

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

AN ORDER OF THE BOARD

NO. A.I. 17(2016)

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

5 **IN THE MATTER OF** an application by
6 Facility Association for approval of revised
7 rates for its Newfoundland and Labrador
8 School Buses class of business.
9

10
11 **1. The Application**
12

13 Facility Association ("Facility"), as operator of the residual market mechanism for automobile
14 insurance in the Province, filed a Category 2 application on March 24, 2016 seeking approval of
15 increased rates for its Newfoundland and Labrador School Buses class of business (the
16 "Application").
17

18 The Application proposes average rate increases for Third Party Liability, Accident Benefits,
19 Uninsured Automobile, Collision and Specified Perils coverages as follows:

Proposed School Bus Rate Increases					
	Third Party Liability	Accident Benefits	Uninsured Automobile	Collision	Specified Perils
Proposed % Increase	+16.5%	+2.0%	+42.1%	+0.6%	+4.5%

20 Rates for two Physical Damage coverages are proposed to decrease: Comprehensive by 0.9%
21 and All Perils by 2.5%. Facility estimates that its Application proposals, if approved, will result
22 in an increase of 9.7% in its overall rate level in the Province for all coverages combined.
23

24 **2. Background**
25

26 This Application is Facility's second application for an increase to rates for its School Bus class
27 of business since 2015. For Facility's prior School Bus application an overall rate increase of
28 6.8% was approved.

3. Application Review

The Application was referred to the Board's actuarial consultants, Oliver Wyman Limited ("Oliver Wyman"), for review.

On April 14, 2016 Oliver Wyman filed questions on Facility's actuarial analysis and Facility filed responses on April 20, 2016.

On May 31, 2016 Oliver Wyman filed a report outlining its review of the actuarial justification provided in the Application and Facility filed comments in response to Oliver Wyman's report on June 8, 2016.

On June 17, 2016 the Board extended the 90-day review timeline.

On June 23, 2016 the Board issued a response to Facility's comments on Oliver Wyman's report to which Facility responded on June 30, 2016.

On September 20, 2016 Oliver Wyman filed an addendum to its May 31, 2016 report to address an error discovered with its Uninsured Auto rate indication calculation. Oliver Wyman intended to present an alternative Uninsured Auto rate level indication with a full credibility standard of 2,164 claims but inadvertently presented it based on 3,246 claims. This altered the figures presented in Table 4 of the report¹, but did not change Oliver Wyman's findings. The addendum was sent to Facility for comment on September 21, 2016. Facility advised on September 22, 2016 that it had no further comments.

4. Review of Application Proposals

In the Application Facility presents its rate level need using three sets of assumptions for cost of capital and return on investment.² Facility's overall rate indications and proposed changes based on 0% cost of capital and 2.8% return on investment are shown below:³

Coverage	Overall Rate Indication (0% cost of capital and 2.8% ROI)	Overall Proposed Rate Change
Third Party Liability	+16.5%	+16.5%
Accident Benefits	+2.0%	+2.0%
Uninsured Automobile	+42.1%	+42.1%
Collision	+0.6%	+0.6%
Comprehensive	-0.9%	-0.9%
Specified Perils	+4.5%	+4.5%
All Perils	-2.5%	-2.5%
Total	+9.7%	+9.7%

¹ Uninsured Auto indication increased from +42.1% to +48.1% and Total indication increased from +9.1% to +9.2%.

² Facility presents three rate level indications based on: i) 12% cost of capital and 0.39% return on investment; ii) 0% cost of capital and 0.39% return on investment; and, iii) 0% cost of capital and 2.80% return on investment. The overall rate level indication for each of these scenarios is +37.9%, +22.6% and +9.7% respectively.

³ Oliver Wyman Report, May 31, 2016, page 2.

1 With respect to Facility's ratemaking methodology Oliver Wyman noted that Facility's proposed
2 overall rate level change of +9.7% is based on alternate assumptions that are generally in keeping
3 with the Board's Filing Guidelines and a recent decision on Facility's prior School Bus rate
4 application with the exception of the full credibility standards. Oliver Wyman identified an issue
5 and consideration for the Board with respect to Facility's methods and assumptions used for the
6 full credibility standards.

7
8 The assumptions and methods used for all other parameters were found to be reasonable on the
9 basis proposed and/or in accordance with the Filing Guidelines and the Board's findings in Order
10 No. A.I. 4(2016) issued in relation to Facility's prior School Bus application.

11 **4. Board Findings**

12
13
14 The Board has reviewed the record of the proceeding, including Facility's Actuarial
15 Memorandum, Oliver Wyman's reports on its review of the Application, and Facility's responses
16 to Oliver Wyman's report and information requests. The only issue to be addressed is the full
17 credibility standards.

18
19 The standard of full credibility determines the weight given to Facility's School Bus experience
20 in the rate change indication. In this Application Facility proposes to adopt the full credibility
21 standards included in the Board's Filing Guidelines which results in an increase in rate level
22 indications of approximately 0.5%.

23
24 In its 2015 rate filing, Facility proposed to change its full credibility standards from those
25 selected with reference to a study completed in 2004 by Facility's former external actuarial
26 services provider, Eckler Ltd. to standards based on an internal actuarial judgment decision to
27 harmonize credibility standards to be consistent at the coverage level across all jurisdictions. In
28 Order No. A.I. 4(2016) the Board stated:

29
30 The Board believes there is value in taking a consistent approach from filing to filing and
31 that any proposed changes that result in rate increases must be properly explained and
32 supported. The Board also accepts that the selection of a full credibility standard is a
33 matter of actuarial judgment. In Order No. A.I. 11(2015) the Board found that Facility
34 had not adequately justified a change to its full credibility standards for Newfoundland
35 and Labrador. In this filing Facility proposes to use the same credibility standards as
36 denied in Order No. A.I. 11(2015), but has not provided any additional actuarial support
37 or justification to demonstrate that the rate increase resulting from the change will not
38 result in rates which are too high. In the absence of justification to support the proposed
39 change the Board will not accept Facility's proposed full credibility standards.

40
41 In this Application, Facility has again proposed a change in the full credibility standards but this
42 time to the standards included for use in the Board's Filing Guidelines. The same proposal was
43 made, and denied, in Facility's recent taxi filing. In Order No. A.I. 14(2016) the Board stated:

44
45 The purpose of the Board providing guideline assumptions is to streamline the filing
46 process by allowing insurers to use any or all of the Board's assumptions without the
47 requirement for further justification. When an insurer chooses to provide its own
48 assumption in a particular area it must justify to the Board's satisfaction that the

1 alternative assumptions are reasonable and appropriate in the circumstances. Any future
2 changes to those assumptions must also be similarly justified, including reverting back to
3 the Board's guideline assumptions. By supporting the use of alternative assumptions in a
4 rating program an insurer effectively relinquishes its ability to use the Board's guideline
5 assumptions without further justification.
6

7 The approval of Facility's prior Taxi and School Bus applications based on full credibility
8 standards referenced in the Eckler Study establishes the requirement that supporting justification
9 be provided in order for Facility to deviate from those credibility standards, including reverting
10 to the Board guideline assumptions. Facility has not provided any actuarial support or
11 justification to demonstrate that the rate increase resulting from the change will not result in rates
12 which are too high. In the absence of justification to support the proposed change the Board does
13 not accept Facility's proposed full credibility standards.
14

15 **The Board finds that Facility has not justified the proposed change to full credibility**
16 **standards.**

17 **5.1 Conclusions**

18
19
20 The Board finds that Facility has not justified its proposals in relation to the full credibility
21 standards.
22

23 Facility's proposals result in an average overall rate level increase for all coverages combined of
24 9.7%. The Board notes that Oliver Wyman calculated an indicated increase of +9.2%⁴ using the
25 credibility assumptions accepted by the Board in Order No. A.I. 4(2016). The Board finds that
26 the rates proposed by Facility are too high in the circumstances.
27

28 Based on the Oliver Wyman indications the Board accepts that a rate increase for Facility's
29 School Bus class of business appears to be justified. Facility may file a revised application with
30 further justification for its assumptions or, alternatively, substitute the indications provided by
31 Oliver Wyman using the Board's findings as discussed above.

⁴ Oliver Wyman Report Addendum, September 20, 2016, page 3.

1 6. Order

2

3 **IT IS THEREFORE ORDERED THAT:**

4

5 1. The Application by Facility Association is denied.

6

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

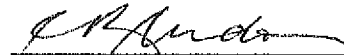
DATED at St. John's, Newfoundland and Labrador, this 18th day of October 2016.



Darlene Whalen, P.Eng.
Vice-Chair



James Oxford
Commissioner



Cheryl Blundon
Board Secretary