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*Newfoundland & Labrador*

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

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**ANNUAL REPORT  
ON OPERATIONS CARRIED OUT UNDER  
THE AUTOMOBILE INSURANCE ACT  
Chapter A-22, RSNL 1990, AS AMENDED  
FOR THE PERIOD  
APRIL 1, 2006 TO MARCH 31, 2007**

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OF THE  
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES  
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FOR THE PERIOD APRIL 1, 2006 TO MARCH 31, 2007**

## **EXECUTIVE SUMMARY**

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

In August 2005 Government implemented automobile insurance reforms which resulted in changes to the Board's regulatory processes in relation to rate filings and compliance audits. These filings now fall into one of two categories. Category 1 File and Use reflect either no change or a reduction in existing rates and can be implemented by the insurer 30 days following the date of their filing with the Board. Category 2 Prior Approval filings denote a rate increase requested by the insurer which may require actuarial justification for purposes of analysis and subsequent Order by the Board. In addition, to accommodate Government reforms the Board modified its audit provisions to ensure the appropriate interpretation of underwriting guidelines and rating applied to similar risk characteristics.

During 2006-2007 the Board received four Category 1 rate filings and issued 15 Orders involving Category 2 rate filings. The Board also conducted four compliance audits of automobile insurers during the period. There were no significant changes in the market or its composition over the year. Based on the most recently available market information (2005) fifty automobile insurers reported direct premiums written of \$262,467,000 in the Province, compared to \$266,857,000 for 2004. The market continues to show a high level of concentration, with 13 insurers writing just below 90% of all the automobile insurance business in the Province.

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### **EXECUTIVE SUMMARY**

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## **AUTOMOBILE INSURANCE REGULATION**

### **Legislation**

*The Automobile Insurance Act*, Chapter A-22, RSNL 1990, as amended, 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 provide for the applicability of the procedural provisions of the *Public Utilities Act*.

Section 60 authorizes the implementation of regulations by the Lieutenant Governor in Council.

### **Automobile Insurance Reform**

During the previous reporting period in August 2005 Government enacted automobile insurance reforms that included:

- i. Elimination of age, gender and marital status from consideration as rating variables.
- ii. Implementation of the use of "years driving experience" as an acceptable rating variable.

- iii. Rate review requirements:
  - a. prohibiting the Board from approving rates determined to be “too high”; and
  - b. obligating an insurer to justify rates based on the insurer’s projected loss experience, expense and investment income, and other elements considered appropriate by the Board.
- iv. Introduction of a new Class of Use definitions and rating system to reflect the changes arising from (i) and (ii) above.
- v. Rate implementation processes specifying:
  - a. rate reductions to be effective 30 days following filing with the Board; and
  - b. rate increases being subject to prior approval of the Board.

As a result of these reforms the Board revised its regulatory processes to give effect to the new regulatory requirements. Two filings categories were established. Category 1 File and Use were filings with no change or reductions in approved rate levels and Category 2 Prior Approval were filings that represent an increase in any rate level. For purposes of these Filing Categories the Board does not view increases in one or more coverages that are offset by equal or greater reductions in other coverages as falling into the definition of a Category 1 filing. During the period April 1, 2006 to March 31, 2007 the Board operated under its new regulatory processes in dealing with all rate applications.

## **MARKETPLACE CHANGES**

Based on the 2005 Report of the Superintendent of Insurance, the latest information available, there were fifty automobile insurers operating in Newfoundland and Labrador. This report shows that almost 90% of the automobile insurance market in the Province is written by 13 companies. The distribution of these companies by size and market share is shown in Table 1.

**2005 Superintendent of Insurance Report**

**TABLE 1**  
**2005 DISTRIBUTION OF COMPANIES BY SIZE AND MARKET SHARE**  
**AUTOMOBILE INSURANCE**

| <b>Volume of<br/>Direct Premiums<br/>Written (000's \$)</b> | <b>Number of<br/>Companies</b> | <b>Percent of Market<br/>Share (%)</b> | <b>Total<br/>Direct Premiums<br/>Written (000's \$)</b> |
|---|--------------------------------|--|---|
| 0 - 1,000   | 29                             | 2.22                                   | 6,030   |
| 1,001 - 5,000   | 8                              | 8.48                                   | 22,234  |
| Over 5,000  | 13                             | 89.30                                  | 234,203   |
| <b>Totals</b>   | <b>50</b>                      | <b>100.00</b>                          | <b>262,467</b>  |

Table 2 shows comparative information 2005 versus 2004 in relation to direct premiums written (DPW) and direct claims incurred (DCI) for automobile insurance. The total volume of DPW in the Province showed a decrease of 1.6% during 2005 while total DCI showed an increase of 5.8%.

**2005 Superintendent of Insurance Report**

**TABLE 2**  
**2005 MARKET VOLUME**  
**AUTOMOBILE INSURANCE**  
**(000's \$)**

|  | <b>2005</b> | <b>2004</b> | <b>\$ Change</b> | <b>% Change</b> |
|--|-------------|-------------|------------------|-----------------|
| <b>Direct Premiums Written<br/>(DPW)</b> | 262,467     | 266,857     | (4,390)          | (1.6%)          |
| <b>Direct Claims Incurred<br/>(DCI)</b>  | 182,620     | 172,569     | 10,051           | 5.8%            |

Table 3 contains a two-year comparative review, showing year over year relative change, of the automobile-insurance market, broken into DPW and DCI incurred by the three premium classifications, Third Party Liability, Personal Accident and Other. The Other category includes coverages such as Collision, Comprehensive, Specified Perils and All Perils.

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

**2005 Superintendent of Insurance Report**

**TABLE 3**  
**2005 MARKET VOLUME BY CLASS**  
**AUTOMOBILE INSURANCE**  
**(000's \$)**

|                              |            | <b>2005</b> | <b>2004</b> | <b>\$ change</b> | <b>% change</b> |
|------------------------------|------------|-------------|-------------|------------------|-----------------|
| <b>Third Party Liability</b> | <b>DPW</b> | 175,960     | 181,425     | -5,465           | -3.01%          |
| <b>Third Party Liability</b> | <b>DCI</b> | 132,026     | 123,535     | 8,491            | 6.87%           |
| <b>Personal Accident</b>     | <b>DPW</b> | 19,265      | 19,043      | 222              | 1.17%           |
| <b>Personal Accident</b>     | <b>DCI</b> | 12,443      | 12,777      | -334             | -2.61%          |
| <b>Other</b>                 | <b>DPW</b> | 67,242      | 66,389      | 853              | 1.28%           |
| <b>Other</b>                 | <b>DCI</b> | 38,151      | 36,257      | 1,894            | 5.22%           |

**REGULATORY ACTIVITIES**

**Actuarial Consultants**

Mercer Risk Finance and Insurance Consulting Limited, based in Toronto, provides actuarial consulting services to the Board pursuant to a contract awarded in April 2006 under a Request For Proposal (RFP) process.

## **Rates**

During the period April 1, 2006 to March 31, 2007 the Board issued 15 Automobile Insurance Orders. Of these, nine related to Category 2 rate filings involving rate changes to insureds. One Order was issued in connection with an application for the pricing of a new endorsement. One Order was issued correcting a previous Order. Four Orders were issued in connection with rehearing requests for the establishment of a Return on Equity for four related companies.

The Board also received four Category 1 rate filings. These filings represent no change or reductions in rates to insureds and, pursuant to legislative provisions, are not subjected to a full review and analysis. These filings are not subject to the Board's prior approval and may be implemented no sooner than 30 days following filing with the Board. In the case of such filings, Board staff review each for compliance with Category 1 rate filing requirements and, if found not to represent any increase in any rate for any insured, the filings are accepted as submitted.

## **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 regulated insurance companies. The compliance audit program is designed to ensure that insurers writing business in the Province are charging rates that have been approved by the Board as required under the *Act*. The audit 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, 2006 to March 31, 2007 the Board conducted four compliance audits of automobile insurers operating in the Province. These were the first audits of insurers operating under the new regulatory reforms introduced during 2005. The results of these audits did not reveal any significant issues. Additional audits are currently scheduled for the next reporting period.

### **Complaints**

During the year the Board received a limited number of complaints and inquiries. These complaints and inquiries were generally in relation to rating practices of insurers and/or agents. In addition, the Board dealt with a number of inquiries regarding rate refunds and changes arising as a result of the elimination of age, gender and marital status as rating variables.

### **Expenses**

The Board's expenses related to its automobile insurance regulatory activities fall into operating, consulting and special expenses. Operating expenses are assigned according to the number of hours worked per employee/commissioner during each day on automobile insurance regulation plus commensurate overhead. Consulting expenses are associated with specific rate applications by automobile insurers requiring outside expertise and consultants' review. Special expenses are those expenses incurred by the Board in automobile insurance activities other than ongoing operations and rate filings, such as the previously completed automobile insurance review and report directed by Government. The Board is required by legislation to recover all expenses, either through its regular assessment or through special assessment from those participants in the industry regulated under the *Automobile Insurance Act* and the *Insurance Companies Act*. The Board receives no funding from any other source for its automobile regulatory activities.

The operating expenses of the Board's insurance operations for the 2006-07 year were budgeted at \$538,880. 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 2.05 mils on the direct premiums written in the Province by the market. The assessment issued each company was adjusted by a one time reduction representing a return of surplus funds accumulated in connection with prior years assessments. The total surplus returned was \$159,454 or just under 30% of the Board's budgeted expenses for the year.

Consulting expenses of \$65,271 were incurred in connection with rate filing reviews. These expenses were invoiced to each company submitting a filing requiring a consultant review and is based on the actual costs incurred in respect of that company's rate filing.

The Board did not incur any special expenses during this reporting period.

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*Newfoundland & Labrador*

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