

**ANNUAL REPORT**

**OF THE**

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**ON OPERATIONS CARRIED OUT UNDER**

***THE AUTOMOBILE INSURANCE ACT***

**Chapter A-22, RSNL 1990, AS AMENDED**

**FOR THE PERIOD APRIL 1, 2011 TO MARCH 31, 2012**

## **EXECUTIVE SUMMARY**

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

During 2011-2012 the Board received 42 Category 1 filings (reflecting no changes or reductions in rates) and issued 21 Orders involving Category 2 and Category 3 rate filings (representing rate increases). The Board conducted two compliance audits of automobile insurers operating in the Province during the period. In addition the Board issued five general directives to insurers participating in the automobile insurance market and individual prohibition directives to seven specific insurers.

There were no significant changes in the market or its composition over the year. Based on the most recently available market information (2010) 52 automobile insurers reported positive direct premiums written of \$338,393,000 in the Province, compared to \$318,128,000 in 2009. The market continues to show a high level of concentration, with 12 insurers writing 87% of all the automobile insurance business in the Province.

## **TABLE OF CONTENTS**

<b>EXECUTIVE SUMMARY</b>	<b>i</b>
<b>TABLE OF CONTENTS</b>	<b>ii</b>
<b>LEGISLATION</b>	<b>1</b>
<b>MARKETPLACE CHANGES</b>	<b>1</b>
<b>REGULATORY ACTIVITIES</b>	<b>3</b>
<b>Filings</b>	<b>3</b>
<b>Compliance Audit Program</b>	<b>3</b>
<b>Directives/Prohibitions</b>	<b>4</b>
<b>Complaints</b>	<b>4</b>
<b>Expenses</b>	<b>4</b>

## **LEGISLATION**

The *Automobile Insurance Act*, Chapter A-22, RSNL 1990, and the *Insurance Companies Act*, Chapter I-10, RSNL 1990, as amended, provide the Board with specific statutory responsibilities concerning the regulation of aspects of the automobile insurance industry in the Province of Newfoundland and Labrador.

Specifically the Board has responsibility for: the rates charged by insurers for automobile insurance; underwriting guidelines used in the classification of business written; the grounds on which insurers may refuse to provide insurance or discontinue coverage; and the risk classification system used by insurers to determine individual rates for automobile insurance coverages.

## **MARKETPLACE CHANGES**

Based on the 2010 Report of the Superintendent of Insurance, the latest information available, there were 52 automobile insurers operating in Newfoundland and Labrador reporting positive Direct Premiums Written. Of the active companies, 12 wrote 87% of the automobile insurance market in the Province. The distribution of these companies by size and market share is shown in Table 1.

**2010 Superintendent of Insurance Report**

<b>TABLE 1 2010 DISTRIBUTION OF COMPANIES BY SIZE AND MARKET SHARE AUTOMOBILE INSURANCE</b>			
<b>Volume of Direct Premiums Written (000's \$)</b>	<b>Number of Companies</b>	<b>Percent of Market Share (%)</b>	<b>Total Direct Premiums Written (000s \$)</b>
0 - 1,000	28	1.66	5,611
1,001 - 5,000	12	11.33	38,353
Over 5,000	12	87.01	294,429
<b>Totals</b>	52	100.00	338,393

Table 2 shows comparative information for 2010 versus 2009 in relation to direct premiums written (DPW) for automobile insurance. The total value for DPW in the Province increased by 5.99% from 2009 to 2010.

<b>TABLE 2</b> <b>2010 MARKET VOLUME</b> <b>AUTOMOBILE INSURANCE</b> <b>(000s \$)</b>				
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>% Change</b>
<b>Direct Premiums Written (DPW)</b>	338,393	318,128	20,263	5.99

2010 Superintendent of Insurance Report

Table 3 contains a two-year comparative review of the automobile insurance market, showing year over year relative changes of the DPW by the three premium classifications, Third Party Liability, Personal Accident and Other. The Other category includes coverages such as Collision, Comprehensive, Specified Perils and All Perils.

<b>TABLE 3</b> <b>2010 MARKET VOLUME BY CLASS</b> <b>AUTOMOBILE INSURANCE</b> <b>(000s \$)</b>					
		<b>2010</b>	<b>2009</b>	<b>\$ change</b>	<b>% change</b>
<b>Third Party Liability</b>	<b>DPW</b>	217,825	207,520	10,305	4.73
<b>Personal Accident</b>	<b>DPW</b>	25,730	24,220	1,510	5.87
<b>Other</b>	<b>DPW</b>	94,265	86,388	7,877	8.36

2010 Superintendent of Insurance Report

## **REGULATORY ACTIVITIES**

### **Filings**

During the year the Board issued 16 Orders in relation to Category 2 rate filings and 5 Orders in relation to Category 3 rate filings. These Orders were for rate increases or the establishment of new rates.

The Board also received 42 Category 1 filings representing no changes or reductions in rates to insureds. Pursuant to legislative provisions, these filings are not subject to prior approval and may be implemented 30 days, or later as may be specified by the company, following filing with the Board.

Included in the 42 Category 1 filings were a number of revisions to underwriting guidelines, risk classification systems and declination rules. These filings are not subject to prior approval but the Board may prohibit an insurer from using a ground or risk classification system that is found to violate provisions in legislation or regulations.

### **Compliance Audit Program**

The Board has established a compliance audit program whereby the rates and rating practices of the regulated insurance companies are reviewed. The compliance audit program is designed to ensure that insurers writing business in the Province are only charging rates that have been approved by the Board in accordance with the *Automobile Insurance Act* and the *Insurance Companies Act*. The audit program also ensures that agents and brokers of the insurer are interpreting the underwriting guidelines of the insurer correctly and that insureds of similar risk characteristics are being rated correctly.

The Board completed two compliance audits and commenced two additional audits during the 2011-2012 period.

## **Directives/Prohibitions**

During the year the Board issued five general, industry wide, directives to all insurers in connection with filing guidelines, loss trend analysis, mandatory expense reporting requirements and updated CLEAR Rate Group Tables. In addition the Board issued individual prohibition directives to seven specific insurers ordering suspension of the use of underwriting guidelines or grounds which were found to be contrary to legislative requirements or which were prohibited from use in legislation.

## **Complaints**

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

## **Expenses**

The expenses of the Board in relation to insurance operations for 2011-2012 were budgeted at \$503,061. 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 1.487 mils on the direct automobile insurance premiums written in the Province by the market. A five-year summary of assessments and mil rates is shown in Table 4.

<b>TABLE 4 2007- 2012 ASSESSMENTS AND MIL RATES</b>		
<b>Year</b>	<b>Assessments</b>	<b>Mil Rate</b>
2011 – 2012	\$503,061	1.487
2010 - 2011	\$536,043	1.685
2009 - 2010	\$760,689	2.602
2008 - 2009	\$641,937	2.387
2007 - 2008	\$501,463	1.982