



*Newfoundland
& Labrador*

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**ANNUAL REPORT
ON OPERATIONS CARRIED OUT UNDER
THE AUTOMOBILE INSURANCE ACT
Chapter A-22, R.S.N.L. 1990, AS AMENDED
FOR THE PERIOD
APRIL 1, 2004 TO MARCH 31, 2005**

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Executive Summary

This report highlights the main activities of the Board in carrying out its mandate under the *Automobile Insurance Act*.

During the year the Board issued five orders. Of these three were in relation to rate filings for private passenger, commercial, or other miscellaneous classes of automobile insurance rates; one was in relation to a re-hearing of an application, and one established new benchmarks for use in 2005.

The primary reason for the low number of automobile insurance rate applications was due to Government's announcement on March 17, 2004 of a one-year freeze applicable to private passenger rates. The freeze did not apply to commercial automobile rates or to rate decreases for private passenger automobile rates; however, the Board did not receive any applications falling into these categories.

Based on the most recently available market information (2003), there were forty-eight automobile insurers reporting direct premiums written in the province, writing \$273,952,000 in direct premiums. The market continues to show a high level of concentration with the top eleven insurers writing approximately 84% of all the automobile insurance business.

During the year the Board continued to be involved in the automobile insurance reform initiatives of Government. Under Section 3.1 of the *Insurance Companies Act*, in October 2004, Government requested the Board to review and report on a number of issues affecting automobile insurance. These issues included the impact of using caps or deductibles to limit monetary awards for pain and suffering, the elimination of age, gender and marital status as rating factors, and identification of other cost savings measures. In addition to the completion of a number of actuarial studies and other consultant reports the Board invited feedback from consumers, the automobile insurance industry, and other interested parties through various means, including

public sessions. This involvement constituted the primary activity of the Board and its staff in the area of automobile insurance for the reporting period. A report was submitted to Government on March 31, 2005 outlining the results of the Board's review.

AUTOMOBILE INSURANCE REGULATION

GENERAL

The Automobile Insurance Act, Chapter A-22, of the Revised Statutes of Newfoundland and Labrador, 1990 provides the Board with specific statutory responsibilities concerning the regulation of automobile insurance rates in the Province of Newfoundland and Labrador.

Section 48 states:

"The Board has the general supervision of the rates an insurer charges or proposes to charge for automobile insurance."

Sections 49 to 53 delineate specific filing requirements to be adhered to by insurers.

Sections 54 to 59 outline administrative procedures of the Board and allow for the applicability of the Public Utilities Act for the purposes of this Act.

Section 60 authorizes the implementation of regulations.

During the year under review the Board continued to discharge its regulatory responsibilities to ensure that rates are fair for consumers, commensurate with the risk represented and insured by companies, and adequate to cover future claims obligations and operating costs of automobile insurance companies.

A key element of this effort is the establishment of benchmark rate ranges which are based upon a study conducted by an independent actuarial consulting firm retained by the Board. This study takes into consideration the automobile insurance industry loss cost data for Newfoundland and Labrador provided by the rating program of the Insurers' Advisory

Organization (IAO) and the Automobile Insurance (Claims) Experience Report of the Insurance Information Centre of Canada (IICC).

The IAO and IICC are industry organizations which gather statistical data relative to the industry experience. The data is used by the Board's actuaries to develop adequate and reasonable rates, sufficient for insurers to meet potential future claims obligations and to recover operating costs.

ACTUARIAL CONSULTANTS

Actuarial consulting services are provided to the Board by Mercer Risk Finance and Insurance Consulting Limited, a firm based in Toronto.

AUTOMOBILE INSURANCE REFORM

During 2004-2005 the Board continued to play an active role in the process initiated by Government in connection with automobile insurance reform. At the direction of Government, pursuant to Section 3.1 of the *Insurance Companies Act*, the Board conducted a closed claim study to review the costs incurred by industry in settling automobile insurance claims. The details of this study have been provided to Government in the final report of the Board's review of the automobile insurance industry delivered March 31, 2005. In addition, the Board was assigned new regulatory responsibilities under Chapter 27, R.S.N.L. 2004 in respect to underwriting guidelines and risk classification systems used by insurers to rate automobile insurance policies.

In late 2004 the Board held a public hearing into the setting of benchmark rates for use in 2005. The Board issued its order on March 11, 2005 setting new benchmarks representing reductions on rates previously in effect under the 2004 benchmarks.

BENCHMARK SYSTEM

On March 16, 2005 Government announced that the benchmarking system for automobile insurance rate approvals will be discontinued. Instead companies will be required to justify to the Board any rate increases and applications for rate decreases will be dealt with on a file and use basis.

Government has announced that the changes to the rate approval process will be effected through legislation/regulations at the same time as other automobile insurance reform measures are introduced following review of the Board's March 31, 2005 report.

Following this announcement the Board issued revised rate filing guidelines reflecting this policy objective of Government.

RATING TERRITORIES

The Province of Newfoundland and Labrador is subdivided into three territories for rating purposes. Territories are established and defined in the Automobile Insurance Statistical Plan approved for use by the Superintendent of Insurance. Territorial definitions for the Province as revised by the Superintendent of Insurance on April 4, 1997 are:

1. Territory 1,
Avalon District, Statistical Plan Code 004
Consisting of the City of St. John's, including that part of the island east of Highway 202, being a line between the communities of Old Shop and Chapel Arm in Trinity Bay to the North, and Long Harbour and Ship Harbour in Placentia Bay to the South.

2. Territory 2,
Bonavista and Burin District, Statistical Plan Code 005
Consisting of that territory east of a line drawn from Port Blandford in Bonavista Bay to English Harbour East in Fortune Bay, excluding the Avalon District.

Remainder of the Province, Statistical Plan Code 007
Consisting of those parts of the Province of Newfoundland and Labrador, excluding the Avalon, Labrador, and the Bonavista and Burin District.
3. Territory 3,
Labrador District, Statistical Plan Code 006
The entire District of Labrador.

RATES

During the period April 1, 2004 to March 17, 2005 a freeze on rate increases for private passenger automobile insurance rates was in effect. The freeze, announced by Government on March 17, 2004 as part of the Government's 2004 reform measures, prevented insurers from applying for increases in private passenger automobile insurance rates. Insurers were permitted to apply for rate reductions at any time. Commercial automobile insurance rates were not subject to the freeze.

During the past year the Board did not receive any applications from companies active in the provincial automobile insurance market for any rate changes. The Board did receive three applications from new entrants to the market and approved initial rates for these companies within the 2004 benchmark ranges.

LOSS RATIOS

During the year the Board's actuarial consultants undertook a benchmark analysis of the reported industry loss experience in order to establish benchmark rate ranges for use with filings taking effect in 2005. These benchmarks were based on the latest industry loss data available at the time the study was conducted, that being 2003 accident year data.

The actuarial model used by the Board in determining benchmark rate ranges establishes a reference point for loss costs in relation to premiums. The benchmarks are the actuarially based industry average adequate rates for automobile insurance written in the province. These rates provide for 100% recovery of an insurer's operating expenses and claims costs in relation to premiums. This is more commonly referred to as the combined ratio. Where the combined ratio exceeds 100% an insurer is recovering more in premiums than total anticipated expenses. Similarly where the combined ratio falls below 100% the insurer is not recovering in premium its cost of doing business.

As a point of reference Table 1 shows annual Third Party Liability (Public Liability and Property Damage) loss ratios from 1998 through to 2003. These figures demonstrate the cyclical nature of the insurance industry that either improve or deteriorate, depending on the fluctuation in claims experience. As reflected below loss experience from 1998-1999 deteriorated through 2000-2001 and again rebounded in 2002-2003.

TABLE 1
IBC LOSS RATIOS, THIRD PARTY LIABILITY
Private Passenger Automobile
Province of Newfoundland and Labrador
All Rating Territories

Accident Year	1998 IICC* Report	1999 IICC Report	2000 IICC Report	2001 IICC Report	2002 IICC Report	2003 IICC Report
1998	82	82	82	81	79%	
1999	-	91	100	99	96	96%
2000	-	-	115	113	105	103
2001	-	-	-	117	106	99
2002	-	-	-	-	84	77
2003	-	-	-	-	-	73

* Insurance Information Centre of Canada (IICC)

COMPLIANCE AUDIT PROGRAM

In order to discharge its regulatory responsibilities more effectively under the *Automobile Insurance Act*, in April 1994 the Board implemented a compliance audit program of the rates and rating practices of the insurance companies which it regulates.

The audit program is designed to ensure that insurers writing business in the Province as required under the *Act* are charging rates that have been approved by the Board. The program also ensures that agents and brokers of the insurer are interpreting the underwriting guidelines of the insurer correctly and that insureds of similar risk characteristics are being rated correctly.

During the period April 1, 2004 to March 31, 2005 the Board conducted four compliance audits of automobile insurers operating in the Province and also conducted an audit of Facility Association.

The Board intends to continue the compliance audit program and feels that it is beneficial to all participants in the automobile insurance industry. Currently there are four audits scheduled to be conducted during the period April to September 2005.

MARKETPLACE CHANGES

Based on the latest information available on direct premiums written there were forty-eight automobile insurers operating in Newfoundland and Labrador. The distribution of these companies by size and market share is shown in Table 2.

TABLE 2 DISTRIBUTION OF COMPANIES BY SIZE AND MARKET SHARE (000s omitted)			
Direct Premiums Written	Number of Companies	Percent of Market Share	Direct Premiums Written
\$ 0 – 1,000	24	1.61	4,403
1,001 – 5,000	10	8.43	23,108
Over 5,000	14	89.96	246,441
Totals	48	100.00	273,952

Information on direct premiums written and direct claims incurred for 2004 will not be available in an aggregated format until mid 2005. The volume of automobile insurance written in the Province showed an increase of 15.2% during 2003 while claims showed an increase of 16.9%. Information obtained from the Office of the Superintendent of Insurance on the total automobile insurance market written in the Province during 2003 is shown in Table 3.

TABLE 3
MARKET VOLUME
AUTOMOBILE INSURANCE
(000s omitted)

	2003	2002	\$ change	% change
Direct Premiums Written	273,952	237,733	36,219	15.2%
Direct Claims Incurred	186,222	159,241	26,981	16.9%

Table 4 contains a two-year comparative review of the automobile-insurance market, broken into direct premiums written and direct claims incurred by the three major premium classifications.

TABLE 4
MARKET VOLUME BY CLASS
AUTOMOBILE INSURANCE
(000s omitted)

	2003	2002	\$ change	% change
Third Party Liability DPW	181,849	157,695	24,154	15.3%
Third Party Liability DCI	138,469	117,234	21,235	18.1%
Personal Accident DPW	17,633	14,864	2,769	18.6%
Personal Accident DCI	10,421	8,899	1,522	17.1%
Other DPW	74,470	65,174	9,296	14.3%
Other DCI	37,332	33,108	4,224	12.8%

DPW - Direct Premiums Written
DCI - Direct Claims Incurred

It should be noted that direct claims incurred do not include the overhead and operation expenses of the company.

COMPLAINTS

During the year the Board received a limited number of complaints and enquiries. These complaints and enquiries were generally in relation to rating practices of insurers and/or agents. All complaints and enquiries were received by staff and, where necessary, the agent or insurer involved was contacted.

ASSESSMENT

The operating costs of the Board's Insurance Division for the 2004-05 year were estimated at \$684,880. These costs were assessed against insurers with the approval of the Minister, pursuant to Section 59 of the *Automobile Insurance Act*, at a rate of 2.50 mils or the equivalent of 0.25% of direct premiums written by the market.

Newfoundland & Labrador

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