



*Newfoundland
& Labrador*

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**ANNUAL REPORT
ON OPERATIONS CARRIED OUT UNDER
THE AUTOMOBILE INSURANCE ACT
Chapter A-22, R.S.N. 1990, AS AMENDED
FOR THE PERIOD
APRIL 1, 2003 TO MARCH 31, 2004**

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Executive Summary

This report highlights the main activities of the Board in carrying out its mandate under the *Automobile Insurance Act*.

During the year, the Board issued thirty-eight orders. Of these, thirty were in relation to rate filings for private passenger, commercial or other miscellaneous classes of automobile insurance rates, four in relation to revisions to implementation dates of previously approved rates or other minor corrections and four in connection with the Facility Association rate hearing. Of the thirty orders issued in connection with rates, eight were for approval of rates outside the Board's benchmark ranges.

Based on the most recently available market information (2002), there were fifty-six automobile insurers operating in the province writing \$237,733,000 in direct premiums. The market continues to show a high level of concentration with the top eleven insurers writing approximately 82% of all the automobile insurance business.

The Board notes that the industry loss experience reported in 2002 shows improvement in claims experience over 2001. The 2002 preliminary loss ratio reported for the entire province is 84%, down from a preliminary loss ratio projection of 117% in 2001. Overall, on a province-wide basis in 2002, claims decreased 20.8% below 2001 levels, while premiums increased by 18.1%.

During the year, staff of the Board continued to be involved in the automobile insurance reform initiative of government. Staff involvement was in connection with providing comment on draft proposed legislative changes to the Insurance Companies Act and the Automobile Insurance Act. Of significance, the Board also undertook a costing review of potential savings achievable through reform initiatives proposed by government. This, *Report on Potential Savings Arising from Various Product Changes Involving Automobile Insurance in Newfoundland and Labrador*, was delivered March 8, 2004 and formed the basis on which a number of the reform initiatives which were announced by Government on March 17, 2004.

AUTOMOBILE INSURANCE DIVISION

GENERAL

The Automobile Insurance Act, Chapter A-22, of the Revised Statutes of Newfoundland, 1990, provides 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.

ACTUARIAL CONSULTANTS

Actuarial Consulting services are provided to the Board by Mercer Risk Finance and Insurance Consulting Limited, a firm based in Toronto.

AUTOMOBILE INSURANCE REFORM

During 2003-2004, the Board continued as an active participant in the process initiated by Government in connection with automobile insurance reform. At the request of Government, in November the Board commenced a costing review and study to identify the potential premium savings that might be achieved through specific reform initiatives, these included: a deductible on bodily injury claims ranging from \$0 to \$15,000 per claim; settlement of economic loss on the basis of net wages vs. gross wages; reducing settlements by amounts received by claimants from other collateral sources; and the impact on automobile insurance rates of the elimination of age, gender and marital status as rating variables.

On March 8, 2004, the Board delivered its final report titled, *Report on Potential Savings Arising from Various Product Changes Involving Automobile Insurance in Newfoundland and Labrador*, to Government. Following receipt of the report, on March 17, 2004 Government announced its reform initiatives implementing a deductible provision on bodily injury claims, economic loss settlements based on net wages and reduction of awards by amounts received from

other collateral sources. At the same time, Government announced an immediate freeze on automobile insurance rates and indicated it would bring forth legislation mandating a rate roll back.

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 if deemed necessary, its consulting actuary.

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 policyholders 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. Territories are established and defined in the Automobile Insurance Statistical Plan approved for use by the Superintendent of Insurance. Territorial 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 2003-2004, 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 current reporting period the Board issued thirty-eight orders under authority of *the Act*. Of these, thirty were in relation to rate filings for private passenger, commercial or other miscellaneous classes of automobile insurance, four in relation to revisions to implementation dates of previously approved rates or other minor corrections and four in connection with the Facility Association rate hearing, including the order for costs and the final approval order of the rates. Of the thirty orders issued in connection with rates, eight were for approval of rates outside the Board's benchmark ranges.

In the case of non-benchmark filings, each filing is required to be supported by an actuarial analysis by the company based on its own experience in the Province of Newfoundland and Labrador. This filing is then subjected to an independent actuarial analysis conducted by the Board's retained actuarial consultants prior to the Board considering the application.

Overall, during the year the Board has seen a marked shift in rate position. Whereas in prior years, most companies filed rates at or near the bottom of the Benchmarks, during the past year, these companies filed rates at levels between the midpoint and upper end of the Benchmarks (see charts at Appendix 1).

These activities were observed, notwithstanding the fact that the Board's Benchmarks have remained unchanged for the past three years.

LOSS RATIOS

During the year, 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 2004. Prior to finalizing these Benchmarks, Government, on March 17, 2004 announced its Automobile Insurance Reform initiatives. One of these initiatives was a freeze on automobile insurance rates as of March 17, 2004.

The actuarial model used by the Board in determining its 2004 Benchmark Rate Ranges established a reference point for loss costs in relation to premiums. Based upon the determination that commissions and administrative expenses averaged 25.5% of each premium dollar written by the industry as a whole, and allowing a negative underwriting profit margin of 10.0% 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 84.5%.

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 2002, the preliminary figure is 84%. By comparison, the preliminary 2001 loss ratio was 117%. 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.

TABLE 1 IBC LOSS RATIOS, THIRD PARTY LIABILITY Private Passenger Automobile Province of Newfoundland and Labrador All Rating Territories							
Accident Year	1996 IBC Report	1997 IICC* Report	1998 IICC Report	1999 IICC Report	2000 IICC Report	2001 IICC Report	2002 IICC Report
1992	135%	-	-	-	-	-	-
1993	112	113%	-	-	-	-	-
1994	102	99	99%	-	-	-	-
1995	97	83	85	84%	-	-	-
1996	80	75	75	76	75%	-	-
1997	-	82	75	74	75	75%	-
1998	-	-	82	82	82	81	79%
1999	-	-	-	91	100	99	96
2000	-	-	-	-	115	113	105
2001	-	-	-	-	-	117	106
2002	-	-	-	-	-	-	84

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

The figures shown in the Tables 1 to 3 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 1996, IBC estimated in its 1996 report that the anticipated ultimate loss ratio for the year would be 80%. However, in 1997, the IBC revised its estimate for accident year 1996 to 75%, based on data, which were one year matured. The figure was further revised in 1999, and for 2000, the figure stood at 75%. 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; however, the trend appears to have deteriorated somewhat commencing with 1999 results, and continuing up to 2001.

TABLE 2 IBC LOSS RATIOS, THIRD PARTY LIABILITY Private Passenger Automobile Province of Newfoundland and Labrador Rating Territory 1							
Accident Year	1996 IBC Report	1997 IICC* Report	1998 IICC Report	1999 IICC Report	2000 IICC Report	2001 IICC Report	2002 IICC Report
1992	164%	-	-	-	-	-	-
1993	135	134%	-	-	-	-	-
1994	114	112	115%	-	-	-	-
1995	107	92	96	96%	-	-	-
1996	81	78	80	81	81%	-	-
1997	-	85	77	77	78	79%	-
1998	-	-	82	84	85	84	82%
1999	-	-	-	94	103	102	102
2000	-	-	-	-	121	120	112
2001	-	-	-	-	-	116	107
2002	-	-	-	-	-	-	85

* 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. 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 trends, 1996 up to 1998, may be interpreted to show that claims have been 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.

The deterioration in loss experience, commencing in 1999 and evidenced in the preliminary loss estimate of 115% for 2000, and 117% for 2001, may be the basis on which insurers have made recent rate filings increasing automobile insurance premiums. 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. This was followed by significant increases in rates in 1993, 1994 and 1995.

Table 2 contains the loss ratio, by year, for Public Liability and Property Damage for rating Territory 1 only. It appears that losses in Territory 1 are again on the rise to levels not seen since 1994/95. Rates are already on the increase based on filings made by insurers. Over the past year, the Board has seen significant increases in Third Party Liability rates of some insurers.

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	1996 IBC Report	1997 ICC* Report	1998 ICC Report	1999 ICC Report	2000 ICC Report	2001 ICC Report	2002 ICC Report
1992	92%	-	-	-	-	-	-
1993	75	80%	-	-	-	-	-
1994	87	81	75%	-	-	-	-
1995	77	67	64	62%	-	-	-
1996	77	69	66	68	66%	-	-
1997	-	76	72	70	69	70%	-
1998	-	-	78	76	76	73	71%
1999	-	-	-	82	92	92	84
2000	-	-	-	-	103	99	92
2001	-	-	-	-	-	116	104
2002	-	-	-	-	-	-	82

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

2004 BENCHMARKS

During the fall of 2003, the Board reviewed new private passenger and commercial benchmarks prepared by its Actuarial Consultants, Mercer Risk Finance and Insurance Consulting Limited. These new benchmarks were considered in relation to the Board's report to government on the potential savings arising from various product changes and other considerations involving automobile insurance in Newfoundland and Labrador.

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 is designed to ensure that the rates approved by the Board with accompanying discounts and surcharges are being charged by insurers writing business in the province as required under *the Act*. The program also ensures that agents and brokers of the insurer are interpreting the underwriting guidelines of the insurer correctly and that insured of similar risk characteristics are being rated correctly.

During the period April 1, 2003 to March 31, 2004, the Board did not complete any audits of automobile insurers operating in the Province.

The Board intends to continue the compliance audit program and feels that it is beneficial to all participants in the automobile insurance industry. Currently there are four audits scheduled to be conducted during the period April to September 2004.

MARKETPLACE CHANGES

At the beginning of 2003-2004, there were fifty-six automobile insurers operating in the province of Newfoundland and Labrador. The distribution of these companies by size and market share is contained in Table 4.

TABLE 4			
DISTRIBUTION OF COMPANIES BY SIZE AND MARKET SHARE			
000s omitted			
Direct Premiums Written (DPW)	Number of Companies	Percent of Market Share	Direct Premiums Written
\$ 0 – \$ 500	28	2.0	4,237
501 – 1,000	3	2.24	1,719
1,001 – 5,000	14	13.91	37,189
Over 5,000	11	81.85	194,588
Totals	56	100.00	237,733

The volume of automobile insurance written in the province showed an increase of 18.1% during 2002 while claims showed a decrease of 20.8%. Direct premiums written (DPW) and direct claims incurred (DCI) information for 2003 will not be available in an aggregated format until mid 2004. Information obtained from the Office of the Superintendent of Insurance on the total automobile insurance market written in the province during 2002 is contained in the following table:

TABLE 5				
MARKET VOLUME				
AUTOMOBILE INSURANCE				
000s omitted				
	2002	2001	\$ change	% change
DPW	237,733	201,354	36,379	18.1%
DCI	159,241	201,143	-41,902	-20.8%

Table 6 contains a two-year comparative review of the automobile-insurance market breaking the information down into direct premiums written and direct claims incurred by the three major premium classifications.

TABLE 6					
MARKET VOLUME BY CLASS					
AUTOMOBILE INSURANCE					
000s omitted					
		2002	2001	\$ change	% change
Third Party Liability	DPW	157,695	132,763	24,932	18.8%
Third Party Liability	DCI	117,234	151,507	-34,273	-22.6%
Personal Accident	DPW	14,864	13,164	1,700	12.9%
Personal Accident	DCI	8,899	11,447	-2,548	-22.2%
Other	DPW	65,174	55,427	9,747	17.6%
Other	DCI	33,108	38,188	-5,080	-13.3%

The graph at Appendix II shows the changes in province-wide Third-Party-Liability direct premiums and direct claims, by year, for the last fourteen years.

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 2004 benchmarks, have been determined to be 25.5% 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.

ASSESSMENT

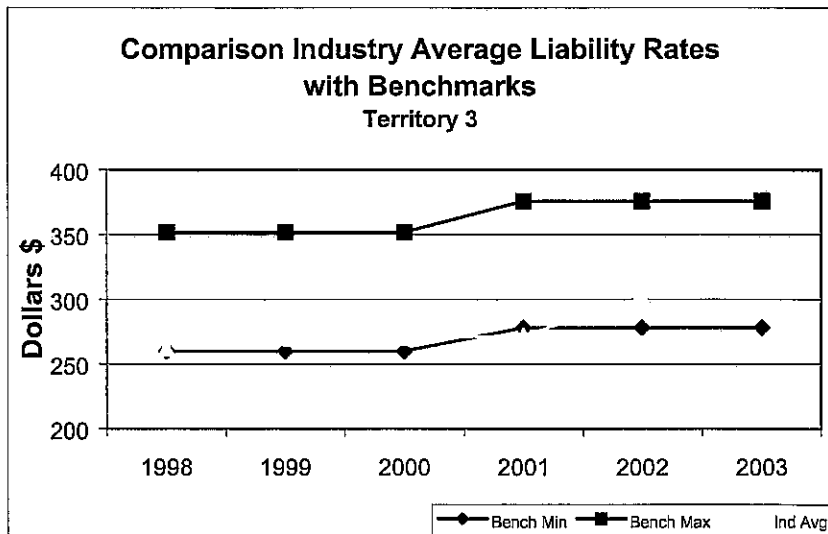
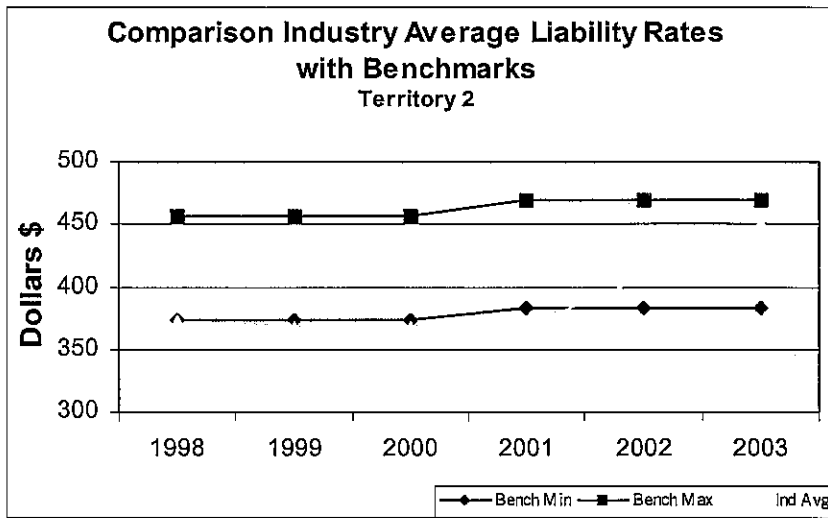
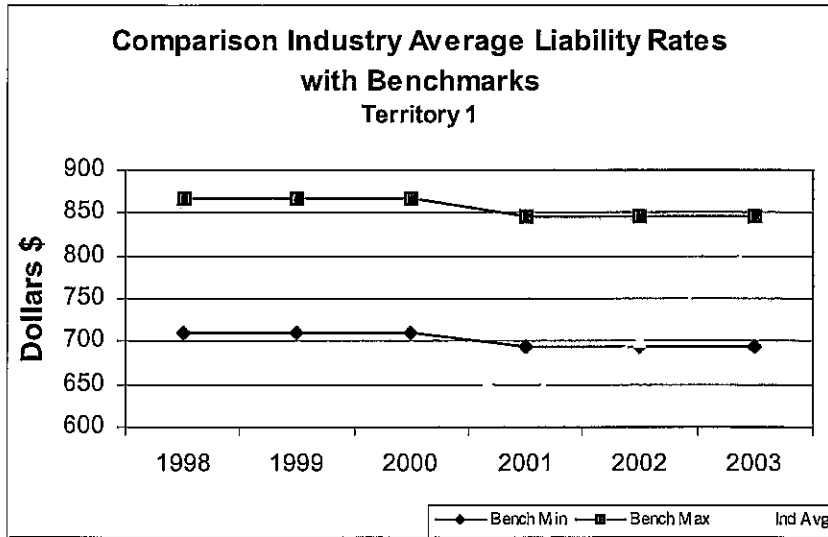
The operating costs of the Board's Insurance Division for the 2003-04 year were estimated at \$475,466.00. These costs were assessed against insurers with the approval of the Minister,

pursuant to Section 59 of the *Automobile Insurance Act*, at a rate of 2.00 mils or the equivalent of 0.20% of Direct Premiums Written by the market.

INTERACTION WITH GOVERNMENT

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.

Appendix 1
Comparison of Industry Average
Third Party Liability Rates
With
Annual Benchmarks



Appendix 2
Comparison of
Third Party Liability
Direct Claims,
Claims and Expenses
and
Direct Premiums

**Provincial Third Party Liability Auto
Claims, Claims & Expenses, Premiums Written**

(000's omitted)

