

**DIRECTIVE:           A.I. 06-03**

**ISSUED:               October 16, 2006**

**TO:                    ALL INSURERS, INCLUDING FACILITY ASSOCIATION,  
TRANSACTIONING THE BUSINESS OF AUTOMOBILE  
INSURANCE IN THE PROVINCE OF NEWFOUNDLAND  
AND LABRADOR.**

**SUBJECT:             FILING INSTRUCTIONS AND EXHIBITS FOR PRIVATE  
PASSENGER, COMMERCIAL AND MISCELLANEOUS  
CLASSES OF AUTOMOBILE INSURANCE RATE FILINGS.**

**OVERVIEW / HIGHLIGHTS**

**GENERAL**

These filing instructions are based on and incorporate legislative changes made to the *Insurance Companies Act* and the *Automobile Insurance Act*. These instructions take effect immediately and supercede all other Filing Instructions previously issued by the Board. The current statutes and regulations may be found on the Provincial Government's website at: [www.gov.nl.ca](http://www.gov.nl.ca).

Certain of the legislative changes affect the manner in which rate reviews and approvals are to be undertaken by the Board as well as the information requirements associated with rate filings.

Filings proposing an increase in any rate will require actuarial justification based on the insurer's experience in this Province, where credible, and will be subject to prior approval of the Board.

In general, rate decreases can be made on a file and use basis. For greater certainty, file and use provisions do not apply where there is an increase in any individual rate level.

## **RISK CLASSIFICATION**

Under provisions of the *Insurance Companies Act* insurers are prohibited from using certain elements in a risk classification system. A risk classification system is defined as any element used in the determination of a rate for a coverage or category of insurance, including the variables, criteria, rules and procedures used for that purpose. Insurers are required to file with the Board the risk classification system used in determining the rates for each coverage of insurance. Each insurer must file its risk classification system as part of any rate filing.

Insurers should note that age, sex and marital status are prohibited elements in risk classification systems. The detailed filing instructions contain a complete list of elements that are prohibited from use in an insurer's risk classification system.

## **OTHER CHANGES**

### **Rate Group Tables**

Insurers intending to make other changes in a filing must clearly describe the changes and impacts on insureds. In particular insurers intending to change from MSRP rating to CLEAR rating for vehicle damage coverage are required to provide with their filing a dislocation analysis showing the average impact on insureds in bands of 5% increments above and below current premium levels. Insurers should also clearly state their intention in respect to the implementation of a change in this method of rating including any consideration for capping rate level changes and the length of time such capping will apply. Similar requirements apply where an insurer does not change the method of rating but does intend to adopt new rate group tables or changes in rate group tables within the current method.

**Class 05 Occasional Operators**

Prior to the legislative changes enacted in August 2005, occasional operator charges were restricted to those occasional operators under age 25. As a result of the elimination of age as a rating variable and the introduction of the number of years licensed as a variable, Class 05 charges now apply to occasional operators listed on a policy of auto insurance for all classes of business. In order to ensure the nondiscriminatory application of Class 05 rates insurers may elect to charge for occasional operators on all classes, or, elect not to charge for occasional operators for all classes of business. Insurers cannot choose to charge 05 rates to certain classes and not others.

**FILING/EFFECTIVE DATES**

Filings may be made by an insurer at any time and **are not** limited in number by calendar year or twelve month period from last filing.

Insurers filing a Category 1 filing, that being a filing containing reductions in rates previously approved and no rate increases to any individual insured, shall identify an effective date no sooner than thirty days prior to the making of the filing or such later date as may be desired by the insurer. In the absence of further communication from the Board the proposed rates shall be implemented thirty days following filing with the Board or such later date as may be specified in the filing.

Insurers filing a Category 2 filing, that being a filing containing any increase for any insured, shall allow 90 days from the date of receipt of the filing by the Board and the proposed effective date. In the event the Board is unable to render a decision in respect of the filing within the 90 days it shall notify the insurer to that effect and the proposed rates shall not be implemented without further notification from the Board.

**INFORMATION - Category 2 Filings**

Insurers filing Category 2 filings can shorten the review period by providing complete and accurate information at the time of filing. Incomplete submissions will delay the review of the filing and may

lead to increased costs. Pursuant to s. 57 of the *Automobile Insurance Act* and s. 90 of the *Public Utilities Act*, the costs associated with a filing may be recovered directly from the insurer. Insurers should note that all costs associated with a Category 2 filing will be recovered from the insurer.

In addition to the specific information requirements contained herein, insurers must provide with their electronic filing, copies of all calculations, excel spreadsheets and/or other information used in determining their rate levels. All data must be provided in a format that can be fully manipulated by the Board's actuarial consultant and must be provided with all formula's etc. intact. This information will be treated as confidential and will not be released to any party without the insurer being so notified and provided an opportunity to address any concerns associated with the release of the information.

## **UNDERWRITING GUIDELINES**

All insurers must provide a current underwriting manual with their filing. This should set out the grounds on which it intends to decline to issue, terminate or refuse to renew a contract of insurance, or refuse to provide or continue a coverage or endorsement. The detailed filing instructions contain a list of the prohibited grounds.

## **COPIES**

For Category 1 filings, a hard copy of the proposed rates must be provided to the Board along with an electronic version by e-mail to [ito@pub.nl.ca](mailto:ito@pub.nl.ca).

When submitting a Category 2 filing a hard copy must be provided to the Board and its Actuarial Consultants, Mercer Oliver Wyman, BCE Place, 161 Bay Street, Toronto, ON, M5J 2S5 along with an electronic version by e-mail to [ito@pub.nl.ca](mailto:ito@pub.nl.ca), [tzubulake@mow.com](mailto:tzubulake@mow.com) and to [pelliott@mow.com](mailto:pelliott@mow.com).

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## **1.0 GENERAL**

These Filing Instructions are issued under the authority of the *Automobile Insurance Act* and the *Insurance Companies Act* and outline the information requirements that must accompany all filings for private passenger, commercial and miscellaneous automobile insurance rates. These guidelines are to be used by all insurers providing insurance in the province, including Facility Association.

**Failure by an insurer to adhere to the filing requirements set out herein may result in the filing being returned to the insurer or, in the alternative, the Board may set the rates for the insurer.**

While annual filings are no longer required by legislation, where an insurer has not made application for a rate increase in the past 12 months, the Board requests that once each year the insurer provide a letter confirming that there have been no rate changes in the preceding 12-month period.

In accordance with recent legislative changes, filings for a decrease in a rate will generally be on a file and use basis, subject to review by the Board but the approval of the Board is not required. Such filings must contain no increase to any rate. A rate filing for an overall reduction in rates, with some rate decreases and some rate increases does not fall into the file and use category.

All filings for an increase in a rate will be on an actuarially justified prior-approval basis

## **1.1 FILING**

These filing instructions apply to all filings.

## **1.2 LEGISLATION**

### **1.2.1 Automobile Insurance Act**

#### **a) General Supervision**

Section 48 confers upon the Board the general supervision of rates which an insurer charges or proposes to charge for automobile insurance.

#### **b) Rates Defined**

Section 2 (1) defines rates as being any rates, surcharges, premiums or another amount payable by an insured for automobile insurance. This includes rates for **all** classes of automobile insurance offered as well as rates for policy endorsements (emphasis added).

#### **c) Insurer shall apply for approval**

Section 49 requires an insurer to apply to the Board for approval of the rates it intends to charge. This section applies where the insurer does not have a rate previously approved by the Board.

#### **d) Unapproved Rates Not to be Charged**

Section 50 prohibits the use of a rate that has not been approved or considered to have been approved by the Board.

#### **e) Rate Changes**

Section 51 and associated regulations permits an insurer to decrease a rate previously approved by the Board no earlier than 30 days after filing the rate with the Board but requires that the insurer apply for and justify any increase in a rate based on its projected loss experience, expenses and investment income for its automobile business in the province or any other element

determined by the Board.

### **1.2.2 Insurance Companies Act**

#### **a) Underwriting Guidelines and Risk Classification**

Sections 96.1 and 96.2 and associated regulations set out requirements and prohibitions with respect to insurers' underwriting guidelines and risk classification systems.

## **2.0 INFORMATION REQUIREMENTS**

### **2.1 BASE RATE INFORMATION**

The Board requires that each Private Passenger, Commercial and Miscellaneous automobile insurance rate filing in Newfoundland and Labrador include a list of the proposed base rates and rate differentials, together with a comparison against the insurer's previous base rates and differentials. The filing of base rates and differentials should be made using the criteria as set out in the attached Exhibits.

Tab 8, Exhibit 1 and Tab 10, Exhibit 1 contain the base rate criteria established for Private Passenger and Commercial Automobile Insurance respectively.

Tab 8, Exhibit 2, should be used to show the proposed base rates for Private Passenger. Tab 10, Exhibit 2, should be used to show the proposed base rates for Commercial.

Tab 8, Exhibit 3, and Tab 10, Exhibit 3, should be used to show the proposed differentials compared to the company's previous differentials.

### **2.2 RATE PAGES/REVISED UNDERWRITING MANUAL PAGES**

A copy of the proposed rate pages and all revised underwriting manual pages must



accompany the filing. These pages must include all rates and rating factors used in writing Private Passenger, Commercial and Miscellaneous automobile coverage. Rating factors must include, for example, discounts, surcharges and merit rating factors. In the case of a Category 2 filing where it may not be practical or possible to provide these pages they shall be provided to the Board within 30 days following approval by the Board.

Discounts and surcharges must be outlined on a separate page showing the circumstances under which each will be applied along with the percentage amount. **All discounts and surcharges must be submitted with the insurer's rate filing.**

### **2.3 SURCHARGES**

The word surcharge or surcharges as used in these instructions includes those surcharges levied by an insurer against insureds for *Criminal Code* or *Highway Traffic Act* convictions. Surcharges of this nature should be summarized on a separate form, and submitted with the rate filing if not already included in the company's rating manual filed with the Board.

Surcharges, other than those identified above, must be submitted with the filing. All surcharges, including *Criminal Code* or *Highway Traffic Act* convictions, are subject to Board approval.

All surcharges should be provided in a format similar to that shown at Tab 4.

### **2.4 DISCOUNTS**

All discounts offered by the company must be submitted with the filing. The elimination of or reduction in the amount of the discount or the manner of application of an approved discount will be considered to result in a rate increase and will be subject to Board approval.

All discounts are to be provided in a format similar to that shown at Tab 4.

## **2.5 CLASS OF USE DEFINITIONS**

For rate filing purposes the Board requires that insurers utilize the Class of Use Definitions established by the Superintendent of Insurance. Insurers may subdivide risks within a class where a complete explanation and rationale for the subclasses are provided with the filing. In addition, insurers must show how the statistical data for subclasses will be mapped to the standard classes of the Statistical Plan.

Insurers are prohibited from establishing for rate making purposes Class of Use Definitions other than those set out by the Superintendent of Insurance unless prior approval is obtained from the Superintendent and provided with the filing. The insurer must show the need for the alternate definitions and ii) how they will be mapped back to the Class of Use Definitions established by the Superintendent of Insurance.

## **2.6 ENDORSEMENTS**

The filing must include a complete list of all Standard Endorsements used in the writing of automobile insurance in the Province along with their associated premiums.

## **2.7 CLASSIFICATION SYSTEM**

In accordance with recent legislative changes, an insurer is required to file with the Board the risk classification system it intends to use in determining the rates for each class of insured and for each coverage of insurance. Each insurer must file a complete copy of the in-force risk classification system.

Section 96.2 of the legislation and associated regulations prohibit insurers from using the following elements in any risk classification system:

1. Age, Sex, Marital Status with the exception of discounts to insureds aged 55 years and older;

2. Not at fault losses;
3. Insured has inquired as to coverage or has advised of an accident for which no payment of indemnity was made;
4. Non Payment of premium, other than the first payment, if amount is paid within 30 days it was due;
5. Insured has been declined or refused insurance by another insurer;
6. Any lapse in insurance coverage of less than 24 months, with specific exceptions; and
7. Any element associated with an excluded driver or the claim of a driver subsequently excluded

In addition, insurers are prohibited from using a risk classifications system that:

- (a) Is not just and reasonable in the circumstances;
- (b) Is not reasonably predictive of the risk;
- (c) Does not distinguish fairly between risks; or
- (d) Is otherwise prohibited in the regulations.

In order to determine the impact on insured's of changes to the Class of Use definitions, Exhibit 4, contains rating profiles. These profiles are to be completed for each private passenger filing. The rating of each profile is to be completed in the following manner:

- All rates provided are to be the manual rates prior to the application of any surcharges, discounts or capping provisions proposed by the insurer.
- Under the heading "Current rates" each insured is to be rated in accordance with the Class of Use definitions currently in use by the insurer.
- Under the heading "Proposed Rates" each insured is to be rated in accordance with the revised Class of Use definitions intended to be used by the insurer arising from the filing.
- Under the heading "Percentage Change" the difference on a percentage base of the previously approved or deemed approved rates and the proposed rates is to be shown.
- Any applicable surcharges or discounts are to be itemized in the appropriate section on each rating profile and must state the discount/surcharge, the percentage and the coverage's to which they apply.

## **2.8 GROUNDS**

Insurers are required to file the grounds on which it intends to decline to issue, terminate or refuse to renew a contract of insurance, or refuse to provide or continue a coverage or

endorsement. Each insurer must file a current copy of its in-force Rates and Underwriting Manual as part of a rate filing.

The following grounds for refusal or termination are specifically prohibited by legislation or regulation.

1. Age, Sex or Marital Status;
2. Not at Fault Losses;
3. Insured has inquired as to coverage or has advised of an accident for which no payment of indemnity was made;
4. Non payment of premium, other than first payment, where a dishonored payment was replaced within 30 days of its original due date;
5. Insured has been declined or refused insurance by another insurer;
6. Any lapses of less than 24 months in insurance coverage, with specific exceptions;
7. Insured does not have another insurance policy of any kind with the insurer;
8. Insured is or was insured through the Facility Association;
9. Vehicle age except that the insurer may require a satisfactory inspection certificate be provided where the vehicle is 8 years or older;
10. The length of time the applicant or a person insured under a contract has held a valid drivers license; or
11. The lack of a driver training program unless otherwise required by law.

In addition, an insurer is prohibited from using a ground which:

- (a) Is subjective;
- (b) Is arbitrary;
- (c) Bears little or no relationship to the risk to be borne by the insurer in respect of an insured; or
- (d) Is contrary to public policy.

The Board may from time to time notify insurers in a general circular of specific grounds it deems to be in violation of these legislative provisions.

### **3.0 FILING CATEGORIES**

### **3.1 CATEGORY – 1: FILE AND USE**

#### **3.1.1 Category 1 - Definition**

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

- a) The filed base rates for every coverage are reduced from those previously approved or that were filed with the Board and deemed to be approved and there is no increase to any rate for any coverage for any insured;
- b) The filed base rates for every coverage are not changed from those previously approved or that were filed with the Board and deemed to be approved and there is no increase to any rate for any coverage for any insured; or
- c) A combination of A and B above.

Any filings not meeting these requirements will be considered a Category 2 filing.

#### **3.1.2 Category 1 – Filing Requirements**

A Category 1 filing requires that an insurer file the proposed rating program along with a certification that the proposed rating program will not result in any increase to any rate for any coverage for any insured. A Category 1 filing must include TAB 1-13, with the exception of TAB 6 (Actuarial Justification).

#### **3.1.3 Category 1 – Review Period**

There will be a 30-day minimum period between the Board receiving a complete filing and the implementation date of a Category 1 filing. The Board will review such filings for compliance.

## **3.2 CATEGORY 2: PRIOR APPROVAL**

### **3.2.1 Category 2 - Definition**

Where a rate filing contemplates changes to base rates or other factors that result in an increase in a rate for any coverage for any insured, the filing will be considered a Category 2 filing.

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

The filing must show a reconciliation of the premium, exposure and loss cost data underlying the rate indications to the company's data submitted in accordance with the statistical plan. This requirement can usually be satisfied by including the actual loss ratio exhibits for the company, and either showing that the data in those exhibits match the data in the filing, or explaining the differences. This reconciliation should be completed for the overall rate change indications by coverage. This should demonstrate that each company's filing reflects its total experience in the Province rather than reflecting only a segment of its book of business.

It is recognized that in some cases it may not be possible to show an exact reconciliation, due to differences in the data sources used for ratemaking vs. reporting. However, it should be possible to reconcile the sources sufficiently to

demonstrate that the filing does not omit any significant segment of the company's experience in Newfoundland and Labrador.

It is not necessary to reconcile the data used for territory differentials, class differentials, etc.

### **3.2.2 Category 2 – Filing Requirements**

A Category 2 filing must include Tabs 1 – 13 and must be accompanied by an actuarial analysis to support the rate level indications and selected change. Insurers must justify all rates for each coverage where there is an increased rate within the coverage. The insurer is not required to adopt their maximum rate indications and may select rates that are below the indications. In no case will the Board approve a rate that is selected at a level higher than the indications supported by the actuarial analysis.

### **3.2.3 Category 2 – Review Period**

Insurers are prohibited from proposing an implementation date earlier than 90 days after the filing of a complete filing with the Board. A filing will not be considered complete unless and until all required documentation and information, sufficient to permit a full review of the filing, has been received by the Board. This will include any external expert reports or evidence relied on by the insurer to support its assumptions and its actuarial findings. It is expected that up to 90 days will be required to permit sufficient time for proper review of the filing and issuance of an Order of the Board. **In no case** shall an insurer implement an increase in a rate without the prior approval of the Board. **In no case**, where an Order has been issued by the Board specifying the dates for implementation of a revised rating program, shall an insurer delay or advance the implementation of the revised rating program without the prior approval of the Board.

## **4.0 FILING FORMAT**

### **4.1 TABS**

To standardize the information provided by insurers, the Board requires that all filings include the following information unless indicated otherwise:

- TAB 1** GENERAL CONTACT INFORMATION
- TAB 2** FILING INFORMATION
- TAB 3** CLASS-OF-USE DEFINITIONS
- TAB 4** DISCOUNTS/SURCHARGES  
(OTHER THAN HTA & CCC SURCHARGES)
- TAB 5** RISK CLASSIFICATION SYSTEM
- TAB 6** SUPPORTING ACTUARIAL INFORMATION (**Category 2 filings only**)
- TAB 7** SEF WORDINGS AND RATES
- TAB 8** SECTION A, PRIVATE PASSENGER, EXHIBITS 1, THROUGH 4
- TAB 9** PRIVATE PASSENGER RATE PAGES
- TAB 10** SECTION B, COMMERCIAL, EXHIBITS 1, THROUGH 3
- TAB 11** COMMERCIAL RATE PAGES
- TAB 12** MISCELLANEOUS RATE PAGES
- TAB 13** UNDERWRITING GUIDELINES

### **4.2 EXHIBITS**

The following exhibits must be completed for Private Passenger filings (TAB 8):

- Exhibit 1 - Base Rate Summary
- Exhibit 2 - Current Base Rate vs. Filed Adjusted Filed Base Rates
- Exhibit 3 - Current Differentials vs. Filed Differential Comparison



- Exhibit 4 - Driver Rate Change Impact Forms
- Exhibit 5 - Premium Summary Information

The following exhibits must be completed for Commercial filings (TAB 10):

- Exhibit 1 - Base Rate Summary
- Exhibit 2 - Current Base Rate vs. Proposed Base Rates
- Exhibit 3 - Current Differentials vs. Proposed Differential Comparison
- Exhibit 4 - Driver Rate Change Impact Forms
- Exhibit 5 - Premium Summary Information

There are no exhibits for miscellaneous classes of vehicles.

These Filing Instructions and Exhibits may be downloaded from the Board's website by following the "downloads" link at [www.pub.nl.ca](http://www.pub.nl.ca).

For Miscellaneous classes of automobile insurance, insurers shall submit a separate rate filing for consideration by the Board. Such filings must be supported by the insurer's own experience in the class, or by industry data. The filing company should indicate the data source utilized to support the filing. Filings falling into this category include Public Passenger Vehicles; Motorhomes, Campers and Trailers; Recreational Vehicles including All Terrain Vehicles and Snow Vehicles; Motorcycles and Mopeds and Antique Vehicles.

**4.3 APPENDIX “A”**

Guidance for Preparing Rate Level Indicators is attached as Appendix “A”.

**Newfoundland and Labrador**

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

P.O. Box 21040

St. John's, NL

A1A 5B2

Please complete this form and return it to the Board with your company's filing.

**1. Name of Insurer**

Mailing Address

**Contact person for**

**Actuarial:**

Telephone #

E - Mail Address

**Administration:**

Telephone #

E - Mail Address

**Underwriting:**

Telephone #

E - Mail Address

**2. Type of automobile insurance written in Newfoundland and Labrador**

Private Passenger,

Commercial

Miscellaneous

**3. Name and address of chief agent in Newfoundland and Labrador**

**4. Please attach a complete list of all companies acting as agents, brokers or representatives of your company and who are authorized to write automobile insurance business on your behalf in Newfoundland and Labrador.**

**Newfoundland and Labrador**

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

P.O. Box 21040 St. John's, NL A1A 5B2

**Contact sheet and info for current filing**

Please complete this form and return it to the Board with your company's filing.

**Name of Insurer:**

**Name of Agent/Person making this filing:**

**Title/Position with Insurer:**

**Telephone Number:**

**Fax Number:**

**Email Address:**

**Type of Rates filed:**

Private Passenger      Category 1              Category 2

Effective Dates:      New Business \_\_\_\_\_      Renewals: \_\_\_\_\_

\*\*\*\*\*

Commercial              Category 1              Category 2

Effective Dates:      New Business \_\_\_\_\_      Renewals: \_\_\_\_\_

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Miscellaneous              Category 1              Category 2

Effective Dates:      New Business \_\_\_\_\_      Renewals: \_\_\_\_\_

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**Province of Newfoundland and Labrador  
 Private Passenger Automobile Insurance  
 Discount Summary**

Insurers may use this format or such other format they deem appropriate

Example	Discount:	Multi Vehicle
	Coverage:	TPL, Coll, Comp
	Classes:	01, 02, 03, 07
	Amount	12%

Discount:	
Coverage:	
Classes:	
Amount	

Discount:	
Coverage:	
Classes:	
Amount	

Discount:	
Coverage:	
Classes:	
Amount	

Discount:	
Coverage:	
Classes:	
Amount	

Discount:	
Coverage:	
Classes:	
Amount	

**Province of Newfoundland and Labrador  
Private Passenger Automobile Insurance  
Surcharge Summary**

Insurers may use this format or such other format they deem appropriate

Example	Surcharge:	3 or more minor HTA convictions
	Coverage:	TPL, Coll,
	Classes:	all
	Amount	10%

Surcharge:	
Coverage:	
Classes:	
Amount	

Surcharge:	
Coverage:	
Classes:	
Amount	

Surcharge:	
Coverage:	
Classes:	
Amount	

Surcharge:	
Coverage:	
Classes:	
Amount	

Discount:	
Coverage:	
Classes:	
Amount	

## GUIDANCE FOR PREPARING RATE LEVEL INDICATIONS

### Content, Organization, and Presentation of Rate Level Indications

#### Actuarial Memorandum

- The filing should include an actuarial memorandum that provides a general description of the rate indication methodology as well as a discussion of each consideration in the rate indication methodology (e.g., loss trend, loss development, experience period weights, rate group drift, return on investments, etc.). The discussion of each consideration should include a clear explanation of the approach and data used, the rationale for each key assumption made (e.g., the basis for the selection of each loss development factor, the basis for the selection of trend factors, the basis for the experience period selected and the weights that are applied, etc. – if judgment was applied, then an explanation must be provided as to why a particular factor was judgmentally selected as opposed to some other factor), the reasons for any changes in methodology and/or judgments that are made from those used/made in the Company’s last approved rate filing in Newfoundland & Labrador, including the rate level impact of any significant changes, and appropriate exhibit references. The actuarial memorandum should also include all other relevant information upon which the proposed changes are based.
- Ensure that all exhibit references in the actuarial memorandum are accurate and that the referenced exhibits are included in the filing.
- Number each page in the actuarial memorandum.

#### Exhibits

- Clearly identify all the information presented in each exhibit, including the source of the data and the formula(s) for any numbers that are calculated.
- Label each exhibit. Exhibits that span multiple pages should be labeled appropriately, e.g., Exhibit 8, Sheet 1, Exhibit 8, Sheet 2, etc.
- Number all exhibit pages in sequential order. This is in addition to labeling of the exhibits.
- Ensure that all exhibit footnotes and references are correct.
- Do not shade any portions of any exhibits.

- Use legible font sizes; the preference is no smaller than Times New Roman 12 point.

## **Overall Rate Level Indications**

### General

- Rate level indications are to be developed by type of vehicle: private passenger, commercial, and for each of the various types of miscellaneous vehicles that are rated independently of other vehicle types.
- Rate level indications are to be developed by coverage: TPL, Accident Benefits, Collision, Comprehensive, Uninsured Motorists, Underinsured Motorist, All Perils, and Specified Perils. All Perils and Specified Perils may be combined with Collision or Comprehensive, as appropriate. The overall rate level indication is to be derived based on the distribution of written premiums by coverage adjusted to the current rate level.
- Rate level indications must be based on Newfoundland & Labrador experience: Company experience to the extent credible or Industry experience. As deemed appropriate, Company or Industry experience from the Atlantic or other provinces may be considered; however, an explanation as to the relevance of such external data must be provided.
- Company premium or loss/claim experience used in deriving rate level indications should be through the most recent quarter-end, and no older than six months from the date of the filing. Industry experience should be based on the latest release by IBC – typically May for prior year-end, and November for mid-year.
- Either the loss ratio or pure premium method is acceptable. If the loss ratio method is used, the premium must be placed at current rate level (for which various methods are acceptable, e.g., extension of exposures, parallelogram).
- Any change(s) in the general methodology from that used in the Company's last approved rate filing in Newfoundland & Labrador must be identified and explained, and the impact on the rate level indication must be provided.

### Experience Period and Weights

- Rate level indications are to be based on the most recent quarter-ending three to five accident years of experience. This is subject to data availability – it is recognized that some companies compile data by accident half-year.



- The weight assigned to each year is at the judgment of the Company; it is expected that more weight will be given to the more recent years.
- The rationale for the particular weights that are applied must be provided. Any changes from the weights used in the Company's last approved rate filing in Newfoundland & Labrador must be identified, explained, and the impact of the change in weights on the rate level indication must be provided.

#### Estimation of Ultimate Accident Year Losses

- It is expected that standard actuarial loss projection methodologies will be used to derive ultimate accident year losses.
- TPL losses must be developed by sub-coverage. Accident Benefits losses may be developed by sub-coverage.
- All assumptions, and the rationale for all selections, must be fully documented and explained. (For example, the rationale for each selected incurred loss development link ratio must be provided if this method is used.)
- Company specific Newfoundland & Labrador loss development experience must be considered. To the extent it is not considered to be fully credible, Company loss development experience from other Atlantic provinces (first consideration) or other provinces may be considered, subject to appropriate adjustments for product differences. An explanation as to why the Company's Newfoundland & Labrador loss development experience is not considered to be credible and an explanation as to why the external data that is used is relevant to the Company's loss development experience in Newfoundland & Labrador must be provided.
- If Company loss development experience in another province(s) is also not considered to be credible, or is not considered to be relevant, Industry loss development experience for Newfoundland & Labrador (first consideration), other Atlantic provinces (second consideration), or other provinces may be considered, but an explanation as to why this external loss development experience is considered to be relevant for the Company's loss development patterns in Newfoundland & Labrador must be provided.
- Loss development experience for another coverage may be considered (e.g., Comprehensive for Specified Perils), but an explanation as to the other coverage's relevance must be provided.
- As respects Industry loss development factors, the Board's actuarial consultants will review the Industry Newfoundland & Labrador loss development experience as it is released by IBC and will advise the Board of its selected guideline incurred and claim count development factors. The selected factors will then be

posted on the Board's website. It is expected that the selected factors will be updated in July and January. Companies are not required to use the guideline factors, but full rationale for the use of different factors must be provided and supported.

- Loss development factors should be based on the most recently available half-year ending data.
- In estimating ultimate incurred losses (or as a general adjustment in deriving the rate level indication), losses may be capped, and a large loss loading may be applied. The derivation of the large loss loading must be included in the filing.
- To the extent possible a reconciliation between the selected ultimate losses presented in the rate filing and the selected ultimate losses made by the Appointed Actuary for the Company's financial statements should be provided.
- Any changes in methodology from that used in the Company's last approved rate filing in Newfoundland & Labrador must be identified, explained, and the impact of the change in methodology on the rate level indication must be provided.

#### Loss Trend

- To the extent feasible, loss trends should be based on Industry Newfoundland & Labrador claim frequency and claim severity data, with claims and losses developed to ultimate. Company specific loss trend experience may be considered, but Companies relying on their own experience must explain why their data is considered to be credible for loss trend purposes, and must provide an explanation for material differences from the Industry-based trend rates.
- Loss trends are to be separated between past and future loss trends, with the cut-off point being the last date of the experience period.
- The effect of reform measures on loss trend is to be considered and the rationale for any adjustments must be provided.
- The Board's actuarial consultants will review the Industry Newfoundland & Labrador loss trend experience every six months as it is released by IBC and will advise the Board of its selected guideline past and future loss trend rates by coverage. The selected trend rates will then be posted on the Board's website. It is expected that the selected factors will be updated in July and January. Companies are not required to use the guideline factors, but full rationale for use of different factors must be provided and supported.

ULAE

- Company-based ULAE ratios must be supported with at least the three most recent years of Company experience. If Industry ULAE ratios as published by IBC are used, an explanation must be provided as to why such ratios are relevant for the Company.

Premium Trend

- Rate group drift factors must be fully supported.
- In the absence of credible Company data for determining rate group drift factors, the factors published annually by the VICC may be considered.
- Consideration should also be given to the rate level effects caused by shifts in TPL limits and physical damage deductibles. This should be based on the Company's experience or Industry experience to the extent Company experience is not determined to be credible. Selected factors must be supported.

Credibility Standards*Based on Claim Counts*

- Credibility standards based on claim counts are acceptable.
- Claim counts should be developed to ultimate.
- Rate level indications can vary significantly based on the credibility standards that are selected. And while credibility standards have some theoretical basis the selection of credibility standards is largely a matter of judgment. Therefore, in order to review filings on a consistent basis the Board's actuarial consultants suggest the following full credibility standards are acceptable:
  - 1,082 claims for each of the Collision, Comprehensive, All Perils, and Specified Perils coverages
  - 2,164 claims for Accident Benefits
  - 3,246 claims for each of the Uninsured Motorist and Underinsured Motorist coverages
  - For TPL, 3,246 claims for the Bodily Injury subcoverage and 1,082 for the Property Damage subcoverage.

- Other full credibility standards based on claim counts will be considered, but the rationale for any alternate standard must be provided, and the Company must provide a comparison of the filed standard with the standard(s) used by the Company in preparing filed rate level indications for other provinces.
- When analyzed by sub-coverage, the credibility for the TPL coverage is to be determined by taking a weighted average of the separate credibility weights determined based on Bodily Injury and Property Damage claim counts. Other approaches for determining the credibility for the TPL coverage will be considered, but the rationale for any alternate calculation must be provided.
- If Accident Benefits indications are determined by sub-coverage, the amount of credibility assigned to each sub-coverage should be that which is determined for the Accident Benefits coverage in total. Other approaches for determining the credibility for the Accident Benefits sub-coverages will be considered, but the rationale for any alternate calculation must be provided.
- Any changes in the claim count based credibility standards from those used in the Company's last approved rate filing in Newfoundland & Labrador must be identified and fully explained, and the impact of the change in standard on the rate level indication must be provided.

#### *Not Based on Claim Counts*

- Credibility standards not based on claim counts will be considered (whether they are based on premium, exposures, or some other criteria), but the rationale for any alternate standard must be provided, and the Company must provide a comparison of the filed standard with the standard(s) used by the Company in preparing filed rate level indications for other provinces.
- Any changes in the standards from those used in the Company's last approved rate filing in Newfoundland & Labrador must be identified and fully explained, and the impact of the change in standard on the rate level indication must be provided.

#### Complement of Credibility

- Reasonable methods in determining the complement of credibility will be considered. However, the Company must provide complete rationale for the particular method that is selected.
- If an Industry-based indication (or loss ratio, or pure premium, etc.) is used as the basis for the complement of credibility, the Industry data (premiums and losses) must be appropriately adjusted to reflect the Company's distribution of business and rate level. The calculations underlying the adjustments must be provided and explained.

- If a prior rate level indication or prior projected loss ratio or pure premium serves as the basis for the complement of credibility, that indication, loss ratio, or pure premium must be based on the rate level indication that was accepted by the Board. As appropriate, consideration should be given to any subsequent rate level change, any changes in profit margins and expenses, as well as any tort reform measures that may have been enacted. It is expected that the net loss/premium trend period that is applied to the prior (adjusted) rate level indication would be one year.
- Any changes in the complement of credibility from that used in the Company's last approved rate filing in Newfoundland & Labrador must be identified and fully explained, and the impact of the change in on the rate level indication must be provided.

#### Consideration of Reforms

- The estimated effects of any tort reform measure must be considered in the adjustment of past experience. The Board's actuarial consultants will advise the Board of its guideline estimates of the savings arising from any tort reform measures. The selected estimates will then be posted on the Board's website. Companies are not required to use these estimates, but full rationale for any differences must be provided and supported.

#### Expenses

- Selected expense levels must be fully supported with at least the three most recent years of Company experience. In particular, selected expense levels that are not in line with Company experience must be fully explained.
- Companies must explain how Company expenses are allocated to Newfoundland & Labrador automobile, and state when the allocation was last performed.
- Recognition should be given to the fixed nature of certain expenses.

#### Return on Equity

- The Board in A.I. 1 (2005), after hearing from several experts relating to profit margin, determined a return on equity and premium to surplus ratio for use under the benchmark system which, as the result of legislative changes, is no longer in use. Nevertheless, the Board accepts the determination in A.I. 1 (2005) as the most comprehensive recent consideration of the appropriate return on equity and premium to surplus ratio for rate making purposes for automobile insurers in Newfoundland &

Labrador. Therefore, the Board accepts as reasonable for use in rate filings a target after-tax Return on Equity of 10.0% and a premium to surplus ratio of 2.25.

- Other return on equity or premium to surplus assumptions or calculations will be considered, but rationale for any deviations must be provided and the Company must provide a comparison of the assumptions or calculations with those made by the Company in preparing filed rate level indications for other coverages and lines of business in Newfoundland & Labrador as well other provinces.

#### Return on Investments

- The Board also considered the appropriate return on investments for rate-making purposes for automobile insurers in Newfoundland and Labrador in A.I. 1 (2005). The Board accepted that "...setting ROI based on levels of risk and commensurate returns relative to the actual investment profile of Canadian automobile insurers is most appropriate," but noted the lack of available information to assist in this determination. In light of the lack of information and the changed regulatory environment, the Board will not set out a target return on investment for rate making purposes, but expects that the return on investment will be in the range identified by the Board in the order of 5.4%-7.04%.
- The Board will consider other return on investment assumptions or calculations; however, full rationale for any deviations must be provided, based on recently available 2004 financial data.

#### **Territory Differentials**

- Companies must fully explain the methodology they are using to derive rate level indications by territory.
- Proposed changes are expected to follow the credibility weighted indicated changes, subject to possible capping to control rate dislocation. Rationale must be provided where the proposed changes result in an increase in rates to any insured.

#### **Risk Classification Differentials – Applicable to Existing Rating Variables or Proposed New Rating Variables**

- Companies must fully explain the methodology they are using to derive rate level indications by classification.
- It is expected that indications will be based on multiple-regression models of the nature of Generalized Linear Models.

- Proposed changes are expected to follow the credibility weighted indicated changes, subject to possible capping to control rate dislocation. Rationale must be provided where the proposed changes result in an increase in rates to any insured.

**Discounts/Surcharges**

- Companies must fully explain the methodology they use to derive discounts or surcharges. Where the implementation of, or change to, a discount/surcharge results in an increase rates to any insured, the filing must provide rationale.

**Miscellaneous Vehicles that are Not Independently Rated**

Companies should provide premium/loss experience (such as on-level loss ratios) or other information supports the current or proposed rates for such miscellaneous vehicles.







**Mercer's Selected Annual Loss Trend Rates**  
 As of December 31, 2005  
 Newfoundland and Labrador

**Private Passenger Automobile Excluding Farmers**

	<u>Bodily Injury</u>	<u>Property Damage</u>	<u>Accident Benefits</u>	<u>Uninsured Motorists</u>	<u>Collision</u>	<u>Comprehensive</u>	<u>Specified Perils</u>	<u>AllPerils</u>	<u>SEF #44</u>
Past	2.5%	2.5%	0.0%	2.5%	1.0%	-3.5%	-3.5%	-1.0%	-1.0%
Future	2.5%	2.5%	2.0%	2.5%	1.0%	-2.0%	-2.0%	0.0%	-1.0%

**Mercer's Selected Annual Loss Trend Rates**  
**As of December 31, 2005**  
**Newfoundland and Labrador**

**Commercial Automobile**

	<u>Bodily Injury</u>	<u>Property Damage</u>	<u>Accident Benefits</u>	<u>Uninsured Motorists</u>	<u>Collision</u>	<u>Comprehensive</u>	<u>Specified Perils</u>	<u>AllPerils</u>	<u>SEF #44</u>
Past	8.0%	-6.50%	11.0%	2.6%	-3.0%	1.0%	1.0%	-2.0%	1.0%
Future	8.0%	0.00%	11.0%	2.6%	0.0%	1.0%	1.0%	0.5%	1.0%