

March 20, 2018

Ms. Cheryl Blundon
 Board Secretary
 Board of Commissioners of Public Utilities
 P.O. Box 21040
 St. John's, Newfoundland
 A1A 5B2

Subject: Summary of Taxi Experience in Newfoundland and Labrador

Dear Ms. Blundon:

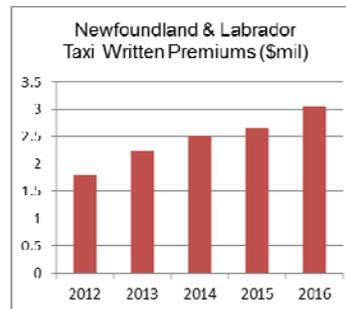
The Board has asked Oliver, Wyman Limited (Oliver Wyman) to provide a summary of the Insurance Industry tax premium and loss experience in Newfoundland and Labrador. The experience we present in this report is based on the latest Industry tax experience that is available - the information collected and provided by GISA (General Insurance Statistical Agency) as of December 31, 2016 as presented in the AUTO 1101 Exhibit.

1. Premium

The following table and accompanying graph present the Industry-wide total tax written premium for each of the last five years, the percentage change from year to year, and the cumulative percentage increase.

Industry-wide Taxi Premiums - All Coverages

Accident Year	Written Premiums	% Change	Cumulative % Change
2012	1,787,712		
2013	2,256,573	26.2%	26.2%
2014	2,522,348	11.8%	41.1%
2015	2,649,090	5.0%	48.2%
2016	3,039,033	14.7%	70.0%
Total	12,254,756		



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Page 2
March 20, 2018
Board of Commissioners of Public Utilities

As the table shows, the Industry-wide taxi written premium for all coverages in 2012 was \$1.8 million, and increased by 70% to \$3.0 million in 2016. The number of taxis written by the Industry is not available, but our understanding is that this number has not changed significantly over the last five years.

Approximately 95% of the taxis in Newfoundland and Labrador are insured by the Facility Association (FA), the market of last resort for insureds unable to find insurance through the voluntary market. Therefore, the Industry experience is driven by the FA's experience. Hence, as would be expected, the FA total written premiums for taxis also increased by approximately 70% over this same period.

The FA's 70% increase in total written premiums is largely due to rate increases it has taken during this period. The FA received approval for three large rate increases over 2012 to 2016:

- +50.1% effective August 1, 2013;
- +19.3% effective September 1, 2015; and
- +28.9% effective June 1, 2016.

This is a cumulative rate increase (all coverages combined) of approximately 131%.^{1 2}

¹ There are several reasons why FA's cumulative increase over 2012 to 2016 is 70% as opposed to +131%. One reason is timing (the June 2016 increase is not fully reflected in FA's reported premium for 2016). Additionally, due to changes in the risk characteristics of FA's taxi portfolio, as well as actions taken by taxi drivers to lower their premiums (e.g., selecting lower coverage limits, increasing deductibles, dropping optional coverages, etc.), FA did not fully realize the approved rate level changes.

² Since 2016, the FA has received approval for two more rate increases: +25.7% effective March 2017 and +18.6% effective March 2018. These two rate increases in 2017 and 2018, combined with the noted increases listed above, yield a cumulative increase of +244% since 2012.

OLIVER WYMAN

Page 3
March 20, 2018
Board of Commissioners of Public Utilities

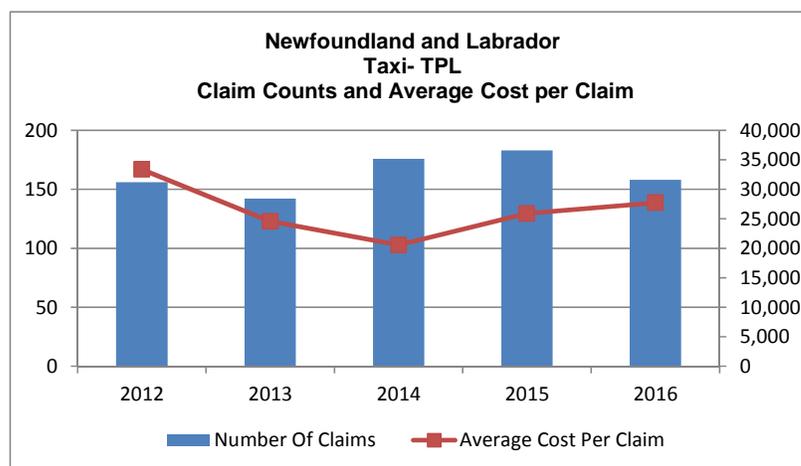
The following table displays 5-year industry written premium (2012-2016) by coverage as a percentage of the total premiums, along with the 5-year cumulative percentage change in premiums for each coverage:

Coverage	% of Total Written Premium 2012-2016	5 Year Cumulative WP % Increase
TPL	89.8%	65.2%
Accident Benefits	3.1%	365.0%
Uninsured Auto & SEF 44	1.0%	745.5%
<i>Subtotal</i>	93.9%	74.0%
All Perils	0.4%	-38.8%
Collision	3.0%	19.5%
Comprehensive	1.6%	51.8%
Specified Perils	1.1%	-4.6%
<i>Subtotal</i>	6.1%	18.3%
TOTAL	100.0%	70.0%

TPL is the predominant coverage, with approximately 90% of the written premium in each of 2012-2016. Thus, TPL's 5-year premium increase of 65.2% drives the overall 5-year increase of 70%.

2. Loss Experience

The following graph illustrates the industry-wide TPL estimated ultimate number of claims and average claim costs including adjusting expenses as reported by GISA for accident years 2012-2016.



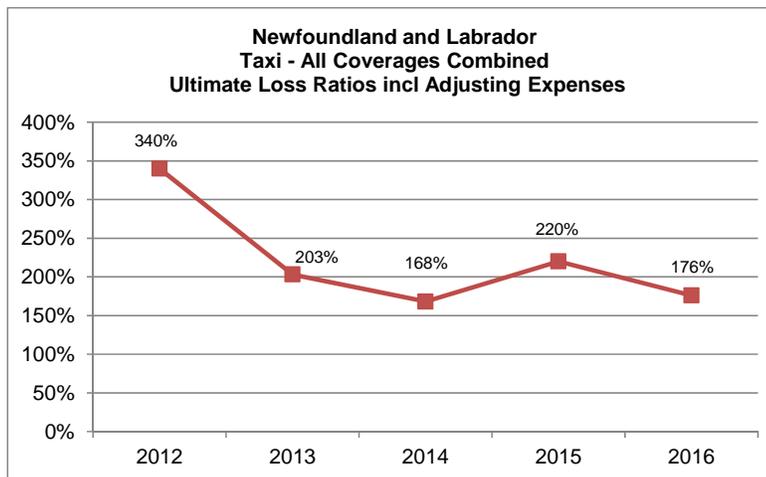
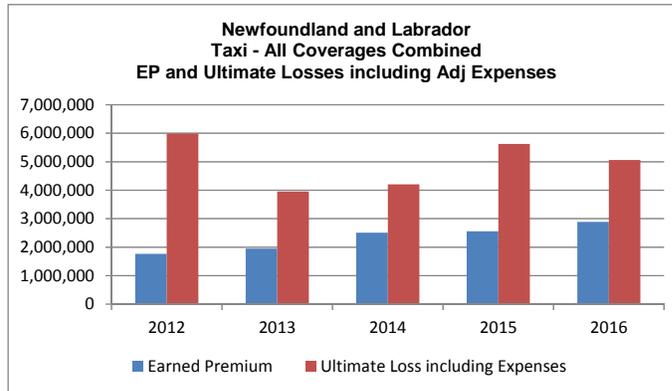
It appears that the changes from year to year are due to random variation; there is no apparent trend in this data.

We do not present graphs for coverages other than TPL; those coverages each have less than 50 claims per year, and thus the results reflect a great deal of random variation.

3. Loss Ratios

The following graphs present the earned premium and ultimate losses (including adjusting expenses) and resulting loss ratios by accident year for 2012 through 2016³ for all coverages combined.

³ The data presented is based on GISA's Exhibit 1101 as of December 31, 2016.



The large rate increases which resulted in 70% premium increases over the period from 2012-2016 coincide with improved (lower) loss ratios since 2012; however, the industry still is running at

OLIVER WYMAN

Page 6
March 20, 2018
Board of Commissioners of Public Utilities

a high loss ratio⁴ in 2016. All else being equal, it is expected that the FA approved rate increases since 2016 will lead to further reduction in the loss ratios.

The following table presents the Industry-wide earned premiums, estimated claim cost and adjusting expenses, and loss ratios for TPL, Accident Benefits, Uninsured Auto, and all coverages combined, by accident year as provided by GISA :

⁴ These high loss ratios indicate that insurers have incurred more in claims costs than they have collected in premiums over accident years 2012 to 2016. For example, the 176% loss ratio in accident year 2016 means that the Industry is expected to pay \$176 in costs for claims and claims adjustment expenses for every \$100 of premiums earned. In addition to the \$176 for claims costs and claims adjustment expenses, insurers had operational costs (e.g., acquisition costs, premium taxes and general overhead expenses) associated with taxis. In addition to the \$100 of premiums earned, insurers earn investment income on premium between the time it is collected and the time it is used to fund losses and expenses; however, this amount is a relatively small percentage of the \$100 of premium.

OLIVER WYMAN

Page 7
 March 20, 2018
 Board of Commissioners of Public Utilities

Taxis Industry-wide			
GISA AUTO 1101 as of December 31, 2016			
Newfoundland and Labrador			
Accident Year	Earned Premium	Ultimate Incurred Losses Including Expenses	Earned Incurred Loss Ratio
	(1)	(2)	(3)=(2)/(1)
Third Party Liability			
2012	\$ 1,604,258	\$ 5,207,261	325%
2013	\$ 1,764,904	\$ 3,484,578	197%
2014	\$ 2,277,427	\$ 3,606,051	158%
2015	\$ 2,317,918	\$ 4,732,183	204%
2016	\$ 2,557,852	\$ 4,386,706	171%
Total	\$ 10,522,359	\$ 21,416,780	204%
Accident Benefits			
2012	\$ 31,318	\$ 639,591	2042%
2013	\$ 37,588	\$ 199,745	531%
2014	\$ 58,439	\$ 174,807	299%
2015	\$ 66,231	\$ 693,497	1047%
2016	\$ 120,369	\$ 235,061	195%
Total	\$ 313,945	\$ 1,942,701	619%
Uninsured Automobile			
2012	\$ 6,545	\$ 59,874	915%
2013	\$ 8,991	\$ 219,073	2437%
2014	\$ 17,693	\$ 356,690	2016%
2015	\$ 19,702	\$ 65,713	334%
2016	\$ 40,627	\$ 306,677	755%
Total	\$ 93,558	\$ 1,008,028	1077%
Total- All Coverages			
2012	\$ 1,761,578	\$ 5,987,580	340%
2013	\$ 1,951,492	\$ 3,955,976	203%
2014	\$ 2,510,338	\$ 4,210,612	168%
2015	\$ 2,558,367	\$ 5,625,398	220%
2016	\$ 2,882,376	\$ 5,061,885	176%
Total	\$ 11,664,150	\$ 24,841,451	213%

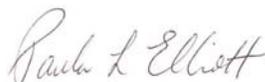
OLIVER WYMAN

Page 8
March 20, 2018
Board of Commissioners of Public Utilities

As presented in the table above, the Industry's taxi loss ratio was well in excess of 100% in each of the years from 2012 to 2016. This is true on an all-coverages-combined basis, as well as for each individual major coverage listed above.

We are available at your convenience to discuss these statistics.

Sincerely,



Paula Elliott FCAS, FCIA



Ted Zubulake FCAS, FCIA