2017 Automobile Insurance Review

Public Utilities Board
Questions to Campaign to Protect Accident Victims
Issued: July 27, 2018

Estimated Overpayments of Automobile Insurance Premiums in Newfoundland and Labrador
Dr. Fred Lazar and Dr. Eli Prisman

1. Page 13, footnote 5 states that raw figures in Table 7 are from the table on page 25 of the GISA report Automobile Insurance Financial Information Industry Profit and Loss Report, Private Passenger Automobiles: Newfoundland and Labrador 2016.

a) Please explain why Acquisition Expenses and General Expenses are excluded from Dr. Lazar and Dr. Prisman's calculation of Underwriting Income.

b) Please confirm if Dr. Lazar and Dr. Prisman's analysis considered the Other Revenue and Expenses category included in the table on page 25 of the GISA report. If no, why not?

2. Page 15, Table 9 presents the following comparison:

- allocated investment income as a percentage of allocated equity for private passenger vehicles in NL as reported by insurers to GISA (Exhibit #9501).
  versus
- the average investment yield based on the audited financial statements in the P&C-1 page 10.60, row 46: reported total investment income as a percentage of assets for the company-all lines of business and all provinces. This is known as the return on investments yield (or ROI) for the company.

a) As these are two completely different items, explain why Table 9 is presented to imply that they are the same conceptual values but from different sources?

b) Do Dr. Lazar and Dr. Prisman find invested assets to be the same as equity? If so, explain why in the audited financial statements the invested assets (P&C-1 page 20.10) are a different value than the equity (P&C-1 page 20.20) for each insurer.

c) If Dr. Lazar and Dr. Prisman considered the actual ROI reported in the audited financial statements (P&C-1), how would the findings change?

3. As reported by GISA, its accident year 2016 estimated ultimate loss ratio is 87% as of December 31, 2017 (AUTO 1005). As presented in the Oliver Wyman report, the estimated ultimate loss ratio for accident year 2016 is 85%. On page 22, Dr. Lazar and Dr. Prisman state

Oliver Wyman's estimate of the ultimate loss ratio for accident year 2016 is out of line with GISA.

a) Given that GISA's and Oliver Wyman's accident year 2016 ultimate loss ratio are quite close, explain the basis for this statement.

b) In comparing loss ratio findings, explain what consideration Dr. Lazar and Dr. Prisman gave to the differences in accident year versus calendar year definition of loss ratios.

4. Page 20 states "*In Ontario, the regulator, FSCO, has been using a ROI assumption of 6% to set premiums*." Please provide a reference to confirm the source of this figure and detail the period of time over which the ROI provision of 6% has been in use.

5. Page 28 states "*we adjusted the actual premiums till the resulting ROEs equaled the CAPM ROEs (Table 11)*". It is noted that the ROEs presented in Table 11 range from 3.75% to 7.84%. Please provide examples of other regulated jurisdictions in which the target ROE used to set automobile insurance premiums is in the range identified in Table 11.

6. Please explain why years 2014 and 2015 are left blank in Tables 16, 17 and 18.

7. Please complete the following table based on the assumptions included in Table 16 on page 28 to include all positive and negative ROE gaps:

ROE Gaps – Actual less CAPM ROE, 2011-2016 (%)

	2011	2012	2013	2014	2015	2016
All Companies						
All ex. Primmum and Security National						
All Positive ROEs						

8. Please complete the following table based on the assumptions included in Table 17 on page 29 to include the estimated premium overpayment or premium deficiency for each year and the aggregated total:

Estimated Premium Overpayments/Deficiencies, Newfoundland and Labrador 2011-2016 ($, millions)

	2011	2012	2013	2014	2015	2016	2011-2016 total
All Companies							
All ex. Primmum and Security National							
All Positive ROEs							

9. Please complete the following table based on the assumptions included in Table 18 on page 29 to include the estimated premium overpayment or premium deficiency for each year and the aggregated total:

Estimated Premium Overpayments/Deficiencies, Newfoundland and Labrador, as % of Actual Premiums Paid, 2011-2016 (%)

	2011	2012	2013	2014	2015	2016	2011-2016 total
All Companies							
All ex. Primmum and Security National							
All Positive ROEs							

10. As explained in the Oliver Wyman report, the expense ratios are from the GISA Expense Exhibit #9502. These expense ratios are similar to the GISA Exhibit #9501, (which is referenced by Dr. Lazar and Dr. Prisman). The reason for the difference in the expense ratios in #9501 versus #9502 is mainly due to the basis of presentation between net (#9501) and direct (#9502) of reinsurance.

The following table presents the (total) reported expense ratios in Exhibit #9501 and #9502 for years 2013 to 2016, as well as the expense ratios selected by Dr. Lazar and Dr. Prisman:

	2013	2014	2015	2016
#9501- Net	26.5	26.7	26.7	26.7
#9502 - Direct	23.3	25.0	23.9	25.7
Lazar and Prisman	20.9	22.3	21.8	22.6

a) For each year, explain why the expense provision selected by Dr. Lazar and Dr. Prisman (to represent the historical actual expense ratio) is consistently lower than either the #9501 or #9502 exhibits.

b) Are the Dr. Lazar and Dr. Prisman expense ratios on a net or direct basis?