

DIRECTIVE: **A.I. 04-01**

ISSUED: **November 2004**

TO: **ALL INSURERS TRANSACTING THE BUSINESS OF
AUTOMOBILE INSURANCE IN THE PROVINCE OF
NEWFOUNDLAND AND LABRADOR.**

SUBJECT: **2004 FILING INSTRUCTIONS AND EXHIBITS FOR
PRIVATE PASSENGER AND COMMERCIAL
AUTOMOBILE INSURANCE RATE FILINGS.**

Overview / Highlights

Insurers are advised that Legislative changes have been made to the *Insurance Companies Act*, the *Automobile Insurance Act*, the *Highway Traffic Act*, and the S.P.F., No. 1, Standard Automobile Policy (owner's form). These changes are contained in Chapter 27, S. N. L. 2004, and may be found on the Government website at www.gov.nl.ca/hoa/chapters/2004/0427.chp.htm.

In addition, there are a number of new Regulations affecting automobile insurers operating in the Province. These Regulations may also be found on the Government website at <http://www.gov.nl.ca/gs/gs/oqp/pdf/gazette/ext/2004-08-01.pdf>.

These Filing Instructions do not preclude an insurer from:

- 1) filing rates more than once during the year,
- 2) submitting a filing for revised rates based on the 2004 Benchmarks other than for increases in rates, prior to the expiry or the lifting of the legislated freeze.

EXHIBITS:

The enclosed exhibits should be completed for all filings so that a complete review may be undertaken by Board staff, or the Board's Actuarial Consultants. Companies may use their own versions of these forms, but the information supplied must reflect the requirements herein and allow for the calculation of the off-balance adjustment factors to be applied to the base rates.

These Filing Instructions and Exhibits may be downloaded from the Board's website by following the "downloads" link at www.pub.nf.ca.

EARNED

PREMIUM:

These Filing Instructions continue the use of Adjusted Earned Premiums as the weights to be used in calculating off balance factors in determining the adjustments necessary to the filed base rates. The use of Adjusted Earned Premiums is more reflective of the actual impacts the adjustment of differentials will have on the base rates filed by companies. For the purposes of these Instructions, the Adjusted Earned Premium shall be the premium earned by the insurer before deductions of any expenses or commissions paid to brokers for the writing of policies.

**NON-BENCHMARK
FILINGS:**

Insurers' attention is drawn to the applicable sections of these Filing Instructions relating to non-benchmark filings. In past years, the Board dealt with numerous non-benchmark filings. Many of these took extensive time to process due to required information not being provided by the filing company. The information requirements contained herein are designed to ensure the Board's actuaries have, in their possession, all necessary information for purposes of reviewing a non-benchmark rate filing. Incomplete submissions require the Board's actuaries to contact the filing company, which results in delays in their review and analysis of the company's filings. While the Board is endeavouring to hasten the filing review period, insurers can shorten the review period by providing complete and accurate information at the time of submitting their filing.

While the overall expenses of the Board associated with insurance regulation in general, and the Benchmark study in particular, are appropriate to recover by way of general assessment against the industry, the costs of independent non-benchmark filings are not. Pursuant to Section 57 of the Automobile Insurance Act and Section 90 of the Public Utilities Act, the costs associated with reviewing non-benchmark filings will be recovered directly from the filing company.

GROUNDINGS: In accordance with recent changes to the *Insurance Companies Act*, an insurer is required to file with the Board the grounds on which it intends to decline to issue, terminate or refuse to renew a contract, or refuse to provide or continue a coverage or endorsement.

CLASS DEFINITION: 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 coverage of insurance.

OFF BALANCE

FACTORS: To address the issue of variations in the rating of insureds exhibiting similar risk characteristics, arising from the deviations on the Automobile Statistical Plan, these instructions provide for an off-balance factor calculation to restate the insurer's earned premium and/or adjust the filed base rate to reflect the correct Statistical class-of-use definitions.

STANDARDIZATION

OF FILINGS: To standardize the information provided by insurers, the Board requests that filings be number tabbed in accordance with the schedule set out at the end of these instructions at Section 5.

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1.0 GENERAL

These filing instructions are issued under the authority of section 48 of the *Automobile Insurance Act*, and outline the information requirements which must accompany all filings for private passenger and commercial automobile insurance rates. These filing instructions are based on the most-recent Benchmark Rate Ranges as adopted by the Board.

Failure by an insurer to provide the information detailed in the enclosed exhibits or to adhere to the filing requirements set out herein may result in the filing being returned to the insurer for correction, or, in the alternative, the Board may set the rates for the insurer within the current Benchmark Ranges.

These filing instructions relate to the private passenger and commercial classes of automobile insurance. For all other classes of automobile insurance, insurers shall submit an independent rate filing for consideration by the Board. Such filings must be supported by the insurers' own experience in the class, or industry data. The filing company should indicate the data source utilized to support the filing. Filings falling into this category include the following classes of business:

- Public Passenger Vehicles
- Motorhomes, Campers and Trailers
- Recreational Vehicles including,
 - All Terrain Vehicles
 - Snow Vehicles
- Motorcycles and Mopeds
- Antique Vehicles.

The minimum statutory requirement as outlined in Section 1.2 is that insurers must file their rating programs annually with the Board. This does not preclude the insurer from filing rating programs more than once in a year.

All filings should be submitted, with a complete list of the insurer's standard endorsement forms used in the writing of automobile insurance in the province, and associated premiums. A complete list of all discounts utilized by the company, coverages affected, and exclusions must also be submitted.

The Benchmarks use adjusted earned premiums as weights to determine off-balance factors in the calculation of the proposed differentials versus the Benchmark differentials in arriving at the adjusted base rates. The use of adjusted earned premium is designed to provide a more accurate reflection of the impacts upon the insurers' book of business by varying the differentials from the Benchmark differentials. The calculation of off-balance factors arising as a result of the introduction or continuation of discounts must also utilize adjusted earned premiums as weights to ensure an accurate reflection of the impacts that the proposed or continued discounts will have on the overall book of business of the insurer.

1.1 FILING CATEGORIES

These filing instructions contemplate three categories of filings for automobile insurance rates:

Category 1

1. Benchmark filings whereby the filed and the adjusted base rates fall within the benchmark rate ranges, and where the filed differentials vary by no more than +/- 15% from the benchmark differentials.

Category 2

2. Non-Benchmark filings where the filed rates and/or the adjusted base rates for one or more coverages fall outside the benchmark rate ranges, and/or where any of the filed differentials vary more than +/- 15% from the benchmark differentials.

Category 3

3. Filings by IAO member companies to adopt the Insurers' Advisory Organization's most-recently accepted Advisory rating programs filed with the Board.

1.2 AUTOMOBILE INSURANCE ACT (THE ACT)

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

Rates Defined

Section 2 (1) of the Act 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).

Annual Filing Required

Section 49(1), as amended, requires an insurer to file annually with the Board the rates that it proposes to charge for automobile insurance.

Unapproved Rates Not to be Charged

Section 50 provides that an insurer shall not charge rates that have not been approved or considered to have been approved by the Board under the Act.

Penalty Provisions

Section 54(1) provides that an insurer who fails to comply with Sections 49 to 53 of the Act, or the Regulations, is guilty of an offense, and is liable on summary conviction to a fine of not more than \$5,000.

Insurer's License Suspension

Section 54(2) provides that a further penalty may be imposed whereby an insurer convicted of an offence under Section 49 to 53 of the Act, or of the Regulations, may have their license suspended or canceled by the Minister.

1.3 MINIMUM FILING PERIOD

You should note that a minimum of 60 days between the filing date and effective date of the proposed rates, is required to permit sufficient time for proper review of the filing and issuance of an Order by the Board. **In no case** shall an insurer implement a revised rating program without the prior approval of the Board. **In no case** where an Order has been issued by the Board specifying the effective 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.

1.3.1 Filings Within the Benchmark Rate Ranges

Category-1 filings, being those containing base rates and adjusted base rates within the Benchmark Rate Ranges **must** be presented to the Board. Filings of this nature must be accompanied by the appropriate comparison exhibits contained in Tab 8 and/or Tab 10 of these instructions. These filings must also include the minimum information requirements as detailed in Sections 2.0.1 and 2.0.2 of these instructions. Companies not

filing may have rates set by the Board within the Benchmark Ranges. Filings must be presented to the Board at least 60 days prior to the effective date.

1.3.2 Filings Outside the Benchmark Rate Ranges

Category-2 filings, being those containing any base rates and/or adjusted base rates outside the Benchmark Rate Ranges, must be presented to the Board. Filings of this nature must be accompanied by the appropriate comparison exhibits contained in Tab 8 and/or Tab 10 of these instructions. These filings must also include the minimum information requirements as detailed in Sections 2.0.1 and 2.0.3 of these instructions. This is to provide the Board's Actuarial Consultants sufficient time to perform an analysis and review of the actuarial information provided by the filing company in support of the proposed rates. Companies not filing may have rates set by the Board within the Benchmark Ranges. Filings must be presented to the Board at least 120 days prior to the effective date.

Non-benchmark filings represent a significant workload placed on the Board and consume a significant amount of time. It must be, therefore, emphasized that adherence to information filing requirements, as contained herein, is necessary to ensure that all non-benchmark filings are reviewed by the Board in a timely fashion and with sufficient time to allow the Actuarial Consultants to review the filing in detail and where necessary receive clarification or additional information from the filing company before reporting to the Board regarding the adequacy of the rate filing. For companies filing non-benchmark rates, the Board may establish their rates within the Benchmark, and may issue a subsequent Order varying the approved rates once the Board has determined the appropriateness of the rates represented by the filing.

As indicated in previous Filing Instructions, the expenses incurred by the Board in connection with an independent actuarial review of the filing will be recovered directly from the filing company.

1.3.3 Insurers' Advisory Organization Filings

Member companies of the Insurers' Advisory Organization wishing to adopt the most-recently approved advisory rates of the IAO may provide written confirmation by way of letter to the Board indicating their desire to use the IAO advisory rating program.

Insurers wishing to utilize the IAO advisory rates should allow a minimum of 60 days for the Board to review the filing and issue an Order, accordingly.

1.4 BASE RATE INFORMATION

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

The filing of base rates and differentials should be made using the criteria as set out in the attached Exhibits. The appropriate adjustments to the filed base rate must be made as described in Sections, 2.2, 2.3, 2.4, 2.5 and 2.6 of these instructions. Insurers not offering the Benchmark base criteria should note this in the filing documents, but should still use

the appropriate Benchmark Base Rate criteria for purposes of completing the filing and comparing the proposed rates and differentials with the Benchmark.

Example: The Benchmark base rate criteria for Private Passenger Third Party Liability are: Class 02; DR 5; Limit \$200,000.00. Insurer "A" offers a minimum limit of \$500,000.00. The filing would be completed using the \$200,000.00 limit as the base with

a notation that the minimum limit offered is \$500,000.00. The same method is to be used for Collision, Comprehensive and Specified Perils coverage where the parameters selected by the insurer vary from those of the Benchmarks. Benchmarks' base rate criteria may be found at the bottom of Tab 8, Exhibit 1, Private Passenger and Tab 10, Exhibit 1, Commercial.

1.5 DISCOUNTS/SURCHARGES/CLASS OF USE DEFINITIONS **/UNDERWRITING GUIDELINES**

Discounts and/or surcharges, including those relative to Criminal Code or Highway Traffic Act convictions, must be included as part of a filing. Discounts and surcharges impact directly the premiums paid by insureds and, as such, fall under the definition of rates as outlined in Section 1.2 of these instructions and are subject to Board approval.

Discounts and surcharges must be outlined on a separate page showing the percentage amount and the distribution of insureds affected using adjusted earned premiums as weights. **All discounts and surcharges must be submitted annually with the insurer's rate filing. Also see Section 2.2 and 2.3.**

As variances to the Automobile Statistical Plan also affect the level of rates paid by insureds, insurers must submit with their filing a complete list of their class-of-use definitions, along with all qualifying criterion used in determining a policyholder's class for rating purposes. **Also see Section 2.4.**

The Board requires that each insurer file with it a complete copy of their rates and underwriting manual. This information will be used in dealing with consumer complaints as well as assisting the Board in conducting compliance audits of automobile insurers. **Also see Section 2.1.**

1.6 PREMIUM PAGES

Insurers should submit, with their rate filing, the proposed premium pages developed using the base rates and differentials filed. If this is not possible, the rate pages must be submitted within 30 days after issuance of the Board Order approving or varying the filing.

Rate pages should only show rates for those coverage levels and deductibles offered by the Company. For Company "A" in the example contained in Section 1.4, the rate pages would not contain Private Passenger Third Party Liability premium levels for the \$200,000.00 Limit of Liability but rather would show premium levels for the limits offered.

1.7 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 coverage of insurance.

1.8 GROUNDS

In accordance with recent changes to the *Insurance Companies Act*, an insurer is required to file with the Board the grounds on which it intends to decline to issue, terminate or refuse to renew a contract, or refuse to provide or continue a coverage or endorsement.

2.0 INFORMATION REQUIREMENTS

2.0.1 Information Requirements for Category-1 and 2 Filings

The Board requires that each Private Passenger and Commercial 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 Board's Benchmark rates and differentials. This requirement has two (2) major purposes.

1. To standardize the method used by companies to describe their proposed rates.
2. To facilitate comparisons, both by the filing company and by the Board, of the proposed rates against the Benchmark rates.

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

These exhibits should also show the off-balance factors to be applied to the filed base rates arising from variances to the filed differentials versus the benchmark differentials (column 3), arising from the application of discounts to the rates (column 4), and arising from variances to the Automobile Statistical Plan class-of-use definitions (column 5).

Tab 8, Exhibit 3, and Tab 10, Exhibit 3, should be used to show the proposed differentials compared to the Benchmark differentials, based on the company's distribution of insureds, respectively for Private Passenger and Commercial. If the company's distribution of insureds is not available or is not sufficiently large enough, industry data may be used. In all cases, the source of the distribution used should be identified. For filings made using these filing instructions, the company's adjusted earned premium must be used as distribution weights.

2.0.2 Minimum Information Requirements for Category-1 Filing

For all category-1 filings where the filed and adjusted base rates fall within the Benchmark Rate Ranges and where the filed differentials vary by no more than $\pm 15\%$ from the benchmark differentials, the following additional information must be provided by the filing company:

- a. rate of return on investment for funds provided by insurance operations,
- b. target return on equity,
- c. underwriting profit margins, by coverage, and
- d. expense loadings, split between Commissions, Premium Taxes and Other expenses (this does not include loss adjustment expenses).

2.0.3 Minimum Information Requirements for Category-2 Filings

Where a rate filing contemplates base rates or adjusted base rates which fall outside the Benchmark Rate Ranges, the filing shall be accompanied by an actuarial analysis of the filing company's own Newfoundland and Labrador loss experience and loss development factors, where credible. Where these data are not credible, the company may utilize a combination of its own Newfoundland and Labrador and the IICC-Newfoundland and Labrador loss experience and loss development factors to achieve credibility. In all cases, primary emphasis is to be given to the company's Newfoundland and Labrador loss experience and loss development factors.

To reduce the period of time required to review and consider non-benchmark filings, the Board has established the additional information requirements set below:

A general principle of the benchmark system is that rates outside the benchmark ranges must be justified by a reasonable analysis of the company's own past experience data. A key element of what constitutes a reasonable analysis is that it be based as much as possible on the company's experience in Newfoundland and Labrador, specifically, as opposed to Atlantic Provinces or countrywide experience.

It is recognized that in some cases, the Newfoundland and Labrador specific data may not be fully credible for trend factor and loss development analyses. In such cases, it may be reasonable to give some weight to company data for larger areas, such as the Atlantic Province in total, or Newfoundland and Labrador data from a larger source, such as IICC total industry data. However, the filing must show the company's Newfoundland and Labrador experience, so that the Board's actuary can evaluate the reasonableness of giving weight to the other data source.

The following additional information is to be included with all Category-2 filings where the filed rates and/or the adjusted base rates for one or more coverages fall outside the Benchmark Rates Ranges, and/or, where any of the filed differentials vary more than $\pm 15\%$ from the benchmark differentials.

1. As well, the filing must document the calculation of the underwriting profit margins reflected in the rates, including both the method used and the key assumptions. In particular, the following key assumptions must be shown in the filing:
 - a. target return on equity (ROE);
 - b. rate of return on investments (ROI) - show the value and describe what it is based on;
 - c. premium to surplus ratio, for each line;
 - e. reserve to surplus ratio, or the payment patterns used for present value discounting (which assumption is applicable depends on the method used);
 - f. tax rates;
 - g. any other input values relevant to the method for calculating the underwriting profit margins;
 - h. all formulas used to calculate the underwriting profit margins from these assumptions;
 - i. underwriting profit margins, by coverage; &
 - j. expense loadings, split between Commissions, Premium Taxes and other expenses (this does not include loss adjustment expenses).

2. The following elements of the actuarial analysis should reflect Newfoundland and Labrador specific experience to the extent possible:
 - a. the loss ratios or loss costs used to calculate the indicated rates;
 - b. loss trend factors; &
 - c. loss development factors.

If non-Newfoundland and Labrador experience is used, the filing must still show the above Newfoundland and Labrador specific data, and provide a reasonable rationale for why the filed rates are not based on it.

3. The filing must show a reconciliation of the premium, exposure and loss cost data underlying the rate indications to the company's data submitted to IICC. Usually, this requirement can be satisfied by simply including the actual loss ratio exhibits for the company that are published by IICC, and either showing that the data in those exhibits match the data in the filing, or explaining the differences. This reconciliation should be done for the overall rate change indications by coverage. It is not necessary to reconcile the data used for territory differentials, class differentials, etc.

The purpose of this requirement is to ensure that each company's filing reflects its total experience in the province rather than reflecting only a segment of its book of business that may have better or worse experience than the overall average.

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 to IICC. However, it should be possible to reconcile the sources enough to demonstrate that the filing does not omit any significant segment of the company's experience in Newfoundland and Labrador.

2.1 RATE PAGES/REVISED UNDERWRITING MANUAL PAGES

It is important that a copy of the proposed rate pages, and all revised underwriting manual pages should either accompany the filing, or be provided to the Board within 30

days following approval of the base rates and differentials. These pages should include all rates and rating factors used in writing Private Passenger and/or Commercial automobile coverage, and must include any rating factors not included in the Benchmark system (for example, discounts, surcharges and merit rating factors) as approved by the Board.

2.2 SURCHARGES

The word surcharge or surcharges as used in these instructions shall include 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. No adjustment to the base rates is required for these surcharges.

Surcharges, other than those identified above, must be submitted annually with the filing, showing the distribution of insureds affected. The filed base rates must be adjusted, as outlined in Section 2.6, to reflect the effects of these surcharges. All surcharges, including Criminal Code or Highway Traffic Act convictions, are subject to Board approval.

All surcharges and the off-balance calculation should be provided in a format similar to that shown at Tab 4.

2.3 DISCOUNTS

All discounts offered by the company must be submitted annually with the filing showing the distribution of insureds qualifying on the basis of earned premium. The filed base rates must be adjusted, as outlined in Section 2.6, to reflect the effects of these discounts.

All discounts are subject to Board approval and must be justified by the company. All discounts and the off-balance calculation should be provided in a format similar to that shown at Tab 4.

2.4 CLASS OF USE DEFINITIONS

As part of a filing, insurers must submit their current Private Passenger and Commercial Class of Use definitions and all qualifying criterion utilized in determining a policyholder's class for rating purposes.

Many insurers are offering reduced rates to policyholders operating their vehicles to and from work short distances. This is accomplished in one of two ways, first by application of a discount to the appropriate Class of Use rate and second by changing the Class of Use definition so as to reclassify the risk in a lower Class, i.e. allowing driving up to 8 km. in class 01. In the first instance, insurers are required to adjust their base rate to reflect the impact of the discount and, in the second, they have not.

Varying the Class of Use definitions is contrary to the codification system established and outlined in the Automobile Statistical Plan. Variances to the Statistical Plan Class of Use definitions amount to discounts which will now be factored into the adjustment of an insurer's base rates in the same manner in which other discounts are currently considered.

2.5 BASE RATES & DIFFERENTIALS

For each Private Passenger and Commercial coverage (e.g., Third Party, Collision, etc.) included in a rate filing, the filing company must state the base rate and differentials proposed for each territory in Newfoundland and Labrador. The base class, rating group, etc., to be used in determining the base rate are shown at the bottom of Tab 8, Exhibit 1,

Private Passenger and Tab 10, Exhibit 1, Commercial. If the base class, rating group etc. utilized by a company varies from the Benchmark, then the company's base must be adjusted to reflect the Benchmark criteria as stated in Section 1.5.

If all proposed rate differentials equal the Benchmark differentials and the company does not utilize any other rating variables that would affect the level of rates, (i.e., discounts or surcharges as outlined in Sections 2.2 and 2.3), or vary the class of use definitions from those established in the Automobile Statistical Plan (Section 2.4), then the proposed rates are within the Benchmark guidelines, where, the proposed base rate falls within the range shown in Tab 8, Exhibit 2, for Private Passenger and in Tab 10, Exhibit 2, for Commercial.

2.6 ADJUSTMENT OF BASE RATES

If the proposed differentials for any rating variable (e.g., class, driving record, limit of liability, deductible, rating group) differ from the Benchmark differentials, then the proposed differentials for that rating variable must be shown in the form provided in Tab 8, Exhibit 3, for Private Passenger and Tab 10, Exhibit 3, for Commercial. The form must show the proposed differentials, the Benchmark differentials and the filing company's percentage distribution of insureds among the differentials. The company's own distribution of insureds should be used, unless circumstances make it unavailable or inappropriate. In such cases, the company must describe the source and rationale for the distribution selected.

The off-balance factor calculated for the variances between the filed and benchmark differentials should be should be shown in Tab 8, Exhibit 2, Column 3, for Private Passenger, and Tab 10, Exhibit 2, Column 3, for Commercial.

In addition to the foregoing, the company's base rates must also be adjusted for any differentials or other rating factors that the company uses which are not included in the Benchmark system, as well as for any variations to the Automobile Statistical Plan class-of-use definitions.

The off-balance factors for these variances should be shown in Tab 8, Exhibit 2, Columns 4 and 5, for private passenger, and in Tab 10, Exhibit 2, Columns 4 and 5, for commercial.

Example (Discount):

Company "A" files base rates for "standard" risks and provides a 10% rate credit (i.e., a differential of .90) to "preferred" risks in addition to other applicable differentials.

"Preferred" risks represent one quarter of the company's exposure. The adjustment necessary to the filed base rate to account for the "Preferred" 10% discount would be calculated as follows:

$$((.90) \times (25\%)) + ((1.00) \times (100\% - 25\%)) = .975$$

The effect of this adjustment would be to decrease the filed base rate by 2.5%, i.e.,

For Territory 1, 3rd Party: Class 02; DR 5; Limit \$200,000.00.

Filed base rate = \$695.00,

Preferred adjustment = .975.

Adjusted base rate = \$695.00 x .975 = \$677.63.

The adjusted base rate in this example falls below the minimum Benchmark rate of

\$693.00. In order for the adjusted base rate to fall within the minimum, the filed rate must be established at \$711.00 ($693.00/.975 = 710.77$).

Example, Private Passenger Collision

Company A is filing revised rates for Private Passenger Collision. The proposed base rates for Territories 1, 2, and 3 are, respectively, \$260.00, \$220.00 and \$240.00 as shown in Table 1. The proposed differentials for Territory 1 (urban), for driving record and for deductible differ from those of the benchmark system as shown in Tables 2 and 3. All other differentials for Territory 1 and all differentials for Territories 2 and 3 (rural) equal the Benchmark differentials. Company A's filing must include the following information:

Table 1

COMPARISON - PROPOSED BASE RATES TO BENCHMARKS, COLLISION					
Coverage	Territory	Proposed Base Rate	Differentials all Equal Benchmark	Adjusted Base Rate	Within Benchmark Range
Private	1	260	No	250	No ¹
Passenger	2	220	Yes	220	Yes
Collision	3	240	Yes	240	Yes

1. Upper Limit of Range = \$212.0

Table 2

COMPARISON TERRITORY 1 PROPOSED DRIVING RECORD DIFFERENTIALS TO BENCHMARKS, COLLISION						
Driving Record	Earned Premium ¹	Current Differential	Earned Premium ²	Proposed Differential	Benchmark Differential	Percentage Variance
6	0.355	0.790	0.449	0.751	.807	6.939
5	0.276	1.000	0.276	1	1.000	0
4	0.123	1.200	0.103	1.15	1.203	4.406
3	0.102	1.350	0.076	1.3	1.295	-0.386
2	0.086	1.450	0.059	1.35	1.34	-0.746
1	0.031	1.550	0.020	1.5	1.594	5.897
0	0.027	1.700	0.016	1.6	1.647	2.854
Avg. D.R. Differential ³	1.000		0.999	-0.9660	.9970	

$$\text{Adjustment Factor} = .9660 / .9970 = .9689$$

1. The latest available percentage breakdown of premium earned by the filing company in Newfoundland and Labrador for the appropriate coverage.
2. "EP", divided by the current company differential.
3. "Average differential" using the "Adjusted EP" column as weights.

Table 3

COMPARISON TERRITORY 1 PROPOSED DEDUCTIBLE DIFFERENTIALS TO BENCHMARKS, COLLISION						
Deductible \$	Earned Premium ¹	Current Differential	Earned Premium ²	Proposed Differential	Benchmark Differential	Percentage Variance
25	0.000	1.150	0.000	1.1	1.061	3.68
50	0.000	1.080	0.000	1.08	1.054	2.47
100	0.050	1.040	0.048	1.05	1.040	0.96
250	0.150	1.000	0.150	1	1.000	0
300	0.700	0.990	0.707	0.98	0.987	.71
500	0.100	0.950	0.105	0.9	0.936	3.85
750	0.000	0.840	0.000	0.86	0.878	2.05
1000	0.000	0.800	0.000	0.78	0.825	5.45
1500	0.000	0.620	0.000	0.6	0.691	13.17
2000	0.000	0.530	0.000	0.5	0.570	12.28
2500	0.000	0.450	0.000	0.45	0.473	4.86
Avg. Ded. Differential	1.000		1.010	.9878	.9960	

Adjustment factor = $.9878/.9960 = .9917$

1. The latest available percentage breakdown of premium earned by the filing company in Newfoundland and Labrador for the appropriate coverage.
2. "EP," divided by the current company differential.
3. "Average differential" using the "Adjusted EP" column as weights.

In this example, the Board would approve Company A's filing for Territories 2 and 3 as the adjusted base rates are within the Benchmark ranges and no differential differs from the corresponding Benchmark differential.

The adjusted base rate for Territory 1 - Collision, is calculated as follows:

$$\$260.00 \times ((.9660/.9770) \times (.9878/.9960)) = \$260.00 \times (.9689 \times .9917) = \mathbf{\$249.82}$$

As the adjusted base rate does not fall within the Benchmark range, the Board would review the proposed rate together with the company's supporting actuarial justification and may approve, disapprove or vary the Territory 1 rate. In order for the adjusted base rate to fall within the Benchmark Range in the absence of actuarial justification, the insurer may adjust the selected differential so that the adjustment to the base rate falls within the Benchmarks, or for the example above, file a base rate of \$220.63.

$$((212.00/ (.9689 \times .9917))) = \$220.63$$

Example, Commercial, Collision and Comprehensive

Company A is filing revised rates for Commercial Collision and Comprehensive coverages. The proposed base rates are \$230.00 for Collision and \$135.00 for Comprehensive as shown in Table 4. The proposed driving record differentials for Collision differ from those of the Benchmark. All other differentials equal the

Benchmark differentials as shown in Table 5. Company A's filing must include the following information:

Table 4

COMPARISON PROPOSED BASE RATES TO BENCHMARKS, COLLISION & COMPREHENSIVE				
Commercial Coverage	Proposed Base Rate	Differentials All Equal Benchmark	Adjusted Base Rate	Within Benchmark Range
Collision	\$230	No	\$228	No ¹
Comprehensive	\$135	Yes	\$135	Yes

1. Upper Limit of Range = \$219.00

Table 5

COMPARISON PROPOSED DRIVING RECORD DIFFERENTIAL TO BENCHMARKS, COLLISION						
Driving Record	Earned Premium ¹	Current Differential	Earned Premium ²	Proposed Differential	Benchmark Differential	Percentage Variance
3	0.765	1.000	0.765	1	1.000	0.00
2	0.135	1.300	0.104	1.3	1.254	-3.67
1	0.072	1.400	0.051	1.34	1.565	14.38
0	0.028	1.680	0.017	1.7	1.726	1.51
Avg. D.R. Diff. ³	1.000		0.937	.997	1.004	

Adjustment factor = $.997/1.004 = .993$.

1. The latest available percentage breakdown of premium earned by the filing company in Newfoundland and Labrador for the appropriate coverage.
2. "EP," divided by the current company differential.
3. "Average differential" using the "Adjusted EP" column as weights.

In this example, the Board would approve Company A's filing for Comprehensive as the adjusted base rate is within the Benchmark ranges and no differential differs from the corresponding Benchmark differential.

The adjusted base rate for collision is calculated as follows:

$$\$230.00 \times (.997/1.004) = \$228.40.$$

As the adjusted base rate does not fall within the Benchmark range, the Board would review the proposed rate together with the company's supporting actuarial justification and may approve, disapprove or vary the rate. In order for the adjusted base rate to fall within the Benchmark Range, in the absence of actuarial justification the insurer may adjust the selected differential so that the adjusted base rate falls within the Benchmarks, or for the example above, file a base rate of \$221.00, $(219.00/.993) = \$220.54$

If the company has adopted the "additive" method of determining the credits and charges for deductibles which are, respectively, higher and lower than the base deductible, then for purposes of the Benchmark comparisons the deductible differentials should be calculated based upon rating group 6.

Example:

If the proposed Private Passenger Comprehensive rate for rating group 6 in Territory 1 for the \$50.00 deductible is \$110.00 and the proposed additional charge for the \$25.00 deductible coverage is \$5.00, the differential for the \$25.00 deductible in Territory 1 is 1.05 ($=115/110$). If the filed additional charges were calculated by the company as a percentage of the rating group 6 rate (though perhaps indirectly through a percentage of the base rating group's rate), then that percentage can be used in determining the

differentials (ignoring the rounding differences that would occur by relating the resulting charges to the rating group 6 rates).

Similar adjustments must be made for all factors in the company's rating system and each should be shown separately. It should be noted that each adjustment for discounts, surcharges or other rating variables will impact on the filed base rate. The filed base rate, when adjusted, must be within the Benchmark Rate Ranges unless the company has supplied actuarial justification to the contrary.

The filing company must calculate the weighted average of the proposed differentials and the weighted average of the Benchmark differentials based upon the distribution of insureds described previously in this section. The adjusted base rate must then be calculated by multiplying the filed base rate times the ratio (for all rating variables combined) of the weighted average of the proposed differentials divided by the weighted average of the Benchmark differentials. The resulting rate must then be further adjusted for those rating factors which the company uses but which are not contemplated in the Benchmarks as described previously in this section (i.e. discounts or surcharges).

2.7 RATE REVIEWS

The filed rates are considered to be within the Benchmark Ranges if:

- (1) the adjusted base rate falls within the base rate range shown in Tab 8, Exhibit 2, for Private Passenger and Tab 10, Exhibit 2, for Commercial; **and**,

- (2) each of the filed differentials is within +/- 15% of the corresponding Benchmark differential shown in Tab 8, Exhibit 3, for Private Passenger and Tab 10, Exhibit 3 for Commercial.

Each such filing will be reviewed by the Board for compliance.

2.8 RATE REVIEWS AND JUSTIFICATION

Any set of filed base rates or adjusted base rates that are not within the Benchmark Rate Ranges of acceptable rates, other than those filings adopting the most-recently accepted IAO Rating Programs, will be reviewed by the Board, together with supporting actuarial justification which must be provided by the company at the time of filing (e.g., an analysis of its Newfoundland and Labrador only claims experience), and may be approved, disapproved or varied by the Board. Such filings must be accompanied by the minimum information requirements outlined in Section 2.0 of these instructions.

3.0 ENDORSEMENTS

The filing company should submit, with the filing, a complete list of all Standard Endorsements used in the writing of automobile insurance in the province along with their associated premiums.

4.0 EXHIBITS

The enclosed Exhibits reflect the factors taken into consideration in reviewing the rate filing in relation to the Board's Benchmarks. In addition to providing information on the

differentials, and minimum information requirements outlined in Section 2, companies applying discounts or surcharges on premiums must:

1. identify each, individually, stating the percentage discount or surcharge and the circumstances under which it will be applied; and
2. calculate and include in the derivation of the adjusted base rates, the adjustment necessary to reflect each discount or surcharge based on the company's own distribution of insureds using earned premiums as weights.

The inclusion of classes or subclasses under any line of coverage, other than those currently identified in the Exhibits, and authorized in the Automobile Statistical Plan, will not be permitted except in cases where the addition of such classes has been outlined in the supporting documents accompanying the filing and have been justified to the satisfaction of the Board, and where necessary, the Superintendent of Insurance.

4.1 LIST OF EXHIBITS

Tab 8	-	Private Passenger
Exhibit 1	-	Benchmark Base Rate Ranges
Exhibit 2	-	Benchmark Base Rate/Filed Base Rate Comparison
Exhibit 3	-	Benchmark Differential/Filed Differential Comparison
Exhibit 4	-	Rate Change Impacts – Driver Profiles
Tab 10	-	Commercial
Exhibit 1	-	Benchmark Base Rate Ranges
Exhibit 2	-	Benchmark Base Rate/Filed Base Rate Comparison
Exhibit 3	-	Benchmark Differential/Filed Differential Comparison

5.0 FILING TABS

- TAB 1** GENERAL CONTACT INFORMATION
- TAB 2** FILING INFORMATION
- TAB 3** CLASS-OF-USE DEFINITIONS
OFF-BALANCE CALCULATION FOR VARIATIONS FROM THE
AUTOMOBILE-STATISTICAL-PLAN DEFINITIONS
- TAB 4** DISCOUNTS/SURCHARGES
(OTHER THAN HTA & CCC SURCHARGES)
- TAB 5** MINIMUM INFORMATION REQUIREMENTS, CATEGORY 1
AND CATEGORY 2 FILING
- TAB 6** SUPPORTING ACTUARIAL INFORMATION
(NON-BENCHMARK FILING 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