Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AUTOMOBILE INSURANCE

FILING GUIDELINES

REFORM FILINGS

NOVEMBER 5, 2019

1.0 GENERAL INFORMATION

1.1 Applicability

Changes to the *Automobile Insurance Act* (the "*Act*") and associated Automobile Insurance Regulations ("NLR 56/19") come into effect on January 1, 2020.

- Changes to the *Act* can be found at: https://www.assembly.nl.ca/HouseBusiness/Bills/ga48session4/bill1903.htm

- NLR 56/19 can be found starting on page 21 at: https://www.assembly.nl.ca/legislation/sr/annualregs/2019/nr190056.htm

The Board has developed a simplified "Reform" filing option to expedite the approval of mandatory reform changes including:

(a) the introduction of Direct Compensation Property Damage ("DCPD") for all vehicles; and
(b) the increase in the deductible applicable to all pain and suffering awards from $2,500 to $5,000.

The Reform Filing Guidelines provide step-by-step procedures for splitting existing Board approved Third Party Liability rates into rates for Bodily Injury, Property Damage-Tort and DCPD sub-coverages, as well as reflecting the deductible increase into Bodily Injury rates. **No other rating program changes, other than (a) and (b) noted above, may be proposed by insurers availing of the Reform filing option.**

The Reform Filing Guidelines include guideline allocation factors applicable to changes (a) and (b) noted above that were developed by the Board's consulting actuaries, Oliver Wyman Limited. A report titled "*Reform Cost Estimates - October 21, 2019*" summarizing the development of these factors can be found on the Board's website. While insurers may propose the use of different reform factors, sufficient appropriate information to support the deviation from the guideline factors must be provided.

Insurers are not required to use the Reform filing option for the implementation of (a) and (b) noted above. Insurers may instead choose to include these changes as part of a Mandatory or Expedited Approval filing. Filing Guidelines for both the Mandatory and Expedited Approval processes will be released by the Board in a future Directive prior to January 1, 2020.

All insurers must submit a filing for (a) and (b) noted above for all applicable categories of automobile insurance by **July 15, 2020**.

The Reform Filing Guidelines and associated exhibits can be downloaded from the Board's website at www.pub.nl.ca/insurance.htm.

1.2 Categories of Automobile Insurance

The following categories of automobile insurance are used for the purposes of the Reform Filing Guidelines:

Private Passenger Automobiles - means an automobile used for the purposes listed under the heading "Type of Use-Private Passenger" in the Automobile Statistical Plan prepared under section 82 of the *Insurance Companies Act*.

Commercial Vehicles - means a vehicle designed or used primarily to transport materials, goods, tools or equipment in connection with an occupation or business.

Miscellaneous Vehicles - means any of the following vehicles when used for personal use only: (i) motorcycles, (ii) all-terrain vehicles, (iii) mopeds, (iv) snowmobiles, (v) trailer homes, (vi) antique cars, and (vii) classic cars.

Public Vehicles - means an automobile used primarily to provide transportation services to the public and includes ambulances, daily rental vehicles, funeral hearses, private buses, public buses, school buses and taxis.

Other Vehicles - means any vehicle type that does not meet the definition of Private Passenger Automobiles, Commercial Vehicles, Miscellaneous Vehicles or Public Vehicles as defined above.

The Board typically requires a separate rate filing for each category of automobile insurance for which there are changes proposed. However, the Board has waived this requirement for insurers under the Reform Filing Guidelines. Insurers may include changes to all applicable categories of automobile insurance in a single Reform filing.

1.3 Review Timeline

The Board shall approve, prohibit or vary rates filed under the Reform Filing Guidelines within 30 days from the date the filing is received. The Board may extend the time period if required.

The Board will consider a filing to be received on the day it is filed provided it is deemed to be complete. A filing will not be considered complete until all required documentation and information sufficient to permit a full review has been filed in accordance with the Reform Filing Guidelines. Incomplete filings may result in a delay in the review process or the filing being returned to the insurer.

1.4 Effective Dates

The proposed effective dates for both new business and renewals must be no sooner than 30 days following the date of the Reform filing, and no earlier than January 1, 2020. In the event an insurer requires a change to its proposed effective dates following approval of a rate filing, the Board must be notified of this change in advance.

1.5 Costs

All costs associated with the Reform filing review process will be recovered as part of the Board's annual assessments issued to Industry. The Board will no longer invoice insurers for company specific rate filings on a case-by-case basis.

1.6 Filing Submission

Filings made under the Reform Filing Guidelines must be submitted electronically to ito@pub.nl.ca. No hard copy is required.

Board staff will determine if the filing requires actuarial review and will forward the filing documentation to its consulting actuaries accordingly. Insurers are not required to copy the Board's consulting actuaries when filings are initially submitted.

2.0 FILING FORMAT

All Reform filings must include a signed cover letter outlining the proposed changes and be submitted in the following format:

Section	Description
1	Table of Contents
2	Rate Filing Summary
3	Certifications (Officer and Actuary)
4	Support for DCPD Implementation and BI Deductible Increase
5	Rate Manual Pages

Section 1: Table of Contents

The Table of Contents must show the main headings noted above plus the key headings within each of the sections and must be detailed enough to allow the reader to quickly isolate key information.

Section 2: Rate Filing Summary

The "Rate Filing Summary-Reform" Excel template is available for download on the Board's website.

2.a. Rate Filing Summary Form

This section consists of one Excel document that must be completed and submitted as part of the filing package.

A separate rate filing summary Excel form must be completed for Private Passenger Automobiles and Commercial Vehicles to reflect proposed changes.

For Miscellaneous Vehicles, Public Vehicles and Other Vehicles, a separate rate filing summary Excel form must be completed for each type of vehicle for which there are changes proposed. For example, for Miscellaneous Vehicles, a separate rate filing summary Excel form would be required for motorcycles, all-terrain vehicles and snowmobiles.

2.b. Publication

Section 13 of NLR 56/19 requires the Board to publish specific information pertaining to rate applications within 30 days of approving, prohibiting or varying rates. This information has been included in the "Publication" tab in the rate filing summary Excel document. The information in the publication form will be exported to pdf format and published to the Board's website with the corresponding Board Order.

A separate publication Excel form must be completed for each category of insurance and/or vehicle type for which a rate filing summary form is required.

Section 3: Certifications

The Certificates template is available for download on the Board's website.

3.a. Certificate of the Officer

A scan of an original signed certificate of an authorized officer of the Company must be included in each filing. Authorized officers are the President, CEO, COO, CFO, any Vice-President, the Treasurer, or the Corporate Secretary or Chief Agent for Canada, for the Company.

The Certificate of the Officer must identify a person authorized by the Company to act as the contact person for the Company. All filing correspondence will occur between this person, Board staff and the Board's consulting actuaries.

3.b. Certificate of the Actuary

Filings that result in a rate level change or rely upon separate reform factors than those presented in these Reform Filing Guidelines (see Table 1 below) must include a scan of an original certificate of a Fellow of the Canadian Institute of Actuaries.

Section 4: Support for DCPD Implementation and BI Deductible Increase

This section provides the required support for the development of new Third Party Liability rates, including the introduction of DCPD rates. All companies using the Reform filing option are required to complete this section.

The Board has not provided any guideline Excel templates to be completed for this section. Support may be included in pdf format as long as all supporting calculations are provided.

Insurers are required to summarize applicable rate and premium information in the Excel template required for Section 2: Rate Filing Summary.

Third Party Liability currently consists of a Bodily Injury component and a Property Damage component. The Property Damage component is comprised of two parts:

(i) coverage for damages to the vehicle of another driver; and
(ii) coverage for damages to other property.

DCPD is being introduced in Newfoundland and Labrador to replace part (i) above, and part (ii) can be described as Property Damage-Tort. Therefore, Third Party Liability premium should be divided into three sub-coverages in future filings to the Board: Bodily Injury, Property Damage-Tort and DCPD.

The deductible applicable to pain and suffering awards in Newfoundland and Labrador is also increasing from $2,500 to $5,000 for all loss or damage sustained on or after January 1, 2020. This is expected to result in a reduction to Bodily Injury total claims costs and **must be reflected in Bodily Injury rates** by insurers.

The Board will accept the following allocation of the current Third Party Liability premium into Bodily Injury, Property Damage-Tort and DCPD (which includes the change in deductible from $2,500 to $5,000) without the need for additional support:

Table 1: Third Party Liability Premium Split with Deductible Increase

Line of Business	Bodily Injury & Health Levy	Property Damage - Tort	DCPD	Total
Private Passenger Automobiles	75%	2%	21%	98%
Commercial Vehicles	72%	9%	17%	98%
Motorcycles	89%	1%	7%	97%

These allocations assume the Health Levy provision is included in the current Third Party Liability premium.

For those insurers who choose to independently support the change to Bodily Injury claims costs for the increase in the deductible from $2,500 to $5,000, the Board will accept the following allocation of current Third Party Liability premium **but the insurer must provide additional support for** the change in deductible from $2,500 to $5,000 that will apply to Bodily Injury only:

Table 2: Third Party Liability Premium Split <u>without</u> Deductible Increase				
Line of Business	**Bodily Injury & Health Levy**	**Property Damage - Tort**	**DCPD**	**Total**
Private Passenger Automobiles	77%	2%	21%	100%
Commercial Vehicles	74%	9%	17%	100%
Motorcycles	92%	1%	7%	100%

These allocations assume the Health Levy provision is included in the current Third Party Liability premium.

Insurers may propose the use of different factors than those presented in Tables 1 and 2 above, however, sufficient appropriate information to support the deviation from the Board's guideline factors must be provided in this section. The descriptions and rationale should be detailed so that the Board has enough information to decide to accept the proposed factors or require the use of the Board's guideline factors.

The Board prefers that the three Third Party Liability sub-coverages each have a separate and identified premium. However, it will be acceptable for insurers to charge a single premium for Bodily Injury and Property Damage-Tort combined (see Step 7 below).

The Board understands that the Automobile Statistical Plan will be amended to collect claims and premiums data for all three Third Party Liability sub-coverages separately effective January 1, 2021 (See GISA Bulletin 2019-03 for additional information).

4.a Development of Territorial Base Rates

Under the Reform filing process:

- No changes are to be made to the current Third Party Liability rating factors. The current Third Party Liability rating factors must be used for each of Bodily Injury and Property Damage-Tort. The term rating factors is meant to include all rating differentials (e.g., class, driving record, etc.), discounts and surcharges.
- No deductible option will be available for DCPD.
- Insurers may choose to introduce vehicle rate group factors for the DCPD coverage with supporting documentation to show revenue neutrality.
- Limits of coverage (and corresponding increased limit factors) do not apply to DCPD.
- All other rating factors currently used for Third Party Liability must be used for DCPD (e.g., territory, class, driving record, discount, surcharges, etc.).
- While insurers may use Third Party Liability allocations and Bodily Injury reductions that are different than the Board's guideline factors (see Table 1 above), supporting evidence for alternate selections must be provided.

- Changes to Bodily Injury coverage should only include consideration of the Bodily Injury deductible increase.
- Changes to Property Damage coverage should only include the split between DCPD and Property Damage-Tort and must be revenue neutral.
- All other changes to the rating program must be submitted using the Board's Mandatory or Expedited Approval filing options.

The proposed Bodily Injury, Property Damage-Tort and DCPD rates for **Private Passenger Automobiles** are to be derived according to the following steps using Table 1 above:

Step 1

Current (Board approved) Third Party Liability territory base rates are reduced by 25% (or multiplied by a factor of 0.75) to determine the new Bodily Injury base rates by territory **with** the change in deductible from $2,500 to $5,000.

Step 2

Current (Board approved) Third Party Liability territory base rates are reduced by 98% (or multiplied by a factor of 0.02) to determine the new Property Damage-Tort base rates by territory.

Step 3

For each territory, the DCPD initial base rate is set equal to the currently approved Third Party Liability territory base rate multiplied by a factor of 0.21.

In steps 1, 2, and 3 above, insurers may provide data to support the use of different factors (other than 0.75 for Bodily Injury, 0.02 for Property Damage-Tort and 0.21 for DCPD).

Step 4

Calculate the average increased limit factor for Third Party Liability based on the current distribution of risks by limit to determine an offset factor. Using the offset factor, adjust the initial DCPD base rate for each territory to reflect the removal of the effect of increased limit factors. This adjustment should be revenue neutral.

Step 5

If choosing to use DCPD vehicle rate group factors, insurers must calculate the average vehicle rate group factor for its in-force portfolio and determine an offset factor. The DCPD base rate for each territory is adjusted by the offset factor so that the application of vehicle rate group factors is revenue neutral.

Step 6

Insurers must confirm that the creation of the new DCPD and Property Damage-Tort rates are revenue neutral and that the Bodily Injury rates include the appropriate premium adjustment to take into consideration the increased deductible from $2,500 to $5,000.

Step 7

In this step, insurers may combine the Bodily Injury and Property Damage-Tort components into a single rate if they choose.

The process outlined above would also be used for all other classes of business by replacing the Private Passenger Automobile factors with the applicable Commercial Vehicle or Motorcycle factors from Table 1 or Table 2 above. For the classes of business not identified in Table 1 or Table 2, the factors used should be determined as follows:

Use PPA Factors	**Use Commercial Factors**	**Use Motorcycle Factors**
Antiques & Classics	Ambulances	All-Terrain Vehicles
Motorhomes	Private Buses	Snow Vehicles
Taxis	Public Buses	Mopeds
	School Buses	

For trailers (e.g. personal trailers, boat trailers, snowmobile trailers), the Board adopts the position taken by the New Brunswick Insurance Board (”NBIB”) and Nova Scotia Utility and Review Board (“NSUARB”) that no premium for DCPD may be charged on these trailers.

The Board also adopts the approach of the NBIB and NSUARB for commercial and interurban trailers that permits a premium charge for the trailer equal to 10% of the DCPD rate on the vehicle.

4.b. Discounts/Surcharges

For discounts/surcharges that are currently applied to Third Party Liability premiums, insurers must confirm the discount/surcharge will apply to Bodily Injury, Property Damage-Tort and DCPD premiums. Where a change is proposed to treat a sub-coverage differently than the others, the rationale for the difference must be disclosed in this section. With any changes to the discounts or surcharges, insurers must ensure there is no change to the overall premium level.

4.c. Endorsements

Insurers must identify any changes to endorsements and/or endorsement premiums that arise as a result of the split of the Third Party Liability premium into its three sub-coverages. Where a sub-coverage is treated differently than the others, the rationale for the difference must be disclosed in this section. Support must be provided for any change in endorsement premiums resulting from the reform. With any changes to the endorsements, insurers must ensure there is no change to the overall premium level.

Section 5: Rate Manual Pages

Any rate manual pages (e.g. rate pages, rating rules, discounts/surcharges and endorsements) that are changing as a result of the changes being made in Reform filings must be included in this section.

Any tables used to assign vehicle rating groups for DCPD do not have to be included in the filing. A description of the table used is sufficient.

An electronic copy of the final set of manual pages with the approved rates and risk classification system must be submitted within 30 days of approval. This filing would include the complete table used to assign vehicle rating groups.