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**A.I. 1 (2008)**

**IN THE MATTER OF** the *Automobile, Insurance Act*, RSNL 1990, c. A-22, as amended (the “*Act*”)

**AND**

**IN THE MATTER OF** an application by Canadian Union Insurance Company (the “Applicant”) to implement revised rates for its Private Passenger class of business.

**Application Filing**

On December 24, 2007 the Board received the Applicant’s rate filing dated December 21, 2007 requesting approval of a revised private passenger automobile insurance rating program for use with effect from March 17, 2008 for new business and May 19, 2008 for renewal business.

**Legislation**

On August 1, 2005 the Government of Newfoundland and Labrador enacted legislation amending the *Automobile Insurance Act* and the *Insurance Companies Act* in relation to the conduct of participants in the automobile insurance industry and the regulation of rates in the Province. Under the revised automobile insurance legislation, rate increases are subject to prior approval and the Board must prohibit or vary a proposed rate which is found to be “too high”.

In determining if a rate is too high the Board considers the documentation available with respect to the justification of the rate levels including: i) the Applicant’s projected loss experience; ii) expenses; iii) investment income for the Applicant’s automobile insurance business for the Province; and iv) other elements considered appropriate by the Board. Where the Board determines that an insurer’s loss experience is not relevant, inadequate or otherwise unreasonable for use in establishing rates, the Board has discretion to establish the elements and information upon which the insurer shall file its projected loss experience.

1 **Filing Instructions**

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3 In the context of existing legislation the Board issued Filing Instructions and a Guidance Document for  
4 use by insurers in connection with rate filings, hereinafter referred to as Filing Guidelines. The Filing  
5 Guidelines detail the requirements respecting rate filings and provides the following definitions of two  
6 types of filing categories:

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8 **“3.1 CATEGORY - 1**

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10 **3.1.1 Category 1 - Definition**

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12 *An insurer is considered to have made a Category 1 filing where:*

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14 *a) The filed base rates for every coverage are reduced from those previously*  
15 *approved or that were filed with the Board and deemed to be approved and*  
16 *there is no increase to any rate for any coverage for any insured;*

17  
18 *b) The filed base rates for every coverage are not changed from those*  
19 *previously approved or that were filed with the Board and deemed to be*  
20 *approved and there is no increase to any rate for any coverage for any*  
21 *insured; or*

22  
23 *c) A combination of A and B above.*

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25 *Any filings not meeting this requirement will be considered a Category 2 filing.*

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28 **3.2 CATEGORY 2- GENERAL FILING**

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30 **3.2.1 Category 2 - Definition**

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32 *Where a rate filing contemplates changes to base rates less than the 5% mandated by*  
33 *legislation on September 1, 2005 or in any other case an increase in a rate for any*  
34 *coverage for any insured, the filing will be considered a Category 2 filing.”*

35  
36 The Filing Guidelines include a Guidance Document, which sets out specific detailed direction with  
37 respect to Category 2 filings. Specifically the Filing Guidelines state:

38  
39 *“Insurers should have reference to the Category 2 Rate Application Guidance Document which is*  
40 *attached to these Filing Guidelines as Appendix A. Insurers should note that this document sets*  
41 *out guidance on completion requirements and various assumptions for such parameters as the*  
42 *trend factor, loss development factors, credibility, ROE, ROI and premium to surplus ratio. To*  
43 *the extent that insurers vary from the Category 2 Rate Application Guidance Document they will*  
44 *be required to provide complete justification for consideration by the Board. Insurers should*  
45 *note that the Board may have reference to advice from its consultants or may hold a hearing to*  
46 *consider these proposals.”*

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48 While an Applicant may utilize factors at variance with those set out in the Filing Guidelines, it is  
49 required to provide sufficient evidence for the Board to assess these factors. It is in the context of the  
50 foregoing that this filing is reviewed.

1 **The Application**

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3 The current filing is the Applicant's third Category 2 rate filing. Following an exchange of information  
4 between the Board's Actuarial Consultants, Oliver Wyman, and the Applicant, on January 22, 2008 the  
5 Applicant submitted a revised filing lowering its previous indicated and proposed rate changes from an  
6 overage average of 2.9% to 2.7%. It is the revised proposal on which this Order is based.  
7

8 The Applicant proposes a schedule of rates based on a Return on Equity (ROE) of 10%, a Return on  
9 Investment (ROI) of 5.4%, and a Premium to Surplus Ratio of 2.25:1, all of which are in accordance with  
10 those detailed in the Filing Guidelines. These parameters, as well as the assumptions made by the  
11 Applicant in connection with other factors considered in the rate making process, are reflected in the  
12 indications and the proposed rate changes shown below. The Applicant's indications are based on  
13 actuarial analysis of the data and the assumptions made in the modeling exercise. The proposed changes  
14 mirror the indications as shown in the following table:  
15

Coverage	Company Indications	Company Proposal
Third Party Liability	6.8%	6.8%
Accident Benefits	-1.1%	-1.1%
Collision	-3.8%	-3.8%
Comprehensive	-19.0%	-19.0%
Specified Perils	-6.5%	-6.5%
Uninsured Motorist	-3.0%	-3.0%
All Perils	-7.9%	-7.9%
<b>Total</b>	<b>2.7%</b>	<b>2.7%</b>

16  
17 The Applicant proposes to offer the following discounts:  
18

Discount	% Amount	Coverages
Years Licensed	14% - 21%	Third Party, Collision, Collision portion of All Perils - Classes 01, 02, 03, 07 and 15
Multi Vehicle	15%	Third Party, Collision, All Perils, Comprehensive and Specified Perils - Classes 01, 02, 03, 07 and 15
Multi Product	15%	Third Party, Collision, All Perils, Comprehensive and Specified Perils - Classes 01, 02, 03, 07, 10, 11, 12, 13 and 15
Student	50%	Third Party and Collision - Class 05

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31 The Applicant proposes no changes to the previously approved Class of Use definitions.  
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33 **Detailed Analysis**

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35 A copy of the revised filing was forwarded to the Board's Actuarial Consultants, Oliver Wyman, for their  
36 review and report. Oliver Wyman reviewed the filing and, where necessary, issued information requests  
37 and received responses. On February 04, 2008 Oliver Wyman completed its review and issued its report.  
38 A copy of the report was provided to the Applicant for additional observations or comments to be  
39 delivered to the Board on or before February 11, 2008. The Board did not receive any additional comment  
40 from the Applicant.

1 Oliver Wyman reviewed the assumptions made by the Applicant and expressed the opinion that these  
2 assumptions were reasonably supported. Oliver Wyman identified a minor issue related to the Applicant's  
3 Premium Trend Rates. While this does not affect the current application Oliver Wyman noted that in  
4 future filings it may be advisable for the Board to require the Applicant to track the drift in its premium  
5 and loss data so as to permit a comparison with the industry trends.

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7 Oliver Wyman reviewed the Underwriting Profit Margin used in the filing and noted the parameters  
8 comply with the Board Filing Guidelines.

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10 **Board Findings**

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12 In its review of rate filings the Board is mandated to prohibit or vary a rate which it determines is "too  
13 high". The Board makes this determination following a thorough review of all information submitted by  
14 the Applicant and consideration of the reports and findings of its expert consultants. In exercising its  
15 jurisdiction the Board reviews the base rates for each coverage and a determination is made as to whether  
16 or not the rates are "too high". This is consistent with the current legislation and is in keeping with the  
17 historical practice of the Board.

18  
19 In accordance with the legislation and as set out in the Board's Filing Guidelines the Applicant is required  
20 to provide detailed justification of any rate increases. Where the Applicant does not utilize the specific  
21 parameters set out in the Filing Guidelines, the Applicant is required to provide the Board with sound  
22 reasoning and justification for the deviation. In the case of the cost of capital issue this would generally  
23 include expert evidence and detailed financial information particular to the company and in relation to the  
24 markets in general.

25  
26 The Board has reviewed the filing, the supporting material, responses to information requests, the report  
27 of its actuarial consultants and all other information relevant to this rate filing. In relation to the proposed  
28 Underwriting Profit Provisions the Board finds these comply with the amounts set out in the Board's  
29 Filing Guidelines and are reasonable.

30  
31 The Board is persuaded by the report of its actuarial consultants that the assumptions and other  
32 parameters used by the Applicant in determining its rate level needs for this application are reasonable in  
33 the circumstances. The Board takes note of the consultant's observations regarding premium trend and  
34 will require resolution of this issue for inclusion by the Applicant in its next filing.

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36 The Board finds the proposed discount program is consistent with that previously approved and is  
37 reasonable and justified in the circumstances. The discounts relate to risk, are not subjective or arbitrary,  
38 and are in accordance with the legislative provisions. In addition, the impact of the discounts has been  
39 appropriately reflected in the rate filing.

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41 **Costs**

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43 As set out in the Filing Guidelines, pursuant to section 57 of the *Automobile Insurance Act* and section 90  
44 of the *Public Utilities Act*, the Applicant will be required to pay the costs of the Board associated with this  
45 filing, including the costs of the actuarial review.

**IT IS THEREFORE ORDERED THAT:**

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1. The revised rate proposal received by the Board on January 22, 2008 is approved with base rates as follows:

Coverage	Territory 1	Territory 2	Territory 3
Third Party Liability	\$ 818.75	\$398.45	\$ 344.99
Collision	\$ 102.53	\$100.94	\$ 134.55
Comprehensive	\$ 39.26	\$ 29.91	\$ 39.26
Specified Perils	\$ 27.95	\$ 17.59	\$ 14.60
Accident Benefits	\$ 80.72	\$ 51.31	\$ 56.26
Uninsured Motorist	\$ 22.54	\$ 12.65	\$ 10.53
Underinsured Motorist	\$ 5.00	\$ 5.00	\$ 5.00

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2. The base rates for each type of coverage shall be effective for new business no sooner than March 17, 2008 and no sooner than May 19, 2008 for renewal business.
  3. The proposed discount program is approved.
  4. The Applicant shall pay all the expenses of the Board arising from this filing.

**DATED** at St. John's, Newfoundland and Labrador, this 14<sup>th</sup> day February of 2008.

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Robert Noseworthy  
Chair & Chief Executive Officer

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Darlene Whalen, P.Eng.  
Vice-Chair

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G. Cheryl Blundon  
Board Secretary