Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

IN THE MATTER OF AN

APPLICATION BY FACILITY ASSOCIATION FOR APPROVAL OF REVISED RATES FOR ITS PRIVATE PASSENGER AUTOMOBILES CATEGORY OF AUTOMOBILE INSURANCE

DECISION AND ORDER OF THE BOARD

ORDER NO. A.I. 17(2025)

BEFORE:

Kevin Fagan
Chair and Chief Executive Officer

John O'Brien, FCPA, FCA, CISA
Commissioner

Christopher Pike, LL.B., FCIP
Commissioner

NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. A.I. 17(2025)

IN THE MATTER OF the **Automobile Insurance Act**, RSNL 1990, c. A-22, as amended, and regulations thereunder; and

IN THE MATTER OF an application by Facility Association for approval of a revised rating program for its Private Passenger Automobiles category of automobile insurance.

BEFORE:

Kevin Fagan
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John O'Brien, FCPA, FCA, CISA
Commissioner

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1. Decision Summary

The proposal from Facility Association ("Facility") to revise its rating program for Private Passenger Automobiles under the Board's Mandatory filing option is not approved. The Board accepts the assumptions and actuarial analysis that Facility relied on to establish an overall rate level indication of -8.4%. Upon considering the evidence, the Board is not satisfied that Facility has adequately supported its -1.0% rate level proposal. The Board finds that Facility must file a revised rate proposal based on its -8.4% overall rate level indication within 45 days.

2. The Application

On December 3, 2024 Facility submitted a rate filing under the Board's Mandatory filing option seeking approval of a revised rating program for its Private Passenger Automobiles ("PPA") category of automobile insurance (the "Application"). Facility proposed an effective date no earlier than 100 days post approval for new business and renewals, rounded to the 1st of the following month.

Facility is the operator of the residual market mechanism for automobile insurance in Newfoundland and Labrador (the "Province"). It was established under Section 97 of the **Insurance Companies Act** as an unincorporated non-profit association of insurers. Its purpose is to ensure that automobile insurance is available to all eligible owners and licensed drivers of motor vehicles. Every automobile insurer licensed to write business in the Province is required to become a member of Facility and share in its financial results. As a part of its function to serve the residual market, Facility tries to position itself as a marginal player in the automobile insurance market.

The Government of Newfoundland and Labrador amended the **Insurance Companies Act** to prohibit Facility from including a profit provision in its proposed automobile insurance rates effective November 16, 2023.[1] In this Application, Facility filed an overall rate level indication of -8.4% including a 0.0% profit provision in compliance with legislation. Facility proposed an overall rate level change of -1.0% based on an analysis of its market share and competitive position compared to the industry.

3. Procedural Matters

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

On December 19, 2024 Oliver Wyman filed questions on Facility's actuarial analysis and Facility filed responses on January 10, 2025. Follow-up questions were filed by Oliver Wyman on February 5, 2025 and Facility filed responses on February 10, 2025.

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[1] Section 102.(1.1) of the **Insurance Companies Act**.

On February 27, 2025 Oliver Wyman filed a report of findings outlining its review of the Application and Facility filed comments on March 14, 2025. Oliver Wyman filed a report addendum on March 24, 2025 and Facility filed comments on March 31, 2025.

4. Review of Application Proposals

Facility's indicated and proposed rate level changes by coverage are summarized as follows:

Coverage	Facility Indication	Facility Proposal
Bodily Injury	-10.7%	0.0%
Property Damage	-10.7%	0.0%
Direct Compensation Property Damage	-10.7%	0.0%
Uninsured Automobile	-14.3%	0.0%
Underinsured Motorist	-20.1%	0.0%
Accident Benefits	-15.7%	0.0%
Collision	+11.7%	0.0%
Comprehensive	-16.6%	-10.0%
Specified Perils	+3.7%	0.0%
Total	**-8.4%**	**-1.0%**

Facility noted that its proposed rate level change was higher than its indication in order to maintain a meaningful rate gap against the voluntary market and avoid becoming competitive. Facility provided an analysis of its market position in support of this proposal.

Facility also proposed the following rating variable changes as part of its national rating harmonization project, which is focused on bringing consistency to its rating programs across Canada:

- Expanded Class rating variables for Accident Benefits and Uninsured Auto;
- Revised "US Exposure Factor" to "Outside Province Exposure Factor" and removed the currency differential surcharge; and
- Revised Accident and Serious Accident surcharge rates.

Oliver Wyman reviewed the rate level indication developed by Facility and examined all aspects of Facility's ratemaking process. Oliver Wyman found the methods and assumptions used by Facility to calculate its rate level indication to be reasonable and supported, with the exception of loss trend rates. Oliver Wyman found that substituting alternative loss trend rates that it found to be more reasonable results in an overall rate level indication of -9.2%. Oliver Wyman found Facility's proposed rate level change of -1.0% to be unsupported from an actuarial perspective.

Oliver Wyman reviewed Facility's proposed rating variable changes and found them to be reasonable.

5. Board Findings

The Board must be satisfied that proposed rate changes are in accordance with legislated provisions, are supported based on the information filed, and are just and reasonable in the circumstances. The Board accepts that a wide range of outcomes are possible in any prospective ratemaking exercise. In making this determination the Board considers the professional judgement of the actuaries, as well as the support and explanation for their respective positions. The Board notes that neither Facility nor Oliver Wyman took the position that the other's work was contrary to actuarial standards of practice.

The Board has reviewed the record of the proceeding including Facility's actuarial memorandum, Oliver Wyman's reports and Facility's comments. The issues to be addressed are: i) loss trend rates and ii) market position analysis. These issues, along with the Board's findings on each, are discussed in the following sections.

i) Loss Trend Rates

Facility selected its own loss trend rates based on a review of industry private passenger data as of December 31, 2023. The analysis was performed on frequency and severity separately, with the model results combined to generate loss cost trends by coverage.

In its February 27, 2025 report, Oliver Wyman noted that, while it did not fully agree with the methods and assumptions used by Facility in its loss trend analysis, it found no material differences between Facility's selections and the Board benchmarks for most coverages. The only concern raised was with respect to bodily injury coverage.

For bodily injury, Facility selected a -3.2% frequency trend and a +4.1% severity trend for a combined loss cost trend of +0.8%. Oliver Wyman identified no issues with Facility's frequency model, but found that its severity model resulted in selections that were higher than the Board benchmarks. Oliver Wyman noted that Facility selected ultimate losses for 2020 to 2023 based on the Bornhuetter-Ferguson ("BF") method which included consideration of a prior loss trend model that excluded data points for 2020 through 2022. Oliver Wyman noted that it was unclear why Facility opted to exclude these data points and found that doing so resulted in an overestimated severity trend. Given these observations, Oliver Wyman found Facility's data for bodily injury to be unreasonable and recommended that Facility substitute the Board's December 31, 2023 bodily injury benchmark trend, which would reduce the overall rate level indication by 3.2%.

In its March 14, 2025 response, Facility noted that it utilized the BF method in its loss trend analysis to appropriately account for data volatility and minimize model risk. Further, the data points for 2020 through 2022 were excluded to limit the impact of COVID-19 and the economic uncertainty during that period, which is common practice in the industry. Facility continued to find its loss trend analysis to be reasonable and unbiased, and therefore rejected the alternative assumptions recommended by Oliver Wyman.

In its March 24, 2025 report addendum, Oliver Wyman maintained its stance on Facility's loss trend analysis, but noted that there was a higher-than-expected increase in bodily injury loss costs based on the most recent data (through June 30, 2024) which was not available when Facility's filing was initially reviewed. As a result, Oliver Wyman updated its alternative loss trend assumptions to reflect the Board June 30, 2024 bodily injury benchmark trend of -0.4%, and noted that making this change would reduce Facility's overall rate level indication to -9.2%.

In its March 31, 2025 response, Facility noted that its selected bodily injury loss trend of +0.8% is not materially different than Oliver Wyman's updated alternative of -0.4%, which demonstrates that Facility's trend model is reasonable and actuarially sound. As a result, Facility opted to maintain its trend selections as originally proposed.

Board Decision - Loss Trend Rates

The Board accepts that a wide range of outcomes are possible in the loss trend selection process and that trend variances between Facility and Oliver Wyman are mainly related to a difference in actuarial opinions and judgements. The Board notes that Oliver Wyman disagreed with the data excluded by Facility in the BF method, to which Facility provided rationale for its position. The Board further notes that in its February 27, 2025 report, Oliver Wyman acknowledged that the trend model selected by Facility appeared to fit well to the industry ultimate severity estimates given the adjusted R-squared and significant p-value for the trend parameter. Further, the Board notes that the alternative severity trend of -0.4% suggested by Oliver Wyman only results in a rate level variance of 0.8%.

The Board acknowledges the concerns raised by Oliver Wyman but finds that Facility provided adequate support for its selected loss trend rates and is satisfied that they fall within an acceptable range of reasonableness.

The Board accepts Facility's proposed loss trend rates.

ii) Market Position Analysis

Facility noted that part of its mission is to keep the residual market as small as possible by maintaining a meaningful rate gap with the voluntary market. Facility proposed an overall rate level change of -1.0% based on an analysis of its market share and average premiums compared to the industry.

Facility provided the following table showing that its PPA market share has been decreasing since 2021, partly driven by the inclusion of a profit provision in Facility's rates since April 1, 2022:[2]

Written Premium is in $000s		FARM NL - PPVxFrmr - Individual		Industry NL - PPVxFrmr - Individual		FARM Market Share	
Private Passenger Vehicles excluding Farmers	Year	Written Exposure (excl trailers) - policy	Written Premium	Written Exposure (excl trailers) - policy	Written Premium	FARM Market Share (veh counts)	FARM Market Share (w prem)
PPVxFrmr	2019	11,546	25,049	318,997	391,739	3.62	6.39
PPVxFrmr	2020	12,308	27,475	318,533	401,598	3.86	6.84
PPVxFrmr	2021	13,432	29,538	324,227	419,479	4.14	7.04
PPVxFrmr	2022	12,067	28,235	323,775	421,700	3.73	6.70
PPVxFrmr	2023	11,558	26,836	329,273	436,803	3.51	6.14
	Total	60,911	137,134	1,614,805	2,071,318	3.77	6.62

Facility cautioned that removing the profit provision and taking the indicated rate decrease of -8.4% may lead to its market share increasing in 2025 and beyond. Facility noted that it considers any vehicle segment with a residual market share over 5% to have market availability issues and stated that this needs to be monitored and addressed to ensure a healthy insurance market.

Facility further noted that its proposed overall rate level change of -1.0% was selected on the basis of minimizing the probability of its rates becoming overly competitive with the voluntary market, particularly the non-standard[3] market. Facility provided data showing that its average premium is currently 3% lower than the non-standard market for risks with full coverage and 8% lower for risks with liability only. Facility noted that if the overall rate level indication of -8.4% is followed, the premium gap between Facility and the non-standard market would become even greater. Facility acknowledged that rates should be actuarially justified, but reasoned that they should also take into consideration the role that Facility plays in the automobile insurance industry.

In its March 24, 2025 report addendum, Oliver Wyman noted that it did not disagree with Facility's stance on market share, market position and competitiveness, and acknowledged that any rise in Facility's market share could signal issues with the residual market mechanism. However, Oliver Wyman found that it was not unreasonable to expect that Facility's average premium should decrease given the legislated requirement to remove profit provision from proposed rates. Oliver Wyman further noted that it reviews rate filings to ensure that rates are just and reasonable from an actuarial perspective, and was concerned that some policyholders may receive inequitable rates by Facility proposing rates that were higher than actuarially indicated.

In its March 31, 2025 response, Facility acknowledged that Oliver Wyman's review was focused on ensuring that rates are just and reasonable, but strongly encouraged the Board to consider Facility's market position, purpose and mission in making its determination. Facility noted that

[2] Facility's profit provision was approved in Order No. A.I. 52(2021).

[3] Non-standard refers to policies offered to drivers who are considered to be higher-risk by an insurance company, often due to a history of accidents or traffic violations. They typically include higher premiums when compared to a standard policy, which provides coverage to drivers considered lower-risk.

the risk of its rates becoming competitive and taking away business from the voluntary market would be detrimental to the long-term well being of the insurance market in the Province.

Board Decision - Market Position Analysis

In this Application, Facility filed an overall rate level indication of -8.4% based on a 0.0% profit provision as required by legislation. Oliver Wyman identified concerns with Facility's loss trend rates, but otherwise found the methods and assumptions used by Facility to calculate its rate level indication to be reasonable. As noted above, the Board accepted Facility's proposed loss trend rates and is therefore satisfied that its overall rate level indication is actuarially supported based on the evidence filed. The Board accepts Facility's overall rate level indication of -8.4%.

Facility proposed an overall rate level change of -1.0% based on an analysis of its market share and competitive position. Facility submitted that maintaining its market position via a meaningful rate gap with the voluntary market justified a rate level that was higher than its actuarial indication. The Board acknowledges that its Filing Guidelines allow for market considerations as a supplement to actuarial methodologies where an insurer finds that its actuarial analysis is not fully relevant, adequate or reasonable for use in establishing rates.[4]

The Board notes that Oliver Wyman did not disagree with the market analysis presented by Facility, but found the rate level proposal to be unsupported from an actuarial perspective. Oliver Wyman submitted that it was not unreasonable to expect private passenger premiums to decrease given the legislative direction to remove profit provision, and cautioned that policyholders may receive inequitable rates if the Board were to approve Facility's proposal.

The Board recognises the unique role that Facility plays as the operator of the residual market and acknowledges the impact that the legislated removal of profit provision may have on Facility's market share and competitive position. Facility noted that it considers any vehicle segment with a residual market share over 5% to have market availability issues, and cautioned that implementing its rate level indication of -8.4% could lead to market share increases. However, the market share figures submitted by Facility show that its private passenger vehicle count was below the 5% threshold in each of the five years presented, including the period between 2019 and 2021 in which Facility rates did not include a profit provision.[5] The Board further notes that Facility's market share has not decreased significantly with the inclusion of a profit provision, as demonstrated when comparing the 2019 figure of 3.62% with the 2023 figure of 3.51%.

The Board also acknowledges that there does appear to be premium gap between Facility and non-standard market average premiums based on the data presented, but finds that Facility provided limited information to support its premium analysis, stating only that it was based on

[4] Mandatory Filing Guidelines, p9.

[5] Facility submitted that its PPA market share on a vehicle count basis was 3.62% for 2019, 3.86% for 2020, 4.14% for 2021, 3.73% for 2022 and 3.51% for 2023.

quotes captured in July 2024 with the same risk and coverage characteristics.[6] The analysis also failed to provide any data showing how Facility premiums compare to the standard market. As a result, the Board is not convinced that taking the full indicated rate level change of -8.4% would result in Facility rates becoming overly competitive with the voluntary market, as submitted by Facility during the proceeding.

The Board agrees that Facility's market share and competitiveness needs to be monitored in light of the legislated changes to prohibit a profit provision, but is not satisfied based on the evidence filed that Facility has provided adequate support for its rate level proposal. The Board does not accept Facility's proposed overall rate level change of -1.0%.

6. Conclusion

The Board accepts Facility's assumptions and proposals as set out in the Application, with the exception of its overall rate level change of -1.0%. The Board finds that Facility must file a revised rate proposal based on its overall rate level indication of -8.4% within 45 days.

7. Order

IT IS THEREFORE ORDERED THAT:

1. The Application by Facility Association is denied.

2. Facility Association must submit a revised application for its Private Passenger Automobile rating program incorporating the Board's findings in this Decision and Order.

[6] Response from Facility – Request for Additional Information – April 7, 2025.

DATED at St. John's, Newfoundland and Labrador, this 16th day of May, 2025.

Kevin Fagan
Chair and Chief Executive Officer

John O'Brien, FCPA, FCA, CISA
Commissioner

Christopher Pike, LL.B., FCIP
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Jo-Anne Galarneau
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