



NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

**REQUEST FOR PROPOSALS
ACTUARIAL CONSULTING SERVICES
AUTOMOBILE INSURANCE**

TERMS OF REFERENCE

November 25, 2022

1. PURPOSE

The Board of Commissioners of Public Utilities (the "Board") is seeking proposals for the provision of actuarial consulting services for a five-year period. The services to be provided will include a core level of recurring work with respect to the Board's mandate for the regulation of automobile insurance, as well as other requirements that may arise during the engagement period.

2. BACKGROUND

Mandate and Authority

The Board is an independent administrative tribunal which has responsibility to regulate defined aspects of the automobile insurance industry in the Province. The Board derives its mandate from provincial statutes and regulations, primarily the **Public Utilities Act**, the **Automobile Insurance Act** and the **Insurance Companies Act**.

The **Public Utilities Act** constitutes and defines the general powers of the Board and provides the authority for the Board in discharging its mandate. The **Automobile Insurance Act** provides the Board with responsibility for the general supervision of the rates an insurer charges or proposes to charge for automobile insurance. The **Insurance Companies Act** sets out the Board's role with respect to regulation of risk classification systems, underwriting guidelines and the regulation of Facility Association's rates. All other matters respecting automobile insurance regulation fall under the jurisdiction of the Office of the Superintendent of Insurance.

Profile

The Board by statute is comprised of four full-time Board members, including the Chair and Chief Executive Officer and Vice-Chair. In addition to the Board members, there are a small number of professional staff who provide advice and support to the members, and administer the operations of the Board. There are currently 14 full-time staff.

The Board reports to the Minister of Justice and Public Safety administratively and submits an annual report to the Minister. A panel decision on a hearing is independent of any reporting structure.

The Board is funded by assessments upon the industries it regulates and therefore is excluded from the general budget of Government.

Industry

The automobile insurance industry in Newfoundland and Labrador operates in a tort-based system with a \$5,000 deductible for pain and suffering damages. Automobile insurance is provided through private insurers with rates approved by the Board.

Certain reform measures were legislated in 2019 and 2020 which impacted the product, the rates and the regulation of the industry. Proponents shall make themselves fully aware of the current legislation affecting the Newfoundland and Labrador automobile insurance market.

Total automobile insurance direct premiums written in Newfoundland and Labrador during 2021 was approximately \$501,000,000 by 40 automobile insurers. The volume of premiums written by these insurers ranged from a low of \$1,000 to a high of over \$93 million.

The market has a high level of concentration with approximately 87% of automobile insurance business written by 10 individual companies. When common ownership among companies is considered, there are five insurer groups writing approximately 94% of all business.

Regulation

Automobile insurance rates in Newfoundland and Labrador are regulated on a prior-approval basis and insurers are prohibited from charging rates that have not been approved by the Board.

Insurers are mandated to submit a full rate filing with the Board at least once every three years for each category of automobile insurance it writes in the Province. The Board must approve, prohibit or vary rates filed in accordance with the mandatory schedule within 90 days from the date of receipt. The Board may extend the review period by a maximum of 90 additional days if required.

The Board is also required to offer an expedited approval process to allow insurers to file limited rate changes in the period between full filings. The Board must approve, prohibit or vary rates filed in accordance with the expedited approval process within 30 days from the date of receipt.

The Board has discretion to determine the form and manner in which the rates are to be filed, as well as the information and documentation that must be provided. All rate filings must be submitted in accordance with the filing guidelines developed by the Board.

The majority of Board Decisions are reached by way of a paper hearing following review and analysis of the rate filing documentation; however, a public hearing may be deemed necessary in certain circumstances. The Board will prohibit rates where it determines that the proposed rates:

- (a) are not just and reasonable in the circumstances;
- (b) would impair the solvency of the insurer;
- (c) are excessive in relation to the financial circumstances of the insurer; or
- (d) violate the **Automobile Insurance Act**, the **Insurance Companies Act** or the respective regulations under these Acts.

The Board is required to publish specific information pertaining to automobile insurance rate filings within 30 days of approving, prohibiting or varying rates. This information is outlined in standardized forms to be completed by insurers and submitted with the filing documentation.

3. ELIGIBILITY

Before preparing a proposal for the provision of actuarial consulting services to the Board proponents are advised to ensure that their firm can meet the following eligibility criteria:

- i) well-developed professional actuarial techniques and a sound system of control and review of actuarial work performance;
- ii) substantial resources in the fields of actuarial technology, statistical analysis, information technology and management consulting;
- iii) experience in the provision of actuarial consulting services; and
- iv) knowledge of the insurance industry in general and the automobile insurance industry in particular.

Disclosure of Conflict

The Board requires that any possible conflict of interest be reported. Failure to report any such conflict may be cause for disqualification. The Board requires disclosure by candidates of any actuarial work undertaken, within the past three years, for any insurer engaged in the business of automobile insurance, regardless of whether such insurer is currently active in the Newfoundland and Labrador automobile insurance market.

4. SCOPE AND REQUIREMENTS

The range of services to be provided may vary from year to year but will include a core level of work. The potential activities to be undertaken by the actuarial consultant are described under two headings. Part A covers those activities that are expected to recur annually. Part B is a list of activities that may be initiated by the Board as needed.

Part A – Annual Recurring Activities

Automobile Insurance Rate Filings

- The consultant will be required to review and provide a detailed report of findings on rate filings submitted to the Board by automobile insurers. This will comprise the most significant portion of work for the consultant.
- Automobile insurers are required to submit rates for each type of vehicle it writes in the province at least once every three years. A separate filing is required for Private Passenger Automobiles, Commercial Vehicles, Miscellaneous Vehicles and Public Vehicles.
- The Board is unable to provide the specific number of filings the consultant may be required to review annually as filing volume is subject to fluctuations. Over the past five years the number of filings received by the Board annually ranged from 51 to 148, with a select portion of these requiring actuarial review.
- The determination of whether a filing requires actuarial review is made by Board staff upon receipt of the filing. This decision is dependent on the nature of the proposed changes and the category of automobile insurance.

Facility Association Rate Filings

- The consultant will be required to review and provide a detailed report of findings on rate filings submitted to the Board by the residual market administrator, Facility Association.
- Facility Association is required to submit rates for each type of vehicle it writes in the province at least once every three years. A separate filing is required for Private Passenger Automobiles, Commercial Vehicles, Miscellaneous Vehicles and Public Vehicles.
- All filings received from Facility Association are subject to actuarial review.

Loss Trend Rates

- The Board publishes benchmark loss trend rates following the release of GISA half-year data that may be used by insurers in rate filings without the need for additional support.
- Following review of the GISA half-year data, the consultant will be required to submit to the Board a detailed report setting out the consultant's analysis and selected loss trend rates for both private passenger automobiles and commercial vehicles.

Profit and Rate Adequacy Review

- The consultant will be required to conduct an annual review of profit levels and rate adequacy of the private passenger automobile industry in the province.
- The review will consist of an analysis and detailed report covering the following:
 - Review of historic premiums, average loss amounts and vehicle growth.

- Review of historic profit levels earned.
- Comparison of required average premium and actual average premium charged.
- Assessment of the current level of rate adequacy.

CLEAR Base Rate Adjustment Factors

- The Board has a CLEAR filing process that may be used by insurers proposing only to adopt Board approved CLEAR tables.
- The Board publishes annual benchmark CLEAR base rate adjustment factors to assist insurers in reflecting rate group drift in CLEAR filings.
- The consultant will be required to calculate the annual CLEAR rate group drift adjustment factors following the release of new CLEAR tables.

PART B – Other Activities as Assigned

The following is a list of some of the activities the consultant may be called upon to perform from time to time:

- Advising on actuarial policies and techniques that may be appropriate for use in regulating the automobile insurance industry.
- Advising on appropriate benchmark factors to be included in filing guidelines for items such as profit, return on investment, expenses, etc.
- Advising the Board with respect to the determination of the appropriate rates charged by automobile insurers, including advising the Board on refinements, improvements, or changes to the rate review process, or models used in determining the appropriate rates.
- Assisting Board staff in the preparation or revision of filing guidelines and instructions to insurers.
- Conducting training sessions for Commissioners and Board staff with respect to costs and earnings, rates and the basic economics of the automobile insurance industry.
- Advising the Board in various investigations, reviews and/or studies pursuant to Section 63 of the **Automobile Insurance Act**. This may require that the consultant file expert reports and provide testimony at a public hearing.
- Advising the Board in relation to other matters arising from its responsibilities pursuant to the **Public Utilities Act**, the **Automobile Insurance Act** and/or the **Insurance Companies Act**.

5. TERM OF ENGAGEMENT

It is expected that the successful firm will be engaged for a period of five years. However, the appointment will be on an annual basis with potential renewal based on performance every year over the five-year period. The Board reserves the unqualified right not to reappoint annually. Where the Board determines that it is necessary and appropriate the Board may extend the contract beyond the initial five-year term.

6. PROPOSAL EVALUATION

Proposals will be evaluated on the basis of:

- i) educational, professional and technical qualifications of personnel assigned;
- ii) the experience of the firm in providing services similar to those being requested by the Board;
- iii) Canadian-based expertise;
- iv) the quality of the proposal and the extent to which it demonstrates insights into how the responsibilities to be assigned can be successfully executed;
- v) access to an appropriate level of resources and support services;
- vi) the absence of conflict of interest; and
- vii) rates.

7. PROPOSAL CONTENT

Services

Proposals should describe the special expertise or qualifications of the firm in providing the actuarial consulting services requested. The manner of reviewing and evaluating rate increase filings should also be set out. A sample report in relation to a similar matter shall be provided.

Information should be included in the proposal regarding any advisory services which may be available to the Board on "routine" matters. These may include staff assistance and/or publications relating to matters such as automobile insurance rate regulation, cost factors to be considered in rate establishment, rate development programs, information technology and management consulting.

Proposals should detail local content if any.

Fees

The hourly rates for services to be rendered by each assigned person should be set out for each year of the five-year term on the basis of the professional designation. Where the rates are changing over the five-year term proposals must set out the percentage change for each year.

In each year, on the anniversary date of the engagement, the consultant and the Board will agree to a schedule of the hourly rates to be charged for the next year.

While the Board may require prior approval of expenses associated with each project to be commissioned, your proposal should provide a statement of expectations respecting reimbursement of expenses, travel costs and other out of pocket expenses.

The Board is not seeking fully-costed proposals for any of the projects to which reference has been made.

8. MONITORING PERFORMANCE

During the five-year term of engagement, the evaluation of the consultant's performance will be based on but not limited to the following criteria:

Adherence to Proposed Fees

Any project to be undertaken may require prior approval of a work plan by the Board and this prior approval may cover a time budget for the project as well as a disbursement budget. For all projects the consultant must keep an account of actual time spent by assigned personnel on each major task and submit to the Board upon completion of each major task a schedule which shows the actual time spent. The cost of this accounting of time shall be considered to be included in the hourly rate quoted under this proposal. Where a project is expected to take longer than one month the consultant may be required to provide progress reports.

Persons Assigned

For the initial year of the engagement the persons assigned should be those originally proposed. Any subsequent changes to the assigned personnel must be approved by the Board. The Board requires that the most senior of the assigned personnel be accessible to the Board as reasonably required.

Deadlines

The deadlines established for work assigned to the consultant will be rigorously imposed. Failure to meet deadlines will be an important component of the Board's evaluation of performance.

Quality

Annual renewal of the engagement will depend upon the provision of the highest quality of work in all of the services performed for the Board.

9. CONDITIONS

It is possible that the Board's consideration of the proposals submitted in response to this invitation will lead to the selection of two or more firms, rather than a single firm, to provide the services being requested. It is also possible that the Board may refrain from any appointment at this time.

Any major change in the requirements of the Board may lead to a further invitation for proposals and the termination of any arrangement that may be established pursuant to the present invitation.

The Board makes no claim, expressed or implied, with regard to the volume of work that may result from the acceptance of a proposal for the provision of these professional services. The Board reserves the exclusive right to accept or reject any or all proposals. The lowest cost proposal will not necessarily be accepted.

The Board reserves the right to discuss any or all proposals and to request additional information from any or all proponents.

The Board will not be liable for any fees, expenses or other costs incurred by the candidates in the presentation of their response to this request for proposals.

10. DOCUMENTS AVAILABLE

Copies of relevant legislation, the Board's Filing Guidelines, orders of the Board and other information are available upon request or may be accessed by following the appropriate links on the Board's website at www.pub.nl.ca.

11. PROPOSAL TIMELINE AND PROCESS

Closing Date and Time

The deadline for the receipt of proposals is 4:00 P.M. on Thursday, January 27, 2023.

Five copies of the proposal will be required. For mail or courier delivery the envelope should be sealed and clearly marked and addressed as follows:

PROPOSAL FOR ACTUARIAL CONSULTING SERVICES

Director of Corporate Services & Board Secretary
Board of Commissioners of Public Utilities
P. O. Box 21040
Suite E- 210, 120 Torbay Road
St. John's, NL
A1A 5B2

To meet the January 27, 2023 submission deadline, electronic submissions may be emailed to roake@pub.nl.ca. Where electronic submissions are filed, proponents will be required to file the required number of paper copies.

Selection Committee

A short list of eligible candidates may be interviewed as part of the selection process. If selected to make an oral presentation it is expected that persons who would be assigned to provide actuarial consulting services to the Board will make the presentation.

The appointment is expected to be made prior to February 10, 2023 to take effect on April 1, 2023.

Additional Information

Additional information can be provided, if necessary, by telephone or by email. Please contact Ryan Oake, Manager of Insurance, at (709)-726-1097 or roake@pub.nl.ca.