direct
 9 testimony.
 10 MS. GLYNN:
 11 Q. I think it was PE3? Yes, PE5, sorry.
 12 MS. ELLIOTT:
 13 A. So I was referring to this exhibit. The -3.6,
 14 the -1.7, that's what we used, the column
 15 under the percentage change approach, though
 16 excluding the high and the low based on the
 17 percentage change from the prior period. If
 18 we had used the actual dollar values and
 19 excluded those points, the loss trend rates on
 20 average would have been lower than if we used
 21 the percentage change approach. That was my
 22 statement.
 23 MS. NEWBURY:
 24 Q. Did you do the--you're showing here for the
 25 five-year ending June 2012 a trend rate of

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1 +1.9 percent and then using the actual values
 2 approach, you've got a trend rate of -7.6
 3 percent. What were the P-values associated
 4 with that five-year period under the actual
 5 values?
 6 MS. ELLIOTT:
 7 A. I don't have that at my fingertips right now.
 8 MS. NEWBURY:
 9 Q. Okay. I'm going to request that you do that,
 10 provide the P-values for that. (REQUEST)
 11 MS. GLYNN:
 12 Q. For all four?
 13 MS. NEWBURY:
 14 Q. Just the five-year ending June--yeah, sure,
 15 all four. I'm going to refer back to the
 16 transcript from the 2002 hearing, December
 17 19th, Page 19, and lines 85 to 86, which is on
 18 the right-hand column--right-hand side. Okay,
 19 and your comment here, and it continues on to
 20 the next page but starting here, "if you
 21 understand why that outlier is what it is, if
 22 you go back and as an actuary working for a
 23 company, certainly you have knowledge of the
 24 data and you can find out, you know, that--and
 25 that's the actuary's job, to find out why this

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1 is so low, what happened here, and you go back
 2 and you investigate and you may find out it's
 3 just the randomness in the data, or you may
 4 find out, you know, the claims adjusters,
 5 they've made this big mistake and it will
 6 never happen again. So it's the actuary's job
 7 to understand the data, and if you can't
 8 provide a rationale for why the numbers are
 9 what they are, to be unbiased you really
 10 shouldn't exclude too many points." So how is
 11 that approach and that reluctance, which seems
 12 to be consistent throughout your testimony, to
 13 exclude data points, unless you have a very
 14 good reason to do that--how does that fit with
 15 what you're doing now, which is excluding, as
 16 a matter of course, data points?
 17 MS. ELLIOTT:
 18 A. In this particular context, our point was that
 19 FA had excluded the low points, not the high
 20 points. There was not any information
 21 provided by FA to explain for their book of
 22 business why they were excluding those points.
 23 This is loss development factors. This is not
 24 trend rates. This is a different calculation.
 25 It's looking at how costs--how the estimate

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1 over time, of estimating what those ultimate
 2 costs would be, what those values are, taking
 3 averages. So how claims cost from 18 months
 4 to 24 months, how they change. So it's
 5 looking at that for each incremental period
 6 fro 6 to 12, 12 to 18. We look at the
 7 averages. FA, in calculating it, excluded the
 8 lows and included the high points. They
 9 didn't have a balanced approach. That's what
 10 we were taking issue with, and our point was
 11 that it's important to go back and understand
 12 the data, to ask questions, and that applied
 13 to all the--you know, the elements that are
 14 presented. You have to look at the results,
 15 the output, and try as best you can to
 16 understand the results and see if they make
 17 intuitive sense. I think that is the
 18 actuary's job, not to just run a model, look
 19 at the P-test and T-test and R-squared and say,
 20 oh, you know, they're good, I'm done. I think
 21 it's more than that. It's understanding the
 22 data, and that's important. And I believe if
 23 I was trying to make that point at that time,
 24 I'd be making the same point today.
 25 MS. NEWBURY:

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1 Q. Yeah, but Ms. Elliott, it is still data. I
 2 realize that this is a focus on loss
 3 development and here we're focusing on the
 4 trend rates, but--and you're critical,
 5 apparently, of what was happening back then,
 6 your observation that they were excluding the
 7 low points, but through our exercise this
 8 morning, you've identified that effectively,
 9 through your percentage change approach,
 10 you've actually outlined or excluded as
 11 outliers the high points. More often than
 12 not, you're excluding points that are
 13 sometimes over the line, even though you've
 14 identified them as a low point. What analysis
 15 did you do, as an actuary, to go back and
 16 check to see, should I exclude this?
 17 MS. ELLIOTT:
 18 A. I wish that we could go back to this industry
 19 data for commercial vehicles and understand it
 20 better. I wish we could understand the large
 21 swings from period to period that we looked
 22 at, you know, +95, -14, up and down. I wish
 23 we could, but that's not possible. The data
 24 is provided to us. But if I'm working in a
 25 company--that was the point, if I'm working in

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1 a company and--I can walk over and ask the
 2 claims staff is there something going on, did
 3 you change how you reserve things? I think
 4 the onus is upon the actuary to go figure it
 5 out. Go talk to the claims people, go talk to
 6 the underwriters. Try to understand the data.
 7 You may not get the answer, but at least you
 8 tried, and it's no different than presenting a
 9 reform factor of -73 percent. We wouldn't
 10 accept that. We would go and we'd talk to our
 11 colleagues or talk to the claims staff and
 12 say, are you really seeing this, is this real,
 13 is this good--you know, is this a good number
 14 to present? I think that's the actuary's job,
 15 and our approach for loss trend work is to
 16 take an averaging approach, we try to smooth
 17 it out. It's our judgement that that's a
 18 reasonable approach. We exclude the two highs
 19 and the two lows. If we just excluded the
 20 highs, you know, that wouldn't be appropriate
 21 either. We try to take a balanced approach
 22 and exclude the two highs and the two lows.
 23 The discussion back in 2002 was that FA was
 24 not balanced, it excluded the low value so
 25 they got a high loss development factor that

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1 led to high loss trend rates that led to a
 2 higher indication. That was the driver or the
 3 key issue in that filing.
 4 MS. NEWBURY:
 5 Q. And I think that the comment would equally
 6 apply in this hearing--that, you know, our
 7 perception is that it's clear from the
 8 evidence you've tended to exclude the higher
 9 points, and how is that a balanced approach?
 10 MS. ELLIOTT:
 11 A. Well, I acknowledge that if we had excluded,
 12 on a dollar basis, the highs and the lows, the
 13 loss trend rate that we would have selected,
 14 all else being equal, would have been a larger
 15 negative than the -1.5 percent that we
 16 presented for BI.
 17 MS. NEWBURY:
 18 Q. And we'll be interested in finding your
 19 information about the statistics on that,
 20 because I think that we'll find, and I'll put
 21 it to you, that your mechanical approach--when
 22 you've moved from the percentage change to the
 23 dollar value, your mechanical approach of
 24 excluding outliers, you know, regardless of
 25 how they might look from a statistical point

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1 of view, will result in poor statistics with
 2 your trend models, and I will request -
 3 MS. ELLIOTT:
 4 A. Well, I can comment on that. Any of the
 5 statistics that are presented by anybody, FA
 6 or Oliver Wyman, are not strong statistics.
 7 We're dealing with very few claims. So the
 8 statistics presented by FA for its models are
 9 not strong, and I can assure you if I
 10 presented statistics for any of the runs that
 11 we do, they're not going to be strong either.
 12 We only have a few claims every year. There
 13 is no way you're going to get strong
 14 statistics.
 15 MS. NEWBURY:
 16 Q. Ms. Elliott, I'm going to request that you
 17 provide your lost costs 15-year regressions
 18 for the two periods. Actually, this is I
 19 think what we requested yesterday, 1998H1 to
 20 2004H2, 2004H2 to 2012H2, and for property
 21 damage and accident benefits as well, and
 22 include fitted values, residuals, projected
 23 values to 2015H2, and to include your fit
 24 statistics including your R-squared, the
 25 adjusted R-squared and P-value, and your T-

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1 statistic, and charts showing the actual and
 2 fitted values from 1998H1 to 2015H2. And it's
 3 requested that when you provide the charts,
 4 because we've asked for other charts as well,
 5 if you could try to keep the periods of time
 6 consistent, so include the same amount of data
 7 so that you have the same year showing on
 8 your--on the line showing the years, just so
 9 that the scale of them will be consistent from
 10 one period of time to the next. Is that--want
 11 to make sure that you understand what I'm
 12 saying. (REQUEST) Sometimes the charts might
 13 look different because you've got a different
 14 period of time, but we want to be able to
 15 compare the five-year with the ten-year with
 16 the 15-year so that the years line up.
 17 MS. ELLIOTT:
 18 A. We'll try our best, yeah.
 19 MS. NEWBURY:
 20 Q. Thank you.
 21 MS. GLYNN:
 22 Q. Can I ask the reason for this request? I
 23 mean, I think that's quite a body of work for
 24 Ms. Elliott to undertake in this hearing.
 25 MS. NEWBURY:

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1 Q. Yeah. I mean, Ms. Elliott has referred to, a
 2 number of times, that she's done a lot more
 3 analysis and--aside from what's been presented
 4 here. We've been of the impression that, you
 5 know, what's been produced is what's done, and
 6 she's referring to all of these wonderful
 7 models that she does and she has indicated
 8 that she can do them quite quickly, so I think
 9 it's fair that she provide this. The other
 10 point is that she is now presenting a
 11 different approach using the dollar value, and
 12 she referred to trend rates from those lines,
 13 and I think it's fair that she provide it.
 14 MS. GLYNN:
 15 Q. Which are not used in her findings or her
 16 recommendations.
 17 MS. NEWBURY:
 18 Q. Well, she certainly referred to it in her
 19 evidence. I mean, if she's going to abandon -
 20 MS. GLYNN:
 21 Q. But that's not the basis for her
 22 recommendations.
 23 MS. NEWBURY:
 24 Q. Well, it's certainly there as part of her
 25 evidence. I think it's fair that we ask and

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1 test that information.
 2 MS. GLYNN:
 3 Q. Ms. Elliott, how long would it take you to do
 4 that work?
 5 MS. ELLIOTT:
 6 A. Making sure that the graphs are as stated will
 7 take some time, and I have to look at the
 8 other things--it will take some time. I don't
 9 know how long, at this point.
 10 MS. GLYNN:
 11 Q. I think we can provide that undertaking with
 12 the understanding that it's going to take
 13 probably in excess of two weeks for us to do
 14 that. We spoke about a week for some of the
 15 undertakings that we had already given this
 16 morning. I don't know if that affects our
 17 timing for -
 18 MS. NEWBURY:
 19 Q. Okay. If the charts are a problem, you know,
 20 we can--yeah, we'll keep the stats but skip
 21 the charts.
 22 STAMP, Q.C.:
 23 Q. Three regressions.
 24 MS. GLYNN:
 25 Q. Do you understand the request that's being

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1 made?
 2 MS. ELLIOTT:
 3 A. I heard three regressions, but that's not
 4 enough for me from -
 5 MS. GLYNN:
 6 Q. Okay.
 7 VICE-CHAIR WHALEN:
 8 Q. Ms. Glynn, could I made a suggestion, and Ms.
 9 Newbury, could you put your undertaking in
 10 writing? That would just make it a lot easier
 11 and we won't have this.
 12 MS. NEWBURY:
 13 Q. Sure, that's fine. Yeah. Thank you. Those
 14 are all the questions I have for you, Ms.
 15 Elliott.
 16 CHAIRMAN:
 17 Q. So it's over to you, sir.
 18 MS. PAULA ELLIOTT, CROSS-EXAMINATION BY MR. THOMAS
 19 JOHNSON
 20 MR. JOHNSON:
 21 Q. Thank you, Mr. Chairman. Ms. Elliott, I'll be
 22 relatively brief, probably take about 20
 23 minutes. Ms. Elliott, have you ever heard
 24 from Facility Association in response to any
 25 of the prepared--the drafts such as we've seen

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1 at CAOW1, which provides your analysis, which
 2 undergirds the Board's directives as regards
 3 loss selection or the trend rates or the loss
 4 development factors?
 5 MS. ELLIOTT:
 6 A. It's my understanding that FA has not provided
 7 any comments that were sent to the Board or,
 8 you know, subject to check, that would be my
 9 understanding.
 10 MR. JOHNSON:
 11 Q. Okay, and there's--you know, we just finished
 12 somewhat of a discussion about, you know, what
 13 I might politely all discovery-on-the-fly
 14 here, but were you asked any RFIs at all in
 15 this proceeding about any of the background
 16 work that you did in relation to your report?
 17 MS. ELLIOTT:
 18 A. None.
 19 MR. JOHNSON:
 20 Q. Ms. Elliott, as you're aware, each time this
 21 Board issues its approved loss trends and
 22 development factors, the Board advises all
 23 insurers, including FA, that insurers may use
 24 these factors without requirement for
 25 supporting data or rationale, and it also

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1 advises insurers that those insurers who wish
 2 to use factors other than those accepted by
 3 the Board will be required to provide
 4 satisfactory data supporting the chosen
 5 factors and rationale why these selected
 6 factors are more appropriate for us. You're
 7 familiar with the Board's guideline in that
 8 regard?
 9 MS. ELLIOTT:
 10 A. Yes.
 11 MR. JOHNSON:
 12 Q. And Ms. Elliott, in this case, it's clear to
 13 anybody that's witnessed this proceeding, read
 14 the reports, that you do not believe, I take
 15 it, that FA has put forward adequate
 16 justification for their chosen factors and
 17 trends. So I'll ask you the question: in your
 18 view, what type of information or data would
 19 you expect to see in order to justify a
 20 departure from the Board's approved loss
 21 trends and development factors?
 22 MS. ELLIOTT:
 23 A. It's my opinion that FA's selected loss trend
 24 rate of +4.4 percent is premised on using the
 25 period 2004-2 to 2012-2. There's an exclusion

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1 of a very high point in there, which I believe
 2 is 2012--2011-2, a high point, but they derive
 3 this 4.4 percent starting with 2004-2, and
 4 it's my view that because they use that time
 5 period, and because the first two accident
 6 half years in that time period are quite low,
 7 it drives up--so they start at a low point and
 8 end up here, and they end up with this +4.4
 9 percent. We spoke about the--I spoke about
 10 the loss development factors that FA selected
 11 based on a combination of--that were GISA's
 12 factors--that appear to be GISA's factors,
 13 that are losses and allocated loss adjustment
 14 expenses as opposed to just losses, as they
 15 had inferred in their report. That drives up
 16 that 4.4 percent by almost a percentage point.
 17 So there's that issue. Then the other issue
 18 is that assuming that the reforms caused a
 19 great reduction in costs of 37 percent, then
 20 FA is now starting with data at the low point,
 21 2004-2, out to, you know, 2012-2, and because
 22 of that, they're getting a higher trend rate.
 23 If FA had used one less year of data and
 24 started with 2005-2, they would get a couple
 25 of point percentage drop in their trend rate.

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1 And if they bought into the common acceptance
 2 that the reforms did not affect cost to a
 3 material or measurable degree, if they had
 4 used a ten-year period, if they had used the
 5 modified loss adjustment expenses--sorry, loss
 6 development factors that I refer to, they
 7 would have a much lower loss trend rate.
 8 That's probably a long-winded answer for you,
 9 but that's my comment on their selection.
 10 MR. JOHNSON:
 11 Q. So just to get back, I'm sort of asking a
 12 question, almost a question out of principle.
 13 You know that the Board receives a report from
 14 you, the report goes out for comment to those
 15 insurers who want to comment upon it,
 16 indicating that you can use these or if you
 17 wish to depart from them, you can do that but
 18 you've got to put forward justification. So
 19 from a general point of view, what sort of
 20 justification would you expect to see in order
 21 to justify departure from what the Board has
 22 said is reasonable.
 23 MS. ELLIOTT:
 24 A. Well, I mean, in this particular case, I think
 25 that FA should justify a value for the reform

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1 factor that--I mean, it's our opinion, we find
 2 it intuitively unreasonable for the reform
 3 factors that are presented, and we're not
 4 seeing reform factors of that level from other
 5 rate filings that are provided. FA, in its
 6 prior filing, said that the reforms had no
 7 impact on cost, and because they're doing
 8 that, which seems completely out of keeping
 9 with other rate filings and what they
 10 themselves have presented in the past, I think
 11 they need stronger justification that costs
 12 have really reduced by 37 percent. And I
 13 don't mean a P-test or a T-test because I
 14 still don't--you can have the best R-square,
 15 P-test, T-test that you want. I don't believe
 16 that AB costs reduced by 73 percent because of
 17 some reforms or some other event in the second
 18 half of 2004. I think we get a lot stronger
 19 evidence of that, and as a result of that kind
 20 of basic assumption that FA is sticking to,
 21 they are now starting a loss trend model with
 22 2004-2 data, which happens to be low just due
 23 to the random nature of data, a low point, and
 24 they end up with a higher loss trend rate. So
 25 what more information? They need to be able

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1 to really support that those reform factors
 2 dropped the cost to that degree, and yeah
 3 that's--and more than a P-test.
 4 MR. JOHNSON:
 5 Q. You referred several times yesterday and more
 6 times today, that in your trend analysis
 7 you're attempting to strike a balance between
 8 responsiveness to the data and stability for
 9 each review you prepare, and I'd like to ask
 10 you--this is a rate-making process that we're
 11 embarked upon here, how--explain the
 12 significance or the importance, if you think
 13 it is significant or important, of
 14 responsiveness to the data and stability from
 15 each review in relation to the rate-setting
 16 process?
 17 MS. ELLIOTT:
 18 A. Well, the selected loss trend rate is a large
 19 driver of the rate indications, and what we
 20 are doing in preparing a report each six
 21 months when the new data becomes available, is
 22 to try and present what we think is--repeating
 23 the words, but a reasonable value for the loss
 24 trend rate. You know, the data is very thin;
 25 it's limited. So, you know, we believe that

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1 our approach of averaging and drawing in our
 2 prior selection strikes that balance of being
 3 responsive and stable from review to review.
 4 It's no different than when we review a rate
 5 filing and somebody completely changes their
 6 selection approach, for whatever element,
 7 whether it's loss development factors, trend,
 8 credibility, any of the elements in a rate
 9 filing, we want to see some rationale for
 10 that. And if we were to just change our
 11 approach in each report that we prepared, for
 12 this body of data because it's so volatile, we
 13 would get pretty different answers each time.
 14 So, we're trying to present something that's
 15 useable to the insurers. An the insurers have
 16 the choice to use--you know, they want to use
 17 a loss trend rate, they have to use the most
 18 recent version of the loss trend rates that
 19 are available. And if we produced a report
 20 that we thought, gee, we got the best fit and
 21 in the answer was -5 and six month later we
 22 got another report and it was +5 because that
 23 was the best fit. And then an insurer will
 24 say, well, gee, I just filed my rates and I
 25 used -5 and now two weeks later you say it's

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1 +5, you know, I'm not so happy with that. So,
 2 you know, one of the things was that we want a
 3 stable approach to what we're presenting
 4 because these are loss trend rates that are
 5 available for the insurers to use, if they so
 6 chose to. So that's part of the rationale of
 7 having a stable approach to our selection.
 8 MR. JOHNSON:
 9 Q. There was a lengthy discussion this morning of
 10 the two approaches having to do with removing
 11 data points, that being by percentage change
 12 versus dollar values. You indicated that in
 13 hindsight you preferred to use dollar values
 14 and that would, I take it, have the effect of
 15 lowering the loss cost trend.
 16 MS. ELLIOTT:
 17 A. In this particular circumstance.
 18 MR. JOHNSON:
 19 Q. In this particular circumstance. If you were
 20 to use that dollar value approach, what would
 21 it produce in terms of a rate indication in
 22 this particular application?
 23 MS. ELLIOTT:
 24 A. I don't know the answer to that. I would have
 25 to do some calculations, but would lower it

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1 from the +20 percent that we have.
 2 MR. JOHNSON:
 3 Q. Okay. Could you provide that? (REQUEST)
 4 MS. ELLIOTT:
 5 A. Yes.
 6 MR. JOHNSON:
 7 Q. Ms. Elliott, in relation to the expense
 8 provision, in your report you observed that
 9 Facility Association assumes a total variable
 10 expense provision of 20 percent of premium.
 11 And your report also observed that although
 12 you found--and this is, I'm not sure of the
 13 page reference, you may not need to go there,
 14 I was going to provide you with what I took
 15 from it. Your report also observed that
 16 although you found the expense provision is
 17 the accurately included in the calculation of
 18 the rate level change, you did note that there
 19 was to be an actual average allowance per taxi
 20 of \$463.00 to process and underwrite and
 21 \$278.00 for commissions and you indicate that
 22 Board may wish to confirm the reasonableness
 23 of these amounts. And what caused you to
 24 raise this point or concern for the Board's
 25 attention?

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1 MS. ELLIOTT:
 2 A. Because they're variable, as the premium
 3 increases, the provision for underwriting or
 4 commission would increase as well. And the
 5 underlying point that I think could be
 6 addressed is is that actual cost to underwrite
 7 and process the policy any different now if FA
 8 was to have a rate increase that is proposed,
 9 of any sort, whether it's +15 percent or +20
 10 percent. So, that is the issue. Just because
 11 the premium goes up, do the actual cost for
 12 handling and processing and issuing the paper,
 13 does that change?
 14 MR. JOHNSON:
 15 Q. Were you able, based upon the record in this
 16 proceeding with the request for information
 17 back and forth on the point from the Board to
 18 Facility, satisfy yourself on the point as to
 19 whether the reasonableness of these amounts
 20 can be confirmed?
 21 MS. ELLIOTT:
 22 A. No, I mean, we don't--as part of FA's filing
 23 they don't provide what their actual costs
 24 are. They include the provision that is
 25 stated in the FA Agreement. I'm not sure the

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1 terminology of the document, but it's a
 2 contractual agreement between FA and the
 3 servicing carriers for what they're allowed
 4 for these services that they provide. And
 5 that is the inclusion that FA does when it
 6 calculates its rate indication. So, you know,
 7 my opinion, they are doing the calculations
 8 according to the rules, but we're not provided
 9 with what are the actual costs. We only know
 10 how much they load into the rates. So, they
 11 might load a certain number into the rates,
 12 but I don't know what it actually costs them
 13 to do it.
 14 MR. JOHNSON:
 15 Q. In relation to the owner/driver discount, I
 16 don't know if the recent Facility undertakings
 17 are on the computer system, are they?
 18 MS. GLYNN:
 19 Q. Yes, I think we have them, yes.
 20 MR. JOHNSON:
 21 Q. Okay. Would you mind bringing up FA's answer
 22 to undertaking 1107C? This basically was a
 23 request from me to Facility to provide how
 24 long the two existing underwriting rules,
 25 being namely the discount for owner/operator

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1 and secondly the rating for dual usage
 2 vehicles have been in place. And my focus now
 3 is on the first paragraph. In their response
 4 they indicate that the owner/operator discount
 5 has been in Newfoundland for at least 15
 6 years. And they say "the FA's Rates and Rules
 7 Committee completed a review of the current FA
 8 rating manual and it was agreed that FA, due
 9 to its position of market of last resort,
 10 should remove all discounts". Ms. Elliott, do
 11 you accept that this provides a sound
 12 justification for the Facility Association to
 13 ignore the risk differential between owners
 14 and non-owners?
 15 MS. ELLIOTT:
 16 A. No, it's not support to say that the discount
 17 has no merit. What we've been focusing on in
 18 this review is the total rate level need for
 19 FA. A separate matter is, you know, how much
 20 should you pay whether you're in this
 21 territory or that territory or you're an
 22 owner/operator or you're not. So, as I
 23 understand it, there hasn't been information
 24 support provided that would say that discount
 25 has not merit and should be excluded or

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1 removed.
 2 MR. JOHNSON:
 3 Q. So, I guess--and I understand that this is not
 4 a size of the pie issue, it's how you slice up
 5 the pie.
 6 MS. ELLIOTT:
 7 A. Right.
 8 MR. JOHNSON:
 9 Q. But do you have a view point as to whether
 10 it's valid to say, look, we are a market of
 11 last resort, we are going to look to remove
 12 all discounts even if some of the discounts
 13 are reflective of a change of risk between
 14 insured to insured.
 15 MS. ELLIOTT:
 16 A. Um-hm.
 17 MR. JOHNSON:
 18 Q. Would that be a valid -
 19 MS. ELLIOTT:
 20 A. Well, no, I mean, a rate program has different
 21 rating factors and that's the idea, we know
 22 what the total pot is that we need. We need
 23 this much money and then we divide it up,
 24 depending upon maybe your driving record or
 25 where you live and what type of car you drive.

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1 In this particular case for taxis, they have--
 2 one of their divisions is whether you're an
 3 owner/operator or not. So, if FA's choice to
 4 remove it here, they're proposal to remove it
 5 would cost, all those being equal, they just
 6 remove that discount, would cause them to
 7 collect more premium, but it's not a
 8 justification that I can read here that says
 9 that that is the technically right thing to
 10 do. That that discount is not supported. I
 11 don't know if that this discount ever
 12 supported, but it certainly--they haven't
 13 provided information to say it is supported to
 14 remove it.
 15 MR. JOHNSON:
 16 Q. From a risk perspective.
 17 MS. ELLIOTT:
 18 A. From a risk perspective, yes.
 19 MS. GLYNN:
 20 Q. Mr. Johnson, just before we move on, I just
 21 want to clarify for the Board records and for
 22 the transcripts that was Undertaking 9. It's
 23 just a little bit different in the Board's
 24 records.
 25 MR. JOHNSON:

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1 Q. Okay.
 2 STAMP:
 3 Q. Sorry, I didn't follow that.
 4 MS. GLYNN:
 5 Q. It was Undertaking 9. When Mr. Doherty filed
 6 the undertakings, he had it listed at 11C and
 7 just a difference in the record keeping,
 8 that's all. And if we look for that when we
 9 go back to the transcript we probably wouldn't
 10 find it.
 11 MR. JOHNSON:
 12 Q. Finally on the territorial differentiation,
 13 and we recognize that that is, there's no
 14 change proposed in this application whereby
 15 the territories would be differentiated at
 16 all. But I was wondering if you have any
 17 views in connection with that topic, there was
 18 an RFI or two from the Board on the question
 19 and I'm just interested in your views on it.
 20 MS. ELLIOTT:
 21 A. Right. Well, that was interesting to see
 22 because there was a very clear difference
 23 between the, I believe it was the loss ratios
 24 that were provided between the territories.
 25 There was a grouping of the territories. So,

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1 I think that's an interesting avenue to
 2 pursue. If I lived in--if I was a taxi
 3 operator in the territories that were
 4 materially different, those loss ratios than
 5 the higher rated territory, I'd be interested
 6 in having a lower rate that could be
 7 supported, if possible, but on the other side
 8 of the coin, the people in the other territory
 9 that has the higher experience, they are going
 10 to have to pay more. So, once the amount is
 11 set, that is a fair rate in total for FA, if
 12 it's determined that you should have a split
 13 by territory, some people are going to have to
 14 pay more and some people less. So I think of
 15 the statistic support that there should be a
 16 difference. I think that's a good change, but
 17 at the same time there's winners and losers in
 18 that process.
 19 MR. JOHNSON:
 20 Q. I guess we're not dealing with a lot of
 21 commercial data and then we're dealing with
 22 not many taxi -
 23 MS. ELLIOTT:
 24 A. Even less.
 25 MR. JOHNSON:

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1 Q. - even less, I mean, how much comfort, how
 2 much experience would you look to or what sort
 3 of standards would you employ in terms of the
 4 amount of data that you'd need before you -
 5 MS. ELLIOTT:
 6 A. There's not much data, so if we sort of say,
 7 oh gee, I'd like to see a credible sample,
 8 that's not going to happen here. But what I
 9 would look at in this particular circumstance
 10 is regarding though the severity is volatile,
 11 you know, you have really large claims and
 12 that makes the severity very high one year and
 13 then not the next year, but in this
 14 circumstance I would look at the claim
 15 frequency rate. What's the frequency rate of
 16 claims in those territories that appear to
 17 have the lower loss ratios compared to the
 18 frequency rate in the other territories with
 19 the higher loss ratios. And if I could see
 20 some consistency in the differences, that
 21 would give me more comfort that there's, you
 22 know, maybe there is something to that data
 23 that it's meritith (phonetic) to pursue that
 24 idea of having different rates by territory.
 25 MR. JOHNSON:

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1 Q. Okay. Those are my questions, thank you.
 2 MS. GLYNN:
 3 Q. We had actually agreed that Ms. Newbury, if
 4 there was anything coming out of Mr. Johnson's
 5 questions.
 6 STAMP, Q.C.:
 7 Q. We have nothing arising.
 8 MS. GLYNN:
 9 Q. Thank you. I'll be short and sweet. I just
 10 have a couple of points of clarification.
 11 MS. PAULA ELLIOTT, CROSS-EXAMINATION BY MS. JACQUI GLYNN
 12 MS. GLYNN:
 13 Q. Ms. Elliott, have you changed anything in your
 14 analysis, mid hearing, of FA's filing?
 15 MS. ELLIOTT:
 16 A. No, we have no. We did comment that due to an
 17 error made by FA in the transfer of its data
 18 from the prior filing into this current
 19 filing, that error was found by the Consumer
 20 Advocates consulting actuary. And as a
 21 result, our findings are a little bit lower, 1
 22 point lower.
 23 MS. GLYNN:
 24 Q. So, that's the only change that you made to
 25 your report filed May 16?

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1 MS. ELLIOTT:
 2 A. Yes.
 3 MS. GLYNN:
 4 Q. Ms. Elliott, what loss trend report was in
 5 place and approved by the Board when FA filed
 6 this application in March of 2014?
 7 MS. ELLIOTT:
 8 A. The loss trend rate using data through to
 9 December 2012.
 10 MS. GLYNN:
 11 Q. And that would be the report that's file in CA
 12 OW 1?
 13 MS. ELLIOTT:
 14 A. Correct.
 15 MS. GLYNN:
 16 Q. Has that loss trend report been changed?
 17 MS. ELLIOTT:
 18 A. No, it has not.
 19 MS. GLYNN:
 20 Q. So, the change that we've been talking about
 21 from the actual values to the percentage
 22 values, when did you return to that use of the
 23 actual values?
 24 MS. ELLIOTT:
 25 A. Well, we returned to that approach starting

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1 with the June 2013 report.
 2 MS. GLYNN:
 3 Q. So, what impact has that change to return to
 4 the actual values have on the analysis and on
 5 this hearing?
 6 MS. ELLIOTT:
 7 A. It doesn't have any impact on what we're
 8 saying our findings are, our reported findings
 9 in this hearing, no.
 10 MS. GLYNN:
 11 Q. So, you stand by the analysis that you did for
 12 your report of May 16 and for the analysis
 13 that you did for the last trend report filed
 14 with CA OW 1.
 15 MS. ELLIOTT:
 16 A. Yes.
 17 MS. GLYNN:
 18 Q. Okay. Ms. Elliott, you were asked to provide
 19 a visual aid circling the excluded data points
 20 on SD 1 to SD 4.
 21 MS. ELLIOTT:
 22 A. Yes.
 23 MS. GLYNN:
 24 Q. Were those the experience periods, the trend
 25 rate periods that you had used?

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1 MS. ELLIOTT:
 2 A. No. It didn't display what--the time periods
 3 that we had used, that was different.
 4 MS. GLYNN:
 5 Q. Okay. So, Ms. Elliott, we have prepared PE
 6 Exhibit 7. I'd like to bring that up please?
 7 And Ms. Elliott, could you explain this
 8 exhibit to us, please?
 9 MS. ELLIOTT:
 10 A. Sure. If you could make it smaller, please?
 11 MR. MCNIVEN:
 12 Q. Do you want them all on the one page?
 13 MS. ELLIOTT:
 14 A. Yes. So, this is our ten year model on the
 15 left hand side are the model data points that
 16 we would exclude if we were using the dollar
 17 value approach, the orange dots. And on the
 18 right hand side are, in fact, data points that
 19 we excluded on a percentage basis. So, -
 20 STAMP, Q.C.:
 21 Q. Just for the record, can we make sure we're
 22 speaking about the right graph, are we in the
 23 top left corner of Undertaking 20?
 24 MS. GLYNN:
 25 Q. Ms. Elliott is explaining what each graph

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1 represents, yes, so we are on the first page
 2 of the ten year models. PE Exhibit 7, it was
 3 circulated this morning.
 4 MS. NEWBURY:
 5 Q. It's not part of Undertaking 20, it's a
 6 separate -
 7 MS. GLYNN:
 8 Q. No, no.
 9 MS. NEWBURY:
 10 Q. So, PE number 7?
 11 MS. GLYNN:
 12 Q. Yes.
 13 MS. NEWBURY:
 14 Q. Thank you.
 15 MS. ELLIOTT:
 16 A. So, we tried to present the graph here using
 17 ten years of data and on the top two graphs
 18 are using the data through to June 2012. The
 19 bottom two graphs are using the data through
 20 to December 2012. On the right hand side are
 21 the points marked by a dot that represent the
 22 points that were excluded on a percentage
 23 basis. And on the left hand side what the
 24 dots would be if we had done the exclusion on
 25 a dollar value basis. So, we thought that

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1 would be helpful to see that there are some
 2 differences in the points that would have been
 3 excluded. And that's a ten year model and
 4 then we can look at the five year model which
 5 is the next page.
 6 MS. GLYNN:
 7 Q. So, that graphs on the right hand side of each
 8 page show the data points that you excluded
 9 for the time periods that you used.
 10 MS. ELLIOTT:
 11 A. That's correct.
 12 MS. GLYNN:
 13 Q. Okay. And the graphs on the left hand side
 14 show what you would have excluded had we used
 15 actual values, but the impact of those graphs
 16 on this hearing?
 17 MS. ELLIOTT:
 18 A. There's no impact on this hearing, it's just
 19 information that we shared.
 20 MS. GLYNN:
 21 Q. Those are my questions.
 22 CHAIRMAN:
 23 Q. Do you have any?
 24 VICE-CHAIR:
 25 Q. No questions.

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1 CHAIRMAN:
 2 Q. I just got--so what you're basically telling
 3 us is that the small accident population that
 4 you're dealing with makes actuarial
 5 calculation very difficult?
 6 MS. ELLIOTT:
 7 A. Yes, challenging.
 8 CHAIRMAN:
 9 Q. And if you had a larger population, your
 10 results would be--you could determine your
 11 results much more accurately.
 12 MS. ELLIOTT:
 13 A. You'd have more confidence in your results,
 14 yes.
 15 CHAIRMAN:
 16 Q. Okay. I think that's -
 17 MS. GLYNN:
 18 Q. Mr. Wells, I think Ms. Newbury did actually
 19 have a point of clarification.
 20 MS. NEWBURY:
 21 Q. Yes, just on those PE Number 7, the graphs,
 22 the ten years models, is that including 21
 23 data points for 10 1/2 years? It's hard for
 24 me to read the actual values there on that
 25 graph.

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1 MS. ELLIOTT:
 2 A. I think we started, we put in the first point
 3 was twenty--sorry, I can't see the scale--
 4 there we go. You know, I'm sorry, I can't
 5 read that.
 6 MS. NEWBURY:
 7 Q. Okay, I'm having the same difficulty. It's
 8 been pointed out that the are 21 dashes there,
 9 would there be a dash for every point? Is
 10 that a way to sort that out?
 11 MS. ELLIOTT:
 12 A. Probably because we're using the June period,
 13 like when we do, ending June it shifts up one,
 14 so we showed it all.
 15 MS. NEWBURY:
 16 Q. So, it would be ten and a half years, where
 17 you've done a ten year and then you shifted it
 18 back half a year.
 19 MS. ELLIOTT:
 20 A. Yes.
 21 MS. NEWBURY:
 22 Q. Okay, and the same for the five year models on
 23 the next page. That would 11 data points, 5
 24 1/2 years?
 25 MS. ELLIOTT:

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1 A. Right.
 2 MS. NEWBURY:
 3 Q. Thank you, those are all my questions.
 4 CHAIRMAN:
 5 Q. I think we're finished, thank you very much.
 6 MS. GLYNN:
 7 Q. Just one more point, Mr. Wells, sorry, just to
 8 put on the record that we have agreed that the
 9 hearing will conclude by way of written
 10 submissions.
 11 CHAIRMAN:
 12 Q. Yes.
 13 MS. GLYNN:
 14 Q. So, we will not be coming back to this
 15 esteemed place. Submissions will be made by
 16 Tuesday, December 16 and there will be an
 17 opportunity to reply to anything raised in
 18 those submissions and that must be filed by
 19 Friday, December 19. You're free to go.
 20 CHAIRMAN:
 21 Q. Thank you.
 22 Upon conclusion at 1:22 p.m.

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1 CERTIFICATE
 2 I, Judy Moss, hereby certify that the foregoing is
 3 a true and correct transcript in the matter of a Facility
 4 Association Application re: Taxi and Limousine Automobile
 5 Insurance Rates heard on the 18th day of November, 2014
 6 before the Board of Commissioners of Public Utilities,
 7 120 Torbay Road, St. John's, Newfoundland and Labrador
 8 and was transcribed by me to the best of my ability by
 9 means of a sound apparatus.
 10 Dated at St. John's, Newfoundland and Labrador
 11 this 18th day of November, A.D., 2014
 12 Judy Moss
 13 Discoveries Unlimited Inc.

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