

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, 1999 TO MARCH 31, 2000

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 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, while remaining solvent.

RATING TERRITORIES

The Province of Newfoundland and Labrador is subdivided into three distinct 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 1999-00, the Board continued its policy of requiring insurers to bring their 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 eleven rate filings by automobile insurers indicating rates for some coverages below the Benchmark minimums, to take effect during 1998/99. By comparison, during the current reporting period, the Board received four applications from automobile insurers seeking Board approval of certain rates below the Benchmark minimums. Each filing was 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 four applications received, their disposition has been as follows: Two of the applications have been approved as presented or modified with rates for certain coverages below the Benchmark minimums. The remaining two applications were reviewed, and the proposed rates were found not to be supported by the actuarial analysis accompanying the filings, that is to say, based on the parameters selected by the company and on which the filing was based, the resultant rates would see the company recovering less in premiums than its anticipated claims and expenses. These applications were denied by the Board.

LOSS RATIOS

As indicated in its 1998/99 Report to the Minister, the Board undertook a Benchmark analysis of the reported industry loss experience in order to establish Benchmark Rate Ranges for use

with filings taking effect in 2000. Based on a thorough review of all available information, the Board

determined that a 0% rate change would be appropriate during calendar year 1999.

As a result, the Board continued use of the 1998 Benchmark Rate Ranges for rate filings made by insurers during 1999. This decision has led to some stability in automobile-insurance rates in the Province over the past year.

The actuarial model used by the Board in determining its 1998 Benchmark Rate Ranges established a reference point for loss costs in relation to premiums. Based upon the determination that commissions and administrative expenses averaged 25.8% of each premium dollar written by the industry as a whole, and allowing a negative underwriting profit margin of 4.3%, 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 78.5%.

As a point of reference, for Public Liability and Property Damage, the annual loss ratio was 104% in 1987, however, during the period 1988 - 1992 loss costs were especially severe, province wide, with loss ratios of 120%, 133%, 140%, 127%, and 135%, respectively. The loss ratio has declined in 1993 and subsequent years. For the third consecutive year, the preliminary loss ratio for liability in a current year is below 100%. For 1998, the preliminary figure is 82%. 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 1992, IBC estimated in its 1992 report that the anticipated ultimate loss ratio for the year would be 110%. However, in 1993, the IBC revised its estimate for accident year 1992 to 127%, based on data which were one year matured. The figure was further revised in 1994 and 1995, and for 1996 the figure stands at 135%. This deterioration in 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, however, 1993 province-wide loss data appear to have stabilized and subsequent years' development has not shown deterioration. Indications are that this stability is evident in 1994 and subsequent years' loss experience by industry.

TABLE 1							
IBC LOSS RATIOS, THIRD PARTY LIABILITY							
Private Passenger Automobile Province of Newfoundland and Labrador All Rating Territories							
Accident Year	1992 IBC Report	1993 IBC Report	1994 IBC Report	1995 IBC Report	1996 IBC Report	1997 IICC* Report	1998 IICC Report
1988	120%	-	-	-	-	-	-
1989	124	133%	-	-	-	-	-
1990	126	137	140%	-	-	-	-
1991	111	120	123	127%	-	-	-
1992	110	127	130	133	135%	-	-
1993	-	113	116	114	112	113%	-
1994	-	-	104	111	102	99	99%
1995	-	-	-	100	97	83	85
1996	-	-	-	-	80	75	75
1997	-	-	-	-	-	82	75
1998	-	-	-	-	-	-	82

* 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 yet identified.

Accident Year	1992 IBC Report	1993 IBC Report	1994 IBC Report	1995 IBC Report	1996 IBC Report	1997 IICC* Report	1998 IICC Report
1988	126%	-	-	-	-	-	-
1989	130	146%	-	-	-	-	-
1990	143	160	164%	-	-	-	-
1991	124	138	143	149%	-	-	-
1992	121	147	155	160	164%	-	-
1993	-	135	137	137	135	134%	-
1994	-	-	115	121	114	112	115%
1995	-	-	-	106	107	92	96
1996	-	-	-	-	81	78	80
1997	-	-	-	-	-	85	77
1998	-	-	-	-	-	-	82

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

For Territory 1, the rating territory having the highest vehicle population in the Province, loss experience has been 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	1992 IBC Report	1993 IBC Report	1994 IBC Report	1995 IBC Report	1996 IBC Report	1997 IICC* Report	1998 IICC Report
1988	106%	-	-	-	-	-	-
1989	108	106%	-	-	-	-	-
1990	94	97	100%	-	-	-	-
1991	89	90	89	90%	-	-	-
1992	94	98	94	94	92%	-	-
1993	-	79	82	78	75	80%	-
1994	-	-	89	101	87	81	75%
1995	-	-	-	91	77	67	64
1996	-	-	-	-	77	69	66
1997	-	-	-	-	-	76	72
1998	-	-	-	-	-	-	78

* 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 three 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 1998 indicate that losses appear to have stabilized at the 80% level for the past three years. It would appear that a trend toward lower loss ratios has developed. It is difficult to say, however, if this trend will continue over the long term.

As of December 31, 1999, the rates of all insurers were either brought within the Benchmarks or in the case of exceptions were justified to the satisfaction of the Board by the companies involved.

2000 BENCHMARKS

With respect to Benchmarks for filings made during 2000, the Board did not commission a study during 1999/00. A number of factors influenced the Board's decision in this matter. In considering the issue, the Board was informed by staff that, of the companies operating in the Newfoundland automobile insurance market, 9 of the largest insurers, representing 48% of the Direct Premiums Written in automobile in the Province in 1997, had filed independent rate filings proposing rates below the 1998 Benchmarks. These filings were subjected to independent actuarial review by the Board's consulting actuaries, Milliman & Robertson, and found to be reasonable and supported by the filing information. Additionally, the Board was advised that of the remaining companies, 22 insurers, representing 49% of the Direct Premiums Written in automobile in the Province in 1997, had filed rates which tended toward the lower end of the Benchmarks. To put this in perspective, the Benchmarks represent the deemed adequate average rate all

insureds should pay for automobile insurance. To recognize differences between companies, the Benchmarks allow a range of +/-10% on the mid point of the range. Companies filing within this range receive automatic approval of rates. Companies filing outside this range must provide actuarial justification of the proposed rates. In essence, then, the Board was faced with the fact that 97% of the industry had established rates which were below the mid point of the range. This indicated to the Board that the majority of companies believed that the mid-point of the range, while based on overall industry experience, was not reflective of the companies' experience and that establishment of rates at the mid-point would be in excess of their requirements.

The second major consideration of the Board was with respect to the cost of the Benchmark analysis in light of the real possibility of changes in the Board's regulatory role in the industry. As the Minister is aware, the Select Committee to Review the Property and Casualty Insurance Industry in the Province of Newfoundland and Labrador has made specific recommendations respecting changes to the current form of rate regulation for the automobile insurance industry, which, if implemented will have a major impact on the Board. It was anticipated that Government would have been in a position to deal with these recommendations during the current reporting period. The Board felt that in view of what it understood would be forthcoming changes it would not incur the financial obligation to undertake a Benchmark analysis.

FACILITY ASSOCIATION

Commencing in 1997 and continuing into 1998, the Board was made aware of the financial performance of the unincorporated non-profit association of insurers known as Facility Association. This association, established under the provisions of the Insurance Companies Act, is designated as non-profit, and operates as "the market of last resort" to provide automobile insurance to individuals unable to obtain coverage from voluntary market participants.

During 1997 and 1998, the Superintendent of Insurance, as well as the Chair of the Select

Committee examining the property and casualty insurance industry expressed concerns to the Board regarding the level of apparent profits reported in Facility Association's Financial Statements for the year ended October 31, 1997. In conjunction with this, as reported in our 1998-99 annual report, Facility Association, on December 17, 1997, submitted to the Board an application with an indicated average rate increase of + 47.5% for private passenger insurance and + 16.1% for commercial insurance. Following a comprehensive review by the Board's actuarial consulting firm, and a review of all information relative to the filing, the Board, in December 1998, denied the rate application.

In order to address the concerns expressed regarding the profitability of the Facility Association, as well as to provide the Board with further insight into Facility, it was decided to commission a review of the causes of the operating surpluses showing in the Financial Statements of the Facility Association for the years 1997 and 1998. This review was completed by the Board's Actuarial Consultants on September 29, 1999.

Following review of the report, a committee of two of the Board's members recommended that the matter be subjected to a public hearing. The matter was reviewed at a regular meeting of the Board, held December 14, 1999, and it was decided that a hearing would be held. The hearing opened on the March 27, 2000 with evidence being heard on the 27th and 28th. The hearing adjourned on the 28th, with the Board to set a date for resumption. The outcome of the hearing will be reported in the Board's annual report for 2000-2001.

SELECT COMMITTEE REPORT

As mentioned in the section entitled Benchmarks, in March 1998, the Report of the Select Committee to Review the Property and Casualty Insurance industry in Newfoundland and Labrador was presented to the House of Assembly by the Committee's Chairman, the Honourable Rick Woodford, MHA. That report recommended certain changes to the manner in which the automobile-

insurance industry is regulated in the Province of Newfoundland and Labrador, and recommended that Government adopt a system of file and use for purposes of regulating the automobile-insurance rates in the Province, versus the prior-approval system currently in place.

Subsequent to the filing of the report, the Board has had discussions with the Office of the Superintendent of Insurance, and understands that action by Government has not yet been taken with respect to many of the recommendations of the Select Committee.

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 purposes of the compliance audit, from the Board's perspective, are:

- 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, 1999 to March 31, 2000, the Board completed nine compliance audits of automobile insurers operating in the Province. The compliance audits completed during 1999-00 involved five national insurers, and four provincially-based insurers.

Of the nine audits completed, all indicated no areas of concern that the Board felt required further action. 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. Commissioners and staff of the Board will gain valuable knowledge of industry practices which can be used to enhance their effectiveness and which will be of benefit when dealing with consumer enquiries and complaints. 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 that office.

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. The Superintendent is a participant in the Board's current review of the Facility Association.

MARKETPLACE CHANGES

At the beginning of 1999-00, there were fifty-nine 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 on the following page.

TABLE 4			
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	34	1.63	2,914
501 – 1,000	4	1.56	2,776
1,000 – 5,000	13	20.18	36,000
Over 5,000	8	76.63	136,687
Totals	59	100.00	178,377

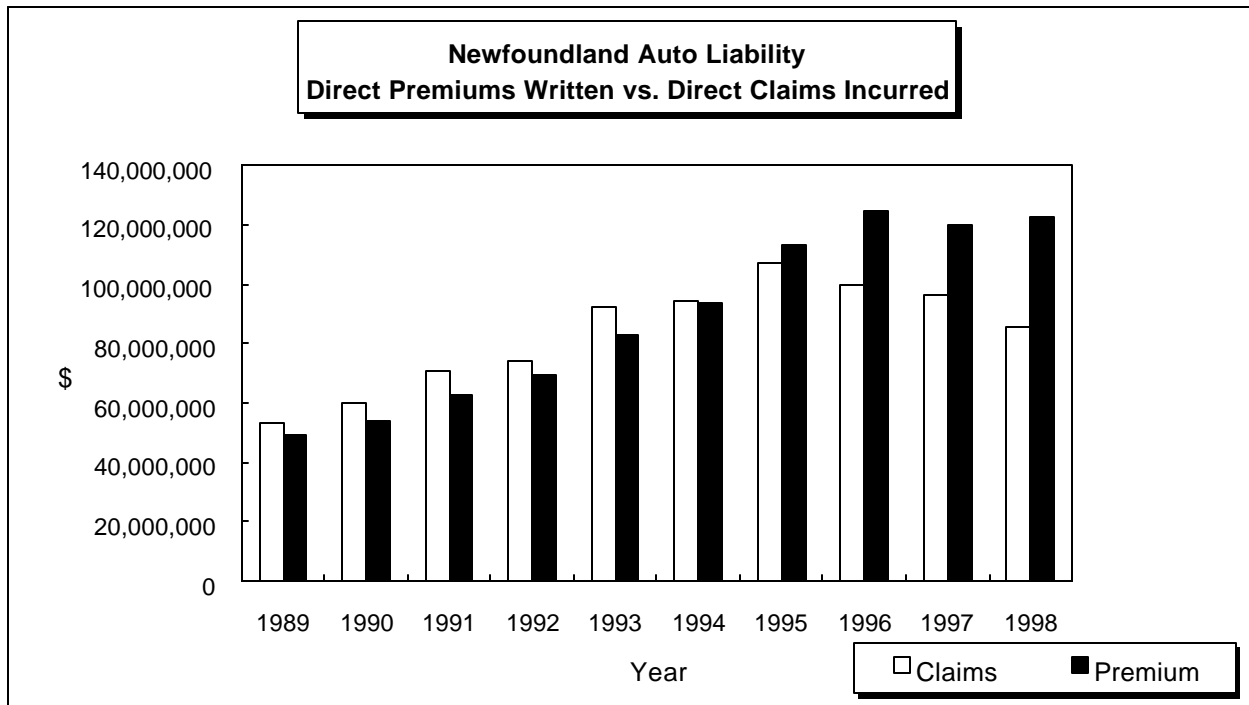
The volume of automobile insurance written in the province showed modest change during 1998. Direct premiums written information for the current reporting period will not be available in an aggregated format until mid 2000. Information obtained from the Office of the Superintendent of Insurance on the total automobile insurance market written in the province during 1998 is contained in the following table:

TABLE 5				
Market Volume				
Automobile Insurance				
000s omitted				
	1998	1997	\$ change	% change
DPW	178,377	175,007	3,370	1.9%
DCI	117,819	127,781	(9,962)	-7.8%

Table 6 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 6					
Market Volume by Class					
Automobile Insurance					
000s omitted					
		1998	1997	\$ change	% change
Third Party Liability	DPW	122,971	120,208	2,763	2.30
Third Party Liability	DCI	85,731	96,092	(10,361)	- 10.78
Personal Accident	DPW	12,204	12,044	160	1.32
Personal Accident	DCI	7,758	6,890	868	12.59
Other	DPW	43,202	42,755	447	1.05
Other	DCI	24,330	24,799	(469)	-1.89

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.



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 1999-00, the Board issued thirty-seven Orders under authority of the *Automobile Insurance Act*. These Orders resulted from: -

- (i) Twenty-eight (28) applications to amend rates for Private Passenger, Commercial, Miscellaneous, Motor Cycle, Snow Vehicle, Trailer, and Camper Coach classes of

business.

- (ii) Three (3) orders issued on the Board's own initiative setting the Class 05 differentials for Private Passenger rates of the insurer within the Benchmarks.
- (iii) One (1) order approving or varying discounts applicable to Private-Passenger rating programs.
- (iv) Three (3) orders issued varying previous orders issued during the year to revise the implementation dates of the rates approved.
- (v) Two (2) orders issued denying applications for the establishment of rates below the Benchmarks.

ASSESSMENT

The operating costs of the Board's Insurance Division of the 1999-00 year were estimated at \$320,112.00. These costs were assessed against insurers at a mil rate of 1.8 mils, with the approval of the Minister, pursuant to Section 59 of the *Automobile Insurance Act*.