

REFORM COST ESTIMATES

NEWFOUNDLAND AND LABRADOR INSURANCE INDUSTRY

OCTOBER 21, 2019



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1. Executive Summary

1.1. Purpose and Scope

The Board has asked Oliver, Wyman Limited (Oliver Wyman) to estimate the impact of the following changes to the Automobile Insurance Act (the “Act”) and associated Automobile Insurance Regulations (“NLR 56/19”) that will be effective January 1, 2020.

- The introduction of the direct compensation property damage mandatory coverage.
- Increase in the deductible for all third-party liability – bodily injury pain and suffering awards from \$2,500 to \$5,000

In this report, we present Oliver Wyman’s recommended percentage allocation of third-party liability premiums across the (i) bodily injury, (ii) property damage-tort and (iii) direct compensation property damage coverages for private passenger vehicles, commercial vehicles, and motorcycles. These allocation percentages will assist insurers in reassigning third-party liability premiums that are already in effect across these three mandatory coverages.

In addition, we provide the Board our estimate of the percentage claim cost reduction to the bodily injury total claim costs based on the increased deductible from \$2,500 to \$5,000 that is applied to the non-pecuniary loss of all claimants. This estimate and all supporting documentation is taken from our May 17, 2018 report titled “Minor Injury Reform Cost Estimates – Private Passenger Automobiles.” This change to the bodily injury deductible amount is included in Table 2 below which assigns the current third-party liability premium that is already in effect into the three mandatory coverages. As a result, in Table 2 the sum of the new bodily injury, property damage-tort and direct compensation property damage premiums is less than the current third-party liability premium.

1.2. Actuarial Findings

We developed our estimates using Newfoundland and Labrador’s data that was provided to us and external information and assumptions that we believe are appropriate for use in evaluating this exposure. This report presents the analysis underlying our estimates. We present the findings of that analysis in Tables 1 and 2 below.

In Table 1, we present Oliver Wyman’s recommended allocation of third-party liability premiums.

Table 1: Allocation of TPL Premium **without** the Change in Deductible from \$2,500 to \$5,000.

Line of Business	Bodily Injury & Health Levy	Property Damage	Direct Compensation Property Damage	Total
Private Passenger Vehicles	77%	2%	21%	100%
Commercial Vehicles	74%	9%	17%	100%
Motorcycles	92%	1%	7%	100%

In Table 2, we present Oliver Wyman's recommended allocation of third-party liability premiums, including the increased deductible from \$2,500 to \$5,000 that is applied to the non-pecuniary loss of all claimants.

Table 2: Allocation of TPL Premium **with** the Change in Deductible from \$2,500 to \$5,000.

Line of Business	Bodily Injury & Health Levy	Property Damage	Direct Compensation Property Damage	Total
Private Passenger Vehicles	75%	2%	21%	98%
Commercial Vehicles	72%	9%	17%	98%
Motorcycles	89%	1%	7%	97%

1.3. Relevant Comments

The estimates presented in this report are based on Industry aggregated data and may not necessarily apply to any individual insurer.

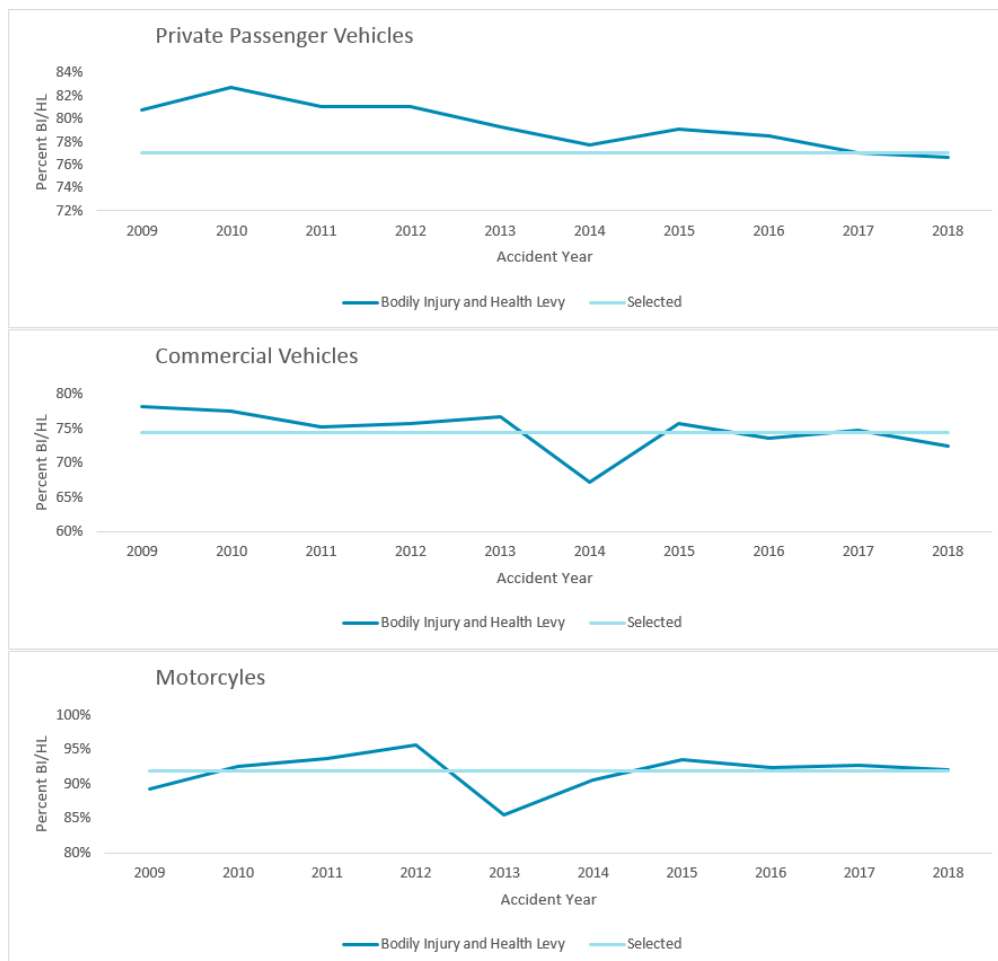
2. Third Party Liability Premium Allocation

In this section, we present the assumptions we used in determining an appropriate allocation of third-party liability premiums across bodily injury (BI), property damage-tort (PD-tort) and direct compensation property damage (DCPD) for private passenger vehicles, commercial vehicles, and motorcycles. We use our estimates of historical industry ultimate loss and ALAE and assume a proportional methodology is appropriate for allocating premiums.

We use Newfoundland and Labrador’s data to estimate the ratio of BI loss and ALAE to total third-party liability (TPL) loss and ALAE. The Health Levy fee is included in both the BI and TPL loss amounts.

In Figure 1, we present the historic and selected ratio of BI loss and ALAE to Total TPL loss and ALAE for Newfoundland by line of business. We select 77%, 74% and 92% as the proportion of BI loss and ALAE to TPL loss and ALAE for private passenger vehicles, commercial vehicles and motorcycles, respectively.

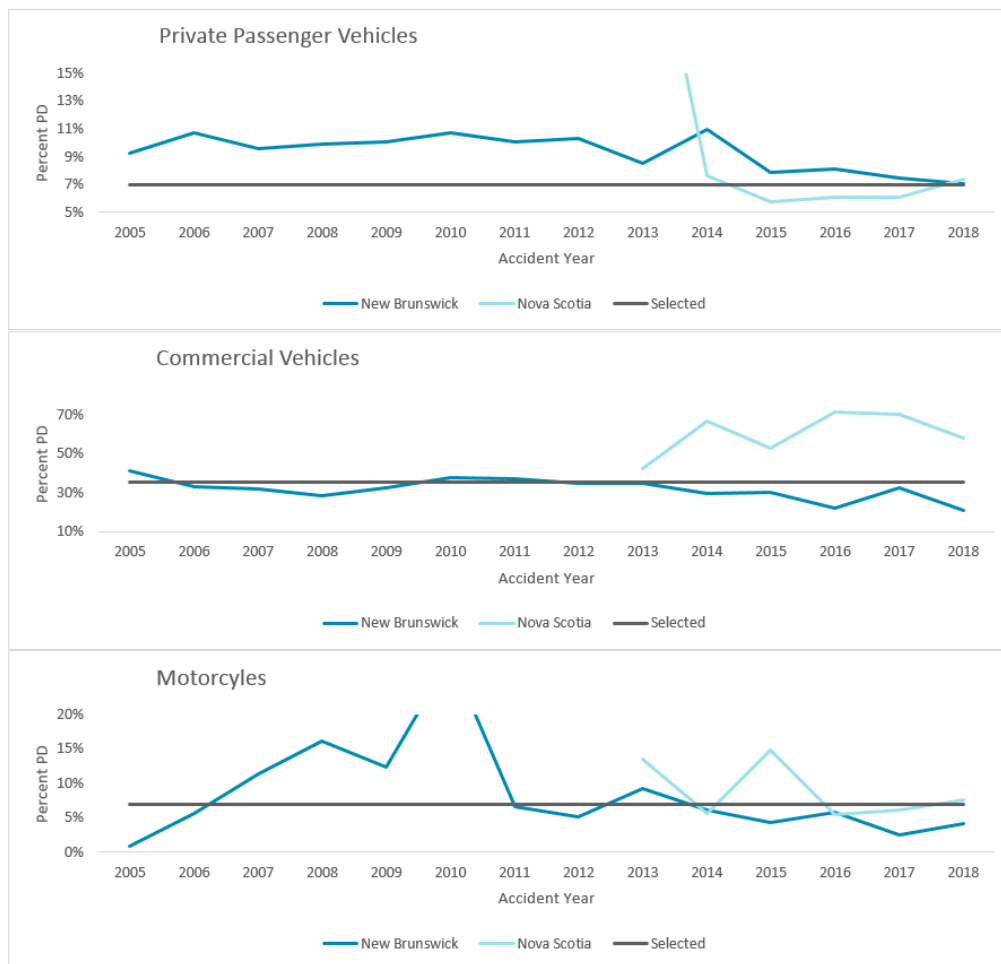
Figure 1: Newfoundland Selected BI to Total TPL ratio



As DCPD was introduced in 2005 in New Brunswick and 2013 in Nova Scotia, we use the historical data from these two provinces to determine an appropriate split of (legacy) property damage between PD-tort and DCPD.

In Figure 2, we present the historic ratio of PD-tort loss and ALAE to Total PD loss and ALAE for New Brunswick and Nova Scotia by line of business and our selected ratio for Newfoundland and Labrador. We select 7%, 35% and 7% as the proportion of PD-tort to Total PD for each of private passenger vehicles, commercial vehicles and motorcycles, respectively, for Newfoundland and Labrador

Figure 2: Newfoundland Selected PD-tort to Total PD ratio



In Exhibit 1, we present the derivation of Table 1 and Table 2, our recommended allocation of third-party liability premium without and with consideration of the new higher \$5,000 BI deductible.

In Exhibits 2 and 3, we present the above observed and selected percentages in tabular format.

3. Current Deductible & Amendments

The following is an excerpt from our May 17, 2018 report titled “Minor Injury Reform Cost Estimates – Private Passenger Automobiles.” The closed claim study data used in our prior report is the most recent available, thus our estimates remain unchanged.

“As an alternative to introducing a cap on the non-pecuniary loss of claimants with a minor injury, the Newfoundland and Labrador Government is considering maintaining or increasing the current \$2,500 deductible on the non-pecuniary loss that is applied to all claimants.¹

We calculate the percentage reduction in total settlement costs if the current \$2,500 deductible on the non-pecuniary loss amount were increased (to \$5,000, \$7,500 or \$10,000) for all claimants in the NL 2018 CCS database. We apply the additional increase² in the deductible amount to the projected non-pecuniary amount paid³ for each of the claimants in the NL 2018 CCS database.

Due to the nature of erosion of the deductible through the claims settlement negotiation process we temper these initial estimates by an erosion factor. While we are unable to quantify the erosion factor, based solely on our judgment, we apply the erosion factors of -15% and -25% to our initial estimates and present our estimated findings in the Table 7⁴ below:

Table 7: Percentage Reduction in Total Settlement & ALAE Amounts

Total Settlement % Reduction	\$5,000 Deductible	\$7,500 Deductible	\$10,000 Deductible
<i>All Claimants - No Erosion</i>	4%	9%	13%
<i>All Claimants - With Erosion</i>	3% - 4%	6% - 7%	9% - 11%

To calculate the commensurate reduction in premiums based on the alternative cap amounts under consideration, we apply the percentage reduction in loss amounts (presented in Table 7) to our estimate of the accident year 2017 loss costs and adjustment expenses as presented in our report titled Oliver Wyman NL Profit and Rate Adequacy Review dated March 29, 2018. Our findings are summarized in Table 4 of this report and the detailed calculations are presented in Exhibit 13 attached to this report.”

¹ This is in contrast to the proposals being examined to cap non-pecuniary losses of only those claimants with minor injuries.

² The increase in the deductible that we apply is limited by the non-pecuniary loss amount that was actually paid. For example, if the non-pecuniary loss amount paid (net of the \$2,500 current deductible) was \$6,000 (for a total of \$8,500 gross of the deductible), we reduce this net non-pecuniary amount to \$3,500 for the \$5,000 deductible, to \$1,000 for the \$7,500 deductible, and to \$0 for the \$10,000 deductible.

³ The non-pecuniary amounts are based on the current non-pecuniary loss net of the \$2,500 deductible; each claimant’s costs have been projected to a common date of July 1, 2017.

⁴ Our calculations for the reduction in premium(s) that we present in Table 7 above are presented in this report in Exhibits #14, 15, and 16.

As we have no additional data to measure the impact of the increased deductible (from \$2,500 to \$5,000) on commercial vehicle and motorcycle loss amounts, we assume the same reduction (in the range of 3% - 4%) as we present for private passenger vehicles above.

4. Distribution and Use

- **Usage and Responsibility of Client** – Oliver Wyman prepared this report for the sole use of the client named herein for the stated purpose. This report includes important considerations, assumptions, and limitations and, as a result, is intended to be read and used only as a whole. This report may not be separated into, or distributed, in parts other than by the client to whom this report was issued, as needed, in the case of distribution to such client's directors, officers, or employees. All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client named herein.
- **Distribution, Circulation, and Publication** - This report is not intended for general circulation or publication, nor is it to be used, quoted or distributed to others for any purpose other than those that may be set forth herein or in the written agreement pursuant to which we issued this report without the prior written consent of Oliver Wyman. Neither all nor any part of the contents of this report, any opinions expressed herein, or the firm with which this report is connected, shall be disseminated to the public through advertising media, public relations, news media, sales media, mail, direct transmittal, or any other public means of communications, without the prior written consent of Oliver Wyman.
- **Third Party Reliance and Due Diligence** – Oliver Wyman's consent to any distribution of this report (whether herein or in the written agreement pursuant to which we issued this report) to parties other than of the client named herein does not constitute advice by Oliver Wyman to any such third parties. Any distribution to third parties shall be solely for informational purposes and not for purposes of reliance by any such parties. Oliver Wyman assumes no liability related to third party use of this report or any actions taken or decisions made as a consequence of the results, advice or recommendations set forth herein. This report should not replace the due diligence on behalf of any such third party.

5. Consideration of Limitations

- **Data Verification** – For our analysis, we relied on data and information provided by the client named herein and GISA without independent audit. Though we have reviewed the data for reasonableness and consistency, we have not audited or otherwise verified this data. Our review of data may not always reveal imperfections. We have assumed that the data provided is both accurate and complete. The results of our analysis are dependent on this assumption. If this data or information is inaccurate or incomplete, our findings and conclusions might therefore be unreliable.
- **Rounding and Accuracy** – Our models may retain more digits than those displayed. Also, the results of certain calculations may be presented in the exhibits with more or fewer digits than would be considered significant. As a result, there may be rounding differences between the results of calculations presented in the exhibits and replications of those calculations based on displayed underlying amounts. Also, calculation results may not have been adjusted to reflect the precision of the calculation.
- **Unanticipated Changes** – We developed our conclusions based on an analysis of the data of the client named herein and on the estimation of the outcome of many contingent events. We developed our estimates from the historical claim experience and covered exposure, with adjustments for anticipated changes. Our estimates make no provision for extraordinary future emergence of new types of losses not sufficiently represented in historical databases or which are not yet quantifiable. Also, we assumed that the client named herein will remain a going concern, and we have not anticipated any impacts of potential insolvency, bankruptcy, or any similar event.
- **Internal / External Changes** – The sources of uncertainty affecting our estimates are numerous and include factors internal and external to the client named herein. Internal factors include items such as changes in claim reserving or settlement practices. The most significant external influences include, but are not limited to, changes in the legal, social, or regulatory environment surrounding the claims process. Uncontrollable factors such as general economic conditions also contribute to the variability.
- **Uncertainty Inherent in Projections** – While this analysis complies with applicable Actuarial Standards of Practice and Statements of Principles, users of this analysis should recognize that our projections involve estimates of future events and are subject to economic and statistical variations from expected values. We have not anticipated any extraordinary changes to the legal, social, or economic environment that might affect the frequency or severity of claims. For these reasons, we do not guarantee that the emergence of actual losses will correspond to the projections in this analysis.

6. Exhibits

Newfoundland and Labrador
Allocation of Third Party Liability Industry Losses

Summary

(1)	(2)	(3)	(4)	(5)
Line of Business	Bodily Injury and Health Levy	Property Damage	Direct Compensation Property Damage	Third Party Liability
Without Deductible Change				
Private Passenger Vehicles	77%	2%	21%	100%
Commercial Vehicles	74%	9%	17%	100%
Motorcycles	92%	1%	7%	100%
With Deductible Change				
Private Passenger Vehicles	75%	2%	21%	98%
Commercial Vehicles	72%	9%	17%	98%
Motorcycles	89%	1%	7%	97%

Note

- (2) = Exh 2 col (6)
- (3) = Exh 2 col (7) * Exh 3 col (6)
- (4) = Exh 2 col (7) * Exh 3 col (7)

Newfoundland and Labrador
Allocation of Third Party Liability Industry Losses

Newfoundland Third Party Liability Split

(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Total Loss and ALAE			Percentage	
Province	Accident Year	Bodily Injury and Health Levy	Property Damage	Third Party Liability	Bodily Injury and Health Levy	Property Damage
Private Passenger Vehicles						
Newfoundland	2009	88,417	21,081	109,498	81%	19%
Newfoundland	2010	105,711	22,134	127,846	83%	17%
Newfoundland	2011	108,041	25,248	133,289	81%	19%
Newfoundland	2012	116,327	27,178	143,505	81%	19%
Newfoundland	2013	123,784	32,361	156,146	79%	21%
Newfoundland	2014	112,930	32,390	145,320	78%	22%
Newfoundland	2015	133,331	35,298	168,629	79%	21%
Newfoundland	2016	126,243	34,551	160,794	79%	21%
Newfoundland	2017	116,258	34,725	150,983	77%	23%
Newfoundland	2018	115,519	35,166	150,685	77%	23%
Selected					77%	23%
		Total Loss and ALAE			Percentage	
Province	Accident Year	Bodily Injury and Health Levy	Property Damage	Third Party Liability	Bodily Injury and Health Levy	Property Damage
Commercial Vehicles						
Newfoundland	2009	6,870	1,919	8,790	78%	22%
Newfoundland	2010	6,579	1,905	8,484	78%	22%
Newfoundland	2011	6,887	2,278	9,166	75%	25%
Newfoundland	2012	6,714	2,161	8,875	76%	24%
Newfoundland	2013	10,421	3,166	13,586	77%	23%
Newfoundland	2014	9,865	4,816	14,681	67%	33%
Newfoundland	2015	8,916	2,877	11,794	76%	24%
Newfoundland	2016	8,356	3,016	11,373	73%	27%
Newfoundland	2017	8,188	2,779	10,967	75%	25%
Newfoundland	2018	6,628	2,527	9,154	72%	28%
Selected					74%	26%
		Total Loss and ALAE			Percentage	
Province	Accident Year	Bodily Injury and Health Levy	Property Damage	Third Party Liability	Bodily Injury and Health Levy	Property Damage
Motorcycles						
Newfoundland	2009	816	99	915	89%	11%
Newfoundland	2010	1,180	95	1,275	93%	7%
Newfoundland	2011	1,092	73	1,165	94%	6%
Newfoundland	2012	1,220	56	1,276	96%	4%
Newfoundland	2013	1,059	179	1,238	86%	14%
Newfoundland	2014	1,568	165	1,733	90%	10%
Newfoundland	2015	1,803	126	1,929	93%	7%
Newfoundland	2016	2,271	188	2,459	92%	8%
Newfoundland	2017	1,777	139	1,916	93%	7%
Newfoundland	2018	1,672	146	1,817	92%	8%
Selected					92%	8%

Newfoundland and Labrador
Allocation of Third Party Liability Industry Losses

Other Province Property Damage Split

(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Total Loss and ALAE			Percentage	
		Direct			Direct	
Province	Accident Year	Property Damage-Tort	Compensation Property Damage	Total Property Damage	Property Damage-Tort	Compensation Property Damage
Private Passenger Vehicles						
New Brunswick	2005	2,080	20,402	22,482	9%	91%
New Brunswick	2006	2,712	22,549	25,261	11%	89%
New Brunswick	2007	2,969	27,945	30,914	10%	90%
New Brunswick	2008	3,268	23,686	32,955	10%	90%
New Brunswick	2009	3,854	34,462	38,316	10%	90%
New Brunswick	2010	4,027	33,561	37,589	11%	89%
New Brunswick	2011	3,955	35,439	39,394	10%	90%
New Brunswick	2012	3,665	31,726	35,391	10%	90%
New Brunswick	2013	3,213	34,593	37,806	8%	92%
New Brunswick	2014	5,018	40,602	45,620	11%	89%
New Brunswick	2015	4,200	49,088	53,289	8%	92%
New Brunswick	2016	4,138	46,644	50,781	8%	92%
New Brunswick	2017	4,123	51,155	55,278	7%	93%
New Brunswick	2018	4,124	54,197	58,321	7%	93%
Nova Scotia	2013	14,580	34,078	48,658	30%	70%
Nova Scotia	2014	4,252	51,603	55,855	8%	92%
Nova Scotia	2015	3,895	64,148	68,042	6%	94%
Nova Scotia	2016	4,140	64,048	68,188	6%	94%
Nova Scotia	2017	4,373	67,969	72,343	6%	94%
Nova Scotia	2018	5,631	70,703	76,334	7%	93%
Selected:					7%	93%
		Total Loss and ALAE			Percentage	
		Direct			Direct	
Province	Accident Year	Property Damage-Tort	Compensation Property Damage	Total Property Damage	Property Damage-Tort	Compensation Property Damage
Commercial Vehicles						
New Brunswick	2005	987	1,416	2,404	41%	59%
New Brunswick	2006	849	1,704	2,553	33%	67%
New Brunswick	2007	561	1,190	1,751	32%	68%
New Brunswick	2008	757	1,899	2,656	28%	72%
New Brunswick	2009	874	1,794	2,668	33%	67%
New Brunswick	2010	808	1,318	2,126	38%	62%
New Brunswick	2011	1,135	1,924	3,059	37%	63%
New Brunswick	2012	849	1,598	2,448	35%	65%
New Brunswick	2013	1,016	1,896	2,912	35%	65%
New Brunswick	2014	1,140	2,669	3,808	30%	70%
New Brunswick	2015	1,221	2,792	4,012	30%	70%
New Brunswick	2016	797	2,819	3,615	22%	78%
New Brunswick	2017	1,548	3,206	4,753	33%	67%
New Brunswick	2018	728	2,777	3,505	21%	79%
Nova Scotia	2013	2,600	1,911	4,511	58%	42%
Nova Scotia	2014	1,468	2,979	4,447	33%	67%
Nova Scotia	2015	3,007	3,383	6,390	47%	53%
Nova Scotia	2016	1,321	3,297	4,618	29%	71%
Nova Scotia	2017	1,446	3,371	4,816	30%	70%
Nova Scotia	2018	3,084	4,235	7,319	42%	58%
Selected:					35%	65%
		Total Loss and ALAE			Percentage	
		Direct			Direct	
Province	Accident Year	Property Damage-Tort	Compensation Property Damage	Total Property Damage	Property Damage-Tort	Compensation Property Damage
Motorcycles						
New Brunswick	2005	5	584	589	1%	99%
New Brunswick	2006	36	591	627	6%	94%
New Brunswick	2007	64	482	555	11%	89%
New Brunswick	2008	107	550	657	16%	84%
New Brunswick	2009	94	666	760	12%	88%
New Brunswick	2010	277	699	977	28%	72%
New Brunswick	2011	41	594	625	7%	93%
New Brunswick	2012	31	579	610	5%	95%
New Brunswick	2013	48	470	518	9%	91%
New Brunswick	2014	27	417	444	6%	94%
New Brunswick	2015	33	732	765	4%	96%
New Brunswick	2016	40	638	678	6%	94%
New Brunswick	2017	16	594	610	3%	97%
New Brunswick	2018	28	645	673	4%	96%
Nova Scotia	2013	78	497	575	14%	86%
Nova Scotia	2014	36	601	638	6%	94%
Nova Scotia	2015	132	750	882	15%	85%
Nova Scotia	2016	41	707	748	5%	95%
Nova Scotia	2017	42	636	678	6%	94%
Nova Scotia	2018	50	609	659	8%	92%
Selected:					7%	93%



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