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A.I. 5(2004)

IN THE MATTER OF THE
Automobile Insurance Act,
Chapter A - 22, R. S. N. 1990.

AND

IN THE MATTER OF AN
Application by L'Union Canadienne
Compagnie d'Assurance for approval of rates
for Private Passenger automobile
insurance.

Background

On October 20, 2004 the Board received an application from L'Union Canadienne Compagnie d'Assurance, ("L'Union"), seeking approval of the Board to adopt the currently approved schedule of rates of Colonial Fire and General Insurance Company ("Colonial") with effect from January 1, 2005, for Private Passenger automobile insurance to be written in the Province of Newfoundland and Labrador on and after January 1, 2005.

L'Union is part of the Co-operators Group Limited consisting of the Co-operators General Insurance Company, Sovereign General Insurance Company, Coseco Insurance Company, Echelon General Insurance Company and Colonial Fire and General Insurance Company, all of whom write automobile insurance in this Province. In 2003 Colonial's market share was 4.68% with \$12,815,000 in direct automobile insurance premiums written. L'Union has held a license to provide insurance, other than automobile, in the Province since April 1997. The company was recently licensed by the Superintendent of Insurance for the Province to write automobile insurance. L'Union is the parent company of Colonial having purchased the shares of the insurer in September 2001. Since that time all communication regarding Colonial to the

1 Board has been from L'Union. While L'Union is a new entrant to the automobile insurance
2 market in this Province it has, for a number of years, been providing other insurance products
3 and its subsidiary Colonial has a strong presence in the Newfoundland and Labrador automobile
4 insurance market.

5 This application is made pursuant to Section 49(1) of the *Automobile Insurance Act* for
6 approval of initial rates, in the context of recent reforms to the automobile insurance market in
7 the Province. Government, through Bill 30, mandated reductions in the Board approved rates
8 charged by insurers in the Province for Private Passenger automobile insurance for all contracts
9 of insurance in effect on August 1, 2004. The legislation prohibits insurers from applying for
10 rate increases and the Board from approving any such applications for a period of 12 months
11 from March 17, 2004. No such prohibitions are in effect in connection with applications seeking
12 to reduce rates. Commercial automobile insurance rates are not subject to the mandatory
13 reductions in rates or prohibition on applications for increases in rates.

14 15 **The Application**

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17 The application of L'Union proposes rates for Private Passenger automobile insurance for
18 all coverages and territories in the Province. The proposed rates are based on Colonial's rates. In
19 a letter to the Board dated November 22, 2004 L'Union made the following statement:

20 *"The main purpose of the present filing is to ensure a smooth transition for our insureds. To*
21 *achieve this, we would like to continue to use the current Colonial rates and apply them to*
22 *L'UNION CANADIENNE for the renewal of the current portfolio and for writing new business."*

23
24 *"The coming transaction is very similar to a simple change in name of their insurer and the rest*
25 *should be transparent to them."*

26
27 *"Consequently, we would like the Board to allow L'UNION CANADIENNE to use the same*
28 *rates, risk classification system and underwriting rules as Colonial starting January 1, 2005. To*
29 *this effect, we include all the filing documents required under the Board's Filing guidelines. **It***
30 ***should be noted that these rates have already been approved by the Board on April 30th, 2003,***
31 ***and have been reduced on August 1st, 2004 according to the requirements of Bill 30.**"*
32 *(emphasis added)*

33
34 L'Union proposes rates within the Board's current benchmark ranges with the exception
35 of rates for Collision and All Perils coverage. The proposed adjusted base rates for Collision and
36 All Perils, for all territories, are below the benchmark minimum. In accordance with the Board's
37 Filing Instructions, since the proposed rates for one or more coverages fall outside the

1 benchmark rate ranges of acceptable rates, the application would be considered as a Category 2
2 (non-benchmark) filing not subject to routine approval.

3

4 **Legislative Authority and Regulatory Framework**

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6 The Board's powers and responsibilities with respect to automobile insurance rates are
7 set out in the *Automobile Insurance Act*. Section 49(1) requires insurers to file annually with the
8 Board the rates proposed to be charged for automobile insurance. Section 49(2) provides that the
9 Board may approve, prohibit or vary the rates. Section 50 prohibits an insurer from charging
10 rates that have not been approved by the Board and Section 53 provides that rates are deemed
11 approved if the Board does not approve, prohibit or vary the rates filed within 60 days from the
12 filing of the rates. As the Board has dealt with this filing within 60 days of its receipt, Section 53
13 is not operative.

14 The Board regulates automobile insurance rates using a benchmarking system. These
15 benchmarks are based on the overall industry reported loss experience in the Province by
16 coverage and territory adjusted to reflect anticipated loss experience to be realized by the
17 industry in the near future, all other things remaining constant. The result of this analysis is a
18 single rate for each territory and coverage, referred to as the benchmark rate. This rate represents,
19 and is often referred to, as the benchmark mid-point. In order to recognize the competitive nature
20 of the insurance industry as well as the fact that certain companies may have operating practices,
21 characteristics or a book of business that may distinguish them from the industry average, a band
22 on the mid-point, which varies by coverage, is allowed. These bands are referred to as the upper
23 and lower limits, or the maximum and minimum, of the benchmarks.

24 Companies filing adjusted base rates falling within the benchmark limits are subjected to
25 a thorough review by Board staff and, if the rates filed are found to conform in all respects to the
26 benchmarks, the filing is approved by the Board without further actuarial review. Filings not
27 conforming to the benchmarks are generally required to be actuarially justified and are subjected
28 to an extensive review by an independent actuarial consultant, with the review findings reported
29 to the Board.

30

1 **Discussion**

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3 The application filed by L'Union, an existing licensed property and casualty insurance
4 company in the Province, is based on Colonial's current portfolio and experience in the market.
5 With a view to ensuring "a smooth transition" for the Colonial insureds, L'Union proposes to
6 adopt the Colonial rates and apply them to L'Union customers for the renewal of the current
7 portfolio and for writing new business. effective January 1, 2005.

8 The Board has been advised that L'Union will assume the book of business of Colonial at
9 current rate levels, along with the company's assets, existing claims, financial liabilities and
10 other obligations of Colonial on January 1, 2005, and that the long term intention is to wind up
11 Colonial. Existing policies and liabilities will be assumed on the same terms and rates as those
12 offered by Colonial.

13 Given that it is unlikely that an insured will migrate to another insurance provider on the
14 basis of the name change alone, the Board is satisfied that the composition of the Colonial
15 experience and book of business will not materially change as a result of L'Union taking over the
16 business. The Board finds that in these circumstances the experience and book of business of
17 L'Union will be substantially similar to that of Colonial. Based on the L'Union proposal to
18 maintain continuity of service, product and pricing, the Board accepts the Colonial experience
19 and book of business as a suitable proxy for L'Union. Given that the proposed rates are based on
20 the Colonial experience and book of business the Board finds that the proposed rates are
21 reasonable and justified in the circumstances.

22 The Board will approve the application on the ground that approval is both fair to
23 consumers and industry. Approval will ensure that current Colonial policy holders will continue
24 to receive insurance on the same terms and conditions and at the same rates currently charged by
25 Colonial. The Board is satisfied that approval of the application is in the public interest as it will
26 preserve stability and fairness in the marketplace.

27

1 **IT IS THEREFORE ORDERED THAT:**

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3 1. Pursuant to Section 49 of the *Automobile Insurance Act*, the Board approves:

4 (a) the proposed base rates of L'Union Canadienne Compagnie d'Assurance as set
5 out below with effect from January 1, 2005: and

6 **TERRITORY**

	1	2	3
Third Party Liability	\$870.87	\$461.37	\$359.45
Collision	\$182.50	\$176.40	\$214.42
Comprehensive	\$85.86	\$68.85	\$85.86
Specified Perils	\$34.44	\$19.32	\$17.64
All Perils	\$249.90	\$230.45	\$281.82
Accident Benefits	\$109.00	\$87.00	\$76.00
Uninsured Motorist	\$26.70	\$16.02	\$12.46

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8 (b) the differentials as submitted with this filing.

9
10 2. The following discounts are approved for use subject to the eligibility criteria as
11 submitted with this filing:

i.	Multi Vehicle	10%	Third Party Liability; Collision
ii.	Mature Driver		Third Party Liability; Collision
	Age 35-44	5%	
	Age 45-54	10%	
	Age 55-64	15%	
	Age 65-69	10%	
	Age 70+	5%	
iii.	Female Driver	5%	Third Party Liability; Collision
iv.	Student Away From Home	50%	Third Party Liability; Collision Class 05 and 06 only.

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DATED at St. John's, Newfoundland and Labrador, this 8th day of December 2004.

Robert Noseworthy,
Chairperson & Chief Executive Officer.

Darlene Whalen, P.Eng.,
Vice-Chair.

G. Cheryl Blundon,
Board Secretary.