

ANNUAL REPORT

OF THE

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

ON THE OPERATIONS CARRIED OUT UNDER

THE AUTOMOBILE INSURANCE ACT

Chapter A-22, R.S.N. 1990, AS AMENDED

FOR THE PERIOD APRIL 1, 2000 TO MARCH 31, 2001

AUTOMOBILE INSURANCE DIVISION

GENERAL

The Automobile Insurance Act, Chapter A-22, of the Revised Statutes of Newfoundland, 1990, charges the Board with specific statutory responsibilities concerning the regulation of automobile insurance rates in the Province of Newfoundland and Labrador.

Section 48 states:

"The Board has the general supervision of the rates an insurer charges or proposes to charge for automobile insurance."

Sections 49 to 53 delineate specific filing requirements to be adhered to by insurers.

Sections 54 to 59 outline administrative procedures of the Board and allow for the applicability of the Public Utilities Act for the purposes of this Act.

Section 60 authorizes the implementation of regulations.

During the year under review the Board continued to discharge its regulatory responsibilities to ensure that rates are fair for consumers, commensurate with the risk represented and insured by companies, and adequate to cover future claims obligations and operating costs of automobile insurance companies.

A key element of this effort is the establishment of Benchmark Rate Ranges which are based upon a study conducted by an independent actuarial consulting firm retained by the Board. This study takes into consideration the automobile insurance industry loss cost data for Newfoundland and Labrador provided by

the rating program of the Insurers' Advisory Organization (IAO) and the Automobile Insurance (Claims) Experience Report of the Insurance Information Centre of Canada (IICC).

The IAO and IICC are industry organizations which gather statistical data relative to the industry experience. The data are used to develop adequate and reasonable rates, sufficient for insurers to meet potential future claims obligations and to recover operating costs.

BENCHMARK SYSTEM

The Board utilizes the Benchmark Rate Ranges in reviewing annual insurance rate filings of individual insurers. Rate filings which fall above or below the Benchmark Rate Ranges are approved only when adequately supported with actuarial justification by the Applicant and after thorough review by the Board, its staff, and its consulting actuaries, Milliman & Robertson, Inc.

The main purposes of the Benchmark system are:

1. To expedite the review of rate filings by providing a streamlined approval process whereby automatic approval is given rate filings where the adjusted base rates and the differentials fall within the Benchmark Rate Ranges.
2. To foster knowledgeable competition among the companies by providing a range of base rates which are the result of an actuarial analysis of the industry wide claims experience in the Province of Newfoundland and Labrador.
3. To ensure that rates charged policy holders are reflective of industry loss experience and that insurers are receiving premiums commensurate with the risks underwritten

and which will meet their future claims obligations and recover their operating expenses.

RATING TERRITORIES

The Province of Newfoundland and Labrador is subdivided into three territories for rating purposes. These territories are established and defined in the Automobile Insurance Statistical Plan approved for use by the Superintendent of Insurance. The rating territory definitions for the Province of Newfoundland and Labrador as revised by the Superintendent of Insurance on April 4, 1997 are:

1. Territory 1,
Avalon District, Statistical Plan Code 004
Consisting of the City of St. John's, including that part of the island east of Highway 202, being a line between the communities of Old Shop and Chapel Arm in Trinity Bay to the North, and Long Harbour and Ship Harbour in Placentia Bay to the South.

2. Territory 2,
Bonavista and Burin District, Statistical Plan Code 005
Consisting of that territory east of a line drawn from Port Blandford in Bonavista Bay to English Harbour East in Fortune Bay, excluding the Avalon District.

Remainder of the province, Statistical Plan Code 007
Consisting of those parts of the Province of Newfoundland and Labrador, excluding the Avalon, Labrador, and the Bonavista and Burin District.

3. Territory 3, Labrador District, Statistical Plan Code 006
The entire District of Labrador.

RATES

During 2000-01, the Board continued its policy of requiring insurers to file automobile insurance rates within the Benchmark Rate Ranges, unless a company could actuarially justify, based on its own experience in the Province, rates outside the Benchmarks. This policy is designed to ensure that insurers' rates are reflective of current industry trends in loss costs and loss experience.

During the previous reporting period, the Board received four rate filings by automobile insurers indicating rates for some coverages below the Benchmark minimums, to take effect during 1999/00. By comparison, during the current reporting period, the Board received fifteen applications from automobile insurers seeking approval of certain rates below the Benchmark minimums. Each filing is required to be supported by an actuarial analysis by the company of its own experience in the Province of Newfoundland and Labrador. Each filing was submitted to the Board's actuarial consultants, Milliman & Robertson, Inc., for a review and a report to the Board as to the adequacy of the rates contemplated therein. As at the end of this reporting period, of the fifteen applications received, two have been approved as presented or modified with rates for certain coverages below the Benchmark minimums. One filing has been reviewed, but there are substantive unresolved issues requiring clarification prior to the Board dealing with the filing. The remaining twelve non-benchmark filings were received during the months of January and February with anticipated effective dates for new rates of June 1, 2001 (new business) and July 1, 2001 (renewals) for all filings. These filings are currently under review by the Board's actuarial consultants.

LOSS RATIOS

During 2000-2001, the Board's actuarial consultants undertook a Benchmark analysis of the reported industry loss experience in order to establish Benchmark Rate Ranges for use with filings taking effect in 2001. The Board accepted the consultants' proposed base rate and in November

2000 issued comprehensive Filing Instructions to insurers. These instructions require insurers to file rates within the new Benchmarks or justify those rates not conforming with the Benchmarks.

The Filing Instructions also specified the implementation date of new rates as June 1, 2001 for new business and July 1, 2001 for renewals.

The actuarial model used by the Board in determining its 2001 Benchmark Rate Ranges established a reference point for loss costs in relation to premiums. Based upon the determination that commissions and administrative expenses averaged 26.2% of each premium dollar written by the industry as a whole, and allowing a negative underwriting profit margin of 1.8% to take into account investment income earned on premiums invested by the industry, the Board's Benchmark Base Rate for Third Party Liability provides sufficient resources for the industry to sustain an average loss ratio of 75.6%.

As a point of reference, for Public Liability and Property Damage, the annual loss ratio was 104% in 1987. During the period 1988 – 1992, however, province-wide loss costs were especially severe with loss ratios of 120%, 133%, 140%, 127%, and 135%, respectively. The loss ratio has declined in 1993 and subsequent years. For the fourth consecutive year, the preliminary loss ratio for liability in a current year is below 100%. For 1999, the preliminary figure is 91%. Recent loss ratio figures will, however, fluctuate as the claims experience for each year matures with time. These figures may either improve or deteriorate, depending on how the industry's claims experience matures.

The figures shown in the following tables provide a clear indication as to how loss ratios for a given year can fluctuate in subsequent years. For example, in Table 1 for accident year 1993, IBC estimated in its 1993 report that the anticipated ultimate loss ratio for the year would be 113%. However, in 1994, the IBC revised its estimate for accident year 1993 to 116%, based on data which were one year matured. The figure was further revised in 1995 and 1996, and for 1997 the figure returned to the original estimate of

113%. Changes to the loss ratio results from maturity of the industry's claims experience. This figure may continue to change as the data move to full maturity. More recently, since 1993 province-wide loss data appear to have stabilized and subsequent years' development has not shown serious deterioration. Indications are that this stability is evident in 1994 and subsequent years' loss experience by industry and the trend appears to be continued in 2000 results.

TABLE 1 IBC LOSS RATIOS, THIRD PARTY LIABILITY Private Passenger Automobile Province of Newfoundland and Labrador All Rating Territories							
Accident Year	1993 IBC Report	1994 IBC Report	1995 IBC Report	1996 IBC Report	1997 IICC* Report	1998 IICC Report	1999 IICC Report
1989	133%	-	-	-	-	-	-
1990	137	140%	-	-	-	-	-
1991	120	123	127%	-	-	-	-
1992	127	130	133	135%	-	-	-
1993	113	116	114	112	113%	-	-
1994	-	104	111	102	99	99%	-
1995	-	-	100	97	83	85	84
1996	-	-	-	80	75	75	76
1997	-	-	-	-	82	75	74
1998	-	-	-	-	-	82	82
1999	-	-	-	-	-	-	81

* In 1998, the Insurance Bureau of Canada and the Vehicle Information Centre of Canada merged to form the Insurance Information Centre of Canada.

TABLE 2
IBC LOSS RATIOS, THIRD PARTY LIABILITY

Private Passenger Automobile
Province of Newfoundland and Labrador
Rating Territory 1

Accident Year	1993 IBC Report	1994 IBC Report	1995 IBC Report	1996 IBC Report	1997 IICC* Report	1998 IICC Report	1999 IICC Report
1989	146%	-	-	-	-	-	-
1990	160	164%	-	-	-	-	-
1991	138	143	149%	-	-	-	-
1992	147	155	160	164%	-	-	-
1993	135	137	137	135	134%	-	-
1994	-	115	121	114	112	115%	-
1995	-	-	106	107	92	96	96
1996	-	-	-	81	78	80	81
1997	-	-	-	-	85	77	77
1998	-	-	-	-	-	82	84
1999	-	-	-	-	-	-	94

* In 1998, the Insurance Bureau of Canada and the Vehicle Information Centre of Canada merged to form the Insurance Information Centre of Canada.

The reason the loss ratios change is due, in part, to the long tail effect evident in Third Party claims. That is, the time interval between the making of a claim and its ultimate settlement. Small claims for property damage are usually settled quickly, however, where there is a matter in dispute, or there is bodily injury, claims may take years to settle, most probably through court action. As a result, a claim made in 1998 may not be settled until 2002 or later and may cost the insurer more to settle than originally anticipated when the 1998 loss reserves were established and the loss ratio calculated. The more recent trends, 1994 and

onward, may be interpreted to show that claims are now settling at or near the amounts originally reserved. The reasons for this are not clear but may result from better claim-reserving practices of insurers, less litigious claimants, a combination of both, or other reasons not identified.

For Territory 1, the rating territory having the highest vehicle population in the Province historically, loss experience was especially severe for the period 1988 to 1993. Table 2 contains the loss ratio, by year, for Public Liability and Property Damage for rating Territory 1 only.

For comparative purposes, Table 3 contains the loss ratio for Public Liability and Property Damage for rating Territory 2 only.

TABLE 3 IBC LOSS RATIOS, THIRD PARTY LIABILITY Private Passenger Automobile Province of Newfoundland and Labrador Rating Territory 2							
Accident Year	1993 IBC Report	1994 IBC Report	1995 IBC Report	1996 IBC Report	1997 IICC* Report	1998 IICC Report	1999 IICC Report
1989	106%	-	-	-	-	-	-
1990	97	100%	-	-	-	-	-
1991	90	89	90%	-	-	-	-
1992	98	94	94	92%	-	-	-
1993	79	82	78	75	80%	-	-
1994	-	89	101	87	81	75%	-
1995	-	-	91	77	67	64	62
1996	-	-	-	77	69	66	68
1997	-	-	-	-	76	72	70
1998	-	-	-	-	-	78	76
1999	-	-	-	-	-	-	82

* In 1998, the Insurance Bureau of Canada and the Vehicle Information Centre of Canada merged to form the Insurance

Information Centre of Canada.

As can be seen from Table 1, with the exception of the four most recent years, the initial overall loss-ratio estimate for the Province in total has consistently exceeded 100%. This is a direct result of the excessive losses experienced in Territory 1, as indicated in Table 2. Lower loss ratios for Territory 2 (Table 3) and Territory 3 (not shown) serve to reduce the effects of the Territory 1 losses, yielding the province-wide loss ratios contained in Table 1. Rates for each Territory, however, are based on the territorial experience and not on the overall provincial experience. Hence, it can be easily seen from the results shown in Table 2 why liability rates in the Territory 1 region increased dramatically during the period 1993 - 1996. Preliminary results in Territory 1 for 1999 indicate that losses appear to have stabilized at the 80% level for three of the past four years and at 94% for 1999.

2001 BENCHMARKS

During the fall of 2000, the Board adopted new private passenger and commercial benchmarks for use by insurers making filings during 2000/2001 for rates taking effect in 2001. The filing instructions issued in connection with the new benchmarks require insurers to file revised rates utilizing the new benchmarks. The effective date for new rates was established at June 1, 2001 for new business policies and July 1, 2001 for renewals, or earlier dates as selected by the insurer.

The table on the following page provides a comparison of the impact of the new benchmarks on an average insured in each of the rating territories. The average insured represented here would be a Class 02 (drives vehicle to and from work daily), 5 years accident/conviction free, carrying \$200,000 third party liability, with \$250 deductible for collision and \$50 deductible for comprehensive.

The 2001 benchmarks replace benchmarks in effect for a period of 2 ~~1/2~~ years, thus the percentage change indicated in Table 4 must be adjusted accordingly.

TABLE 4
COMPARISON BENCHMARK MIDPOINTS, 2001 VS. 1998
 By Territory

Coverage	Territory 1			Territory 2			Territory 3		
	2001	1998	% Change	2001	1998	% Change	2001	1998	% Change
Liability	770	788	-2.28	427	415	2.89	327	306	6.86
Collision	193	185	4.32	235	207	13.53	253	216	17.13
Comprehensive	118	105	12.38	94	84	11.90	120	107	12.15
Specified Perils	39	50	-22.00	21	27	-22.22	20	25	-20.00
Accident Benefits	82	76	7.89	82	76	7.89	82	76	7.89
Uninsured Motorist	31	31	0.00	17	17	0.00	13	13	0.00
Total	1233	1235	-0.16	876	826	6.05	815	743	9.69
Annualized	0.06			2.42			3.88		

The Benchmarks are considered to be actuarially sound rates for automobile insurance written in the Province of Newfoundland and Labrador. They are based on the all industry loss experience as reported to the Insurance Information Center of Canada in accordance with the Statistical Plan approved by the Superintendent of Insurance for the Province.

The indicated rate changes by territory show stability of rates in Territory 1 and modest increases in the remaining two territories over the previous 2 ½ year period.

FACILITY ASSOCIATION

As advised in the Board's last report, there have been concerns expressed by the Superintendent of Insurance and others regarding the reported surpluses of the Facility Association. The Facility Association is the automobile insurance industry market of last resort where those risks, unable to obtain insurance from any other insurer, are placed. All regular market insurers are members of the Association by law and annually share proportionately in the pooled results of the Association's operations.

In order to review this issue, the Board commenced a public hearing on the rates charged on business placed in the Facility Association in March 2000. This hearing continued throughout 2000/2001 and following 11 days of hearings, the Board heard final oral argument from the parties on February 19, 2001. Represented at and participating throughout the hearing were the Facility Association, the Office of the Superintendent of Insurance and the Brokers Association of Newfoundland.

On March 30, 2001, the Board issued Order No. A.I. 36 (2000-2001) . In general, the findings of this Order are as follows:

1. The Board has jurisdiction to order a hearing to investigate Facility's rates.
2. There was adequate notice of the issues, given both before and during the hearing of the matter.
3. The Facility Association operates as an administrator of a risk sharing automobile insurance pool and any profit that may result from the operation of the pool should not be considered in setting rates for the future.
4. Rates approved in the early nineties for Facility were based on sound actuarial principles and the best information available at the time.
5. The Board has no jurisdiction to deal with the issue of commission rates.
6. The Board has no jurisdiction to deal with the issue of consumer representation of the Board of Directors of the Facility Association.

Based on information presented at the hearing, the Board is anticipating receipt of a rate filing from the Facility Association during the upcoming year.

COMPLIANCE AUDIT PROGRAM

In April 1994, in order to discharge its regulatory responsibilities more effectively under the *Automobile Insurance Act*, the Board decided that it would be beneficial to implement a compliance audit program of the rates and rating practices of the insurance companies which it regulates.

The audit program was developed in consultation with the accounting firm, Ernst & Young, and was designed to:

- Verify that the automobile insurance premiums charged policy holders were in accordance with the base rates and differentials filed with and approved by the Board.
- Verify that the rates were not discounted or surcharged, other than in accordance with those discounts or surcharges filed with and approved by the Board.
- Review individual company underwriting guidelines for risk selection.
- Determine if the company's underwriting definitions for the various risk selection factors conformed with, or varied from, those contained in the company's underwriting manual or the Automobile Insurance Statistical Plan approved for use by the Superintendent of Insurance.

The results of the compliance audit are used by the Board:

- To obtain a better understanding of the methods under which the industry and individual companies operate so that Commissioners and staff of the Board will be well informed when dealing with consumer enquiries and complaints.

- To identify the areas where the individual company rates, underwriting guidelines and definitions vary from those approved by the Board or contained in the Automobile Insurance Statistical Plan.
- To provide audited companies with a review of the audit findings and, where appropriate, to make recommendations for the corrective actions necessary to ensure that companies comply with their filed rates, underwriting guidelines and definitions.

During the period April 1, 2000 to March 31, 2001, the Board completed seven compliance audits of automobile insurers operating in the Province. The compliance audits completed during 2000-01 involved six national insurers, and one provincially-based insurer.

Of the seven audits completed, all indicated no areas of concern that required further action by the Board. In all audits there were minor areas of concern identified, resulting in recommendations for corrective action to be taken by the insurer.

Given the findings of the audits, there appears to be compliance by insurers with the legislation. The majority of errors uncovered by the Board's audits appear clerical in nature. The incidence of overt actions by insurers to circumvent the legislation as it relates to rates is not an issue at this time.

The Board intends to continue the compliance audit program and feels that it is beneficial to all participants in the automobile insurance industry. Insurance companies have a heightened awareness of the Board's regulatory roles, responsibilities and functions. Policy holders will benefit from uniform treatment in rates and rating practices of companies for risks exhibiting similar characteristics. The Superintendent of Insurance is made aware of ongoing audits and is advised immediately of any matter of concern coming to the attention of the Board's compliance auditor which comes within the regulatory mandate of the Superintendent.

The Board continues to enjoy a cooperative working relationship with the Office of the Superintendent of Insurance and during the year continued to discuss with representatives of that office matters of mutual ongoing concern. The Superintendent of Insurance is provided with copies of all Board Orders issued in connection with automobile insurers, as well as copies of all audit reports.

MARKETPLACE CHANGES

At the beginning of 2000-01, there were fifty-two automobile insurers operating in the province of Newfoundland and Labrador. The distribution of these companies by size and market share is contained in Table 5.

TABLE 5			
DISTRIBUTION OF COMPANIES BY SIZE AND MARKET SHARE			
000s omitted			
Direct Premiums Written	Number of Companies	Percent of Market Share	Direct Premiums Written
\$ 0 – \$ 500	26	1.35	2,393
501 – 1,000	5	2.29	4,042
1,001 – 5,000	12	18.49	32,711
Over 5,000	9	77.87	137,767
Totals	52	100.00	176,913

The volume of automobile insurance written in the province showed a modest decline during 1999. Direct premiums written information for the current reporting period will not be available in an aggregated format until mid 2001. Information obtained from the Office of the Superintendent of Insurance on the total automobile insurance market written in the province during 1999 is contained in the following table:

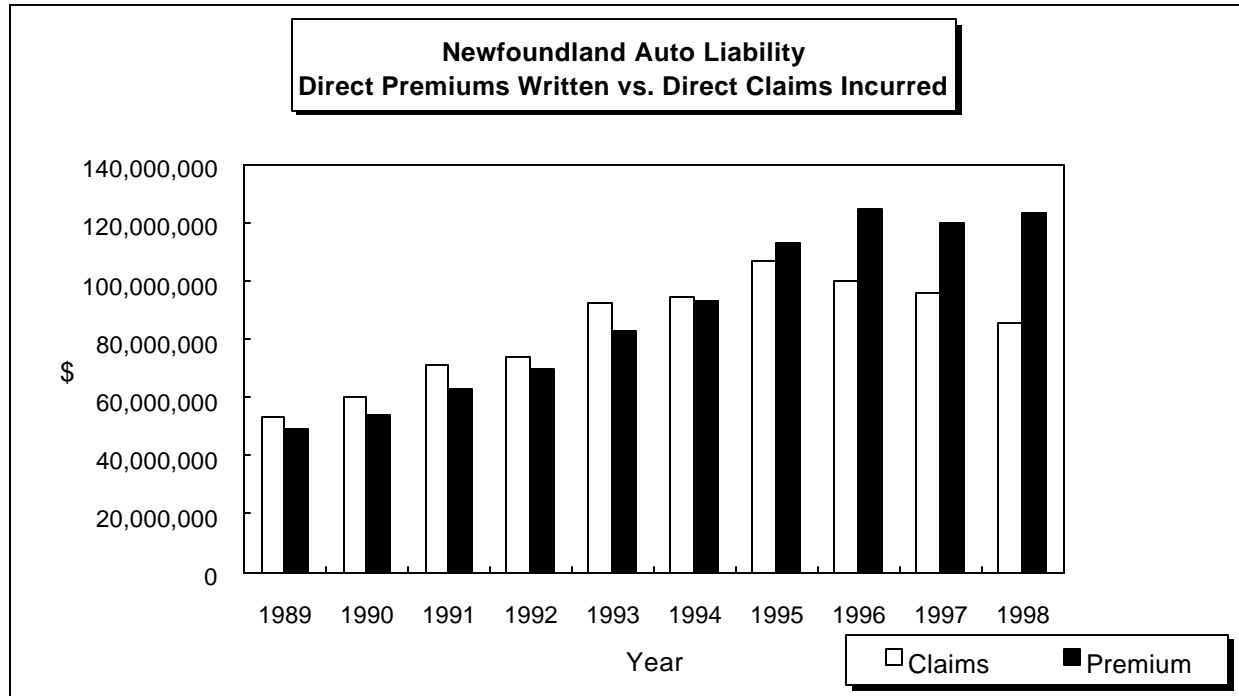
TABLE 6 MARKET VOLUME AUTOMOBILE INSURANCE 000s omitted				
	1999	1998	\$ change	% change
DPW	176,913	178,377	(1,464)	-0.82%
DCI	119,244	117,819	1,425	1.21%

Table 7 contains a two-year comparative review of the automobile-insurance market breaking the information down into direct premiums written (DPW) and direct claims incurred (DCI) by the three major premium classifications.

TABLE 7 MARKET VOLUME BY CLASS AUTOMOBILE INSURANCE 000s omitted					
		1999	1998	\$ change	% change
Third Party Liability	DPW	118,840	122,971	-4,131	-3.36%
Third Party Liability	DCI	83,956	85,731	-1,775	- 2.1%
Personal Accident	DPW	12,784	12,204	580	4.75%
Personal Accident	DCI	8,307	7,758	549	7.07%
Other	DPW	45,289	43,202	2087	4.83%
Other	DCI	26,981	24,330	2651	10.9%

The following graph indicates the changes in province-wide Third-Party-Liability direct premiums

and direct claims, by year, for the last ten years. As can be seen, with the exception of the past four years for which data are available, claims incurred have exceeded premiums written.



It should be noted that Direct Claims Incurred do not include the overhead and operation expenses of the company. These expenses, for purposes of the 2001 benchmarks, have been determined to be 26.2% of premium.

COMPLAINTS

During the year the Board received a limited number of complaints and enquiries. These complaints and enquiries were generally in relation to rating practices of insurers and/or agents. All complaints and enquiries were addressed by staff.

RATE APPLICATIONS

During 2000-01, the Board issued thirty-six Orders under authority of the *Automobile Insurance Act*. These Orders resulted from: -

- (i) Twenty-seven (27) applications to amend rates for Private Passenger, Commercial, Miscellaneous, Motor Cycle, Snow Vehicle, Trailer, and Camper Coach classes of business.
- (ii) Three (3) orders approving or varying discounts applicable to Private-Passenger rating programs.
- (iii) Two (2) orders issued varying previous orders issued during the year to revise the implementation dates of the rates approved.
- (iv) One (1) order issued denying an application for the establishment of rates below the Benchmarks.
- (v) One (1) order issued on the review of the rates charged on business placed in the Facility Association.
- (vi) Two (2) orders issued on Standard Endorsement rates.

ASSESSMENT

The operating costs of the Board's Insurance Division of the 2000-01 year were estimated at \$422,091.00. These costs were assessed against insurers at a mil rate of 2.3 mils, with the approval of the

Minister, pursuant to Section 59 of the *Automobile Insurance Act*.