

1 **Public Utilities Board General Comment on Servicing Carrier compensation in August 29, 2014**

2 **Request for Information:** *In its report on the filing the Board's Actuarial Consultants Oliver Wyman*
3 *notes the impact on premiums of the Servicing Carrier operating cost provision of 9% of written*
4 *premium and Servicing Carrier fees of 1% of written premiums (for a combined total of 10% of written*
5 *premium) to process and write Taxi policies as provided in the Plan of Operation.*

6 **FA Response:**

7 Oliver Wyman is correct in that the Servicing Carrier cost provision and fees (collectively
8 “compensation”) are both specified in the Facility Association Plan of Operation. The Plan of Operation
9 is authorized by the Superintendent of Insurance for Newfoundland and Labrador and is mandated by
10 statute. It is our understanding that Facility Association compensating the Servicing Carriers in a
11 manner other than that mandated by the Plan of Operation would be non-compliant with the law. As
12 such, the compensation Facility Association is required to pay Servicing Carriers represents Facility
13 Association’s expense structure as reflected in the current application.

14 As Oliver Wyman notes, Servicing Carriers are compensated on a formula basis, that is, they are not
15 compensated on the basis of reimbursement for actual costs incurred. Rather, Servicing Carrier
16 compensation levels have historically been set on a reasonably consistent basis across jurisdictions and
17 specifically are not set at a rating class basis. It is our understanding that the level is established so as to
18 provide for the overall costs incurred by Servicing Carriers and measured or considered over the longer
19 term. It is also our understanding that the mandated compensation reflects not just Servicing Carrier
20 performance that can be directly related to specific activities (for example underwriting, rating, policy
21 management, fleet management, broker management), but also captures costs associated with
22 technology, accounting and reporting, audit, and general management/oversight expenses.

23 **Public Utilities Board PUB-FA-1:** *Please provide, on a per written vehicle basis, the actual expense*
24 *incurred by each Servicing Carrier in the processing and writing of Taxis through the Facility*
25 *Association Residual Market in Newfoundland and Labrador.*

26 **FA Response to PUB-FA-1:**

27 Facility Association does not have access to details related to actual expenses incurred by Servicing
28 Carriers. Servicing Carriers do provide services in support of all jurisdictions and rating classes for the
29 Facility Association, and any attempt by Servicing Carriers to estimate “actual” expenses for any single
30 rating class in any specific jurisdiction would likely require a number of allocation assumptions that
31 would make a precise estimate extremely difficult to obtain.