

**TC (MPI) 2-11**

<b>Part and Chapter:</b>	<b>TC (MPI) 1-13</b>	<b>Page No.:</b>	
<b>PUB Approved Issue No:</b>	<b>1, 2, 11, 12</b>		
<b>Topic:</b>	<b>VFH Rates</b>		
<b>Sub Topic:</b>	<b>Impact of major class on subcategory rates</b>		

**Preamble to IR:**

In response to TC(MPI) 1-13(b), MPI states:

*"The decision to put Passenger vehicle for hire (VFH) in the Private Passenger major class was based on the prior understanding of MPI of how vehicles in this insurance use would operate. Specifically, MPI understood that individuals would drive for a ridesharing company on a casual basis, and pick up passengers as part of their regular day-to-day driving from one place to another. The rates for this insurance use reflected this understanding (i.e. MPI assumed a moderately higher rate for Passenger VFH as compared to All Purpose to reflect the increased risk exposure).*

*MPI did not put Passenger VFH in the Public major class (or the Commercial major class) because it did not assume that this insurance use would operate in the same capacity as Taxi VFH."*

**Question:**

- a) Please confirm that MPI now understands that Passenger VFH operate in the same capacity as a Taxi VFH, and provide a description of that operation.

- b) If part a) is confirmed, please discuss which major class MPI would have placed Passenger VFH in, at the time of VFH inception, had it known then, what it knows now.
- c) If, knowing what it knows now, MPI would have placed Passenger VFH in the Public major class, please discuss any remaining reasons why Passenger VFH should remain in the Private Passenger major class.
- d) In lieu of fully recalculating all rates, please provide a directional assessment, including a coarse estimate of magnitude if possible, of the impact to Passenger VFH rates if they were set under the Public Major class. Please provide a narrative description of all the factors that would influence the Passenger VFH rates, including the impact of relevant loss development factors included in Appendix 1, to TC(MPI) 1-13.
- e) Please elaborate on how the pace at which rates for respective insurance uses will ultimately reflect the loss exposure is impacted by the ratemaking methodology. Please also indicate how the selection of major class impacts the pace of change. Please reference the response to TC(MPI) 2-3 as appropriate.
- f) Please identify any other potential differences that may materialize as a result of shifting Passenger VFH into the Public Major class, for instance, the impact on the rates for other insurance uses in the Private Passenger, and Public Major classes.
- g) Without formal definitions for major classes, please explain how MPI ensures consistent allocation of new insurance uses to major classes? Please describe who has final responsibility for the decision, and how MPI ensures that there is continuity in these decisions across time.
- h) Please explain the difference between a "vehicle used for commercial purposes", and a "vehicle used as public service vehicles", in the context of VFH time bands specifying times for 'commercial' operation.

- i) Referencing RM App9, Table 15, please provide a narrative description with numerical support for the difference between the "Credibility Weighted Relativity" and the "New Relativity". Please also explain the procedure to calculate these relativities, before and after the product change. If possible, please provide a workbook with formulas illustrating the calculations. (Note the description at page 48 of RM appears to apply to the "Credibility Weighted Relativity", but not the "New Relativity").
- j) Referencing RM App9 Table 16, please explain the source of the "Combined Relativity" column, and its relationship to the relativities calculated in RM App9, Table 15. (Note the Combined Relativity column does not appear to correspond to any of the relativities in the RM App9, Table 15)

**Rationale for Question:**

To better understand the impact of calculating Passenger VFH rates in the Public major class.

**RESPONSE:**

- a) MPI does not believe that Passenger VFH operates in the same capacity as Taxicab VFH. MPI appreciates that there are differences between Passenger VFH operators in terms of how long they drive in their capacity as a Passenger VFH. However, on average, Passenger VFH operators are on the road significantly less than Taxicab VFH operators.
- b) Based on its current understanding, MPI would continue to place Passenger VFH in the Private Passenger major class. While there are differences between Passenger VFH operators, the understanding of MPI that "individuals would drive for a ridesharing company on a casual basis" (see response to Information Request TC (MPI) 1-13(b)) still applies. As indicated in the response to (a) above, on average,

Passenger VFH operators are on the road significantly less than Taxicab VFH operators.

- c) See the response to (b) above.
- d) MPI cannot comment on Passenger VFH rates without completely recalculating them with the assumption that Passenger VFH are part of the Public major class. Per the response to Information Request TC (MPI) 1-13(d):

*"such an undertaking is not possible in the applicable timeframe."*

This undertaking would require that MPI perform the following:

- adjust the data to reflect Passenger VFH being in the Public major class;
- update the current models/worksheets to reflect Passenger VFH being in the Public major class;
- review loss development factors and selected trends for both the Private Passenger and Public major classes;
- recalculate relativities for the Private Passenger and Public major classes;
- re-run experience adjustments; and
- recalculate rates.

In terms of potential magnitude, moving Passenger VFH to the Public major class would not significantly change the Passenger VFH required rate. Assuming the same initial rate, MPI would gradually adjust actual Passenger VFH rates over time towards the indicated break-even rate, based on the credibility of the data. This gradual adjustment would occur regardless of the major class in which it is placed.

- e) Please see the response to Information Request TC (MPI) 2-3, specifically parts (a) and (c).

- f) MPI cannot comment on the question without a complete recalculation of the rates assuming that Passenger VFH were part of the Public major class. Per the response to Information Request TC (MPI) 1-13(d):

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- g) Per Figure 1 in the response to Information Request TC (MPI) 1-13(c), there is a definition for each major class. The responsibility for placement of an insurance use in a major class falls within the scope of the Product and Pricing directorate. In general, this placement is fairly straightforward given that, "...most of the major classes are self-explanatory".

In the case of Passenger VFH, while there may be some support for placing the insurance use within the Public major class, MPI believes that the Private Passenger major class is more applicable per the response to (b) above.

- h) The main difference between the Commercial and Public major classes is that they each transport different things. Specifically, vehicles within the Commercial major class, defined as "vehicles used for commercial purposes" (TC (MPI) 1-13(c)) generally transport goods, while vehicles within the Public major class, defined as "vehicles used as public service vehicles" generally transport people. Taxi VFH falls into the latter group.

- h)j) and j) Please refer to TC (MPI) 2-5(b), Figure 3, which illustrates how MPI applies its methodology of balancing credibility weighted relativities to arrive at the new relativities.

TC (MPI) 2-5(b), Figure 2 presents the calculation of the combined relativity for Taxicab VFH in Territory 1, and the relationship to the relativities calculated in RM Appendix 9, Table 15.

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