

1 **A.I. 1 (2007)**

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7 **IN THE MATTER OF** THE *Automobile,*  
8 *Insurance Act*, R.S.N.L. 1990, c. A-22, as  
9 amended (the “*Act*”)

10  
11 **AND**

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13 **IN THE MATTER OF** an application by  
14 The Co-operators General Insurance Company  
15 (the “Applicant”) to implement revised rates  
16 for its Private Passenger class of business.

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18  
19 **Introduction**

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21 On October 20, 2006 the Board received the Applicant’s rate filing dated October 13, 2006  
22 requesting approval of a revised private passenger automobile insurance rating program for use  
23 with effect from March 1, 2007 for both new business and renewal business.

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25 **Legislation**

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27 On August 1, 2005 the Government of Newfoundland and Labrador enacted legislation  
28 amending the *Automobile Insurance Act* and the *Insurance Companies Act* in relation to the  
29 conduct of participants in the automobile insurance industry and the regulation of rates in the  
30 Province. Under the revised automobile insurance legislation, rate increases are subject to prior  
31 approval and the Board must prohibit or vary a proposed rate which is found to be “too high”.

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33 In determining if a rate is too high the Board considers the documentation available with respect  
34 to the justification of the rate levels including: i) the Applicant’s projected loss experience; ii)  
35 expenses; iii) investment income for the company’s automobile insurance business for the

1 province; and iv) other elements considered appropriate by the Board. Where the Board  
 2 determines that an insurer's loss experience is not relevant, inadequate or otherwise unreasonable  
 3 for use in establishing rates, the Board has discretion to establish the elements and information  
 4 upon which the insurer shall file its projected loss experience.

## 6 **Filing Instructions**

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 8 In response to legislated changes the Board issued Filing Instructions and a Guidance Document  
 9 for use by insurers in connection with rate filings, hereinafter referred to as Filing Guidelines.  
 10 The Filing Guidelines detail the requirements arising from the legislation, in particular the  
 11 information requirements respecting rate filings and provide the following definitions of two  
 12 types of filing categories:

### 14 **“3.1 CATEGORY - 1**

#### 16 **3.1.1 Category 1 - Definition**

17 *An insurer is considered to have made a Category 1 filing where:*

- 20 a) *In the case of private passenger rates filed in accordance with s.62.1, filed and*  
 21 *adjusted base rates for every coverage are reduced by at least 5% and there is no*  
 22 *increase to any rate for any coverage for any insured;*
- 23 b) *In the case of private passenger rates other than those filed in accordance with*  
 24 *s.62.1, there is no increase to any rate for any coverage for any insured; or*
- 25 c) *In the case of commercial or miscellaneous vehicle rates there is no increase to*  
 26 *any rate for any coverage for any insured.*

27  
 28 *Any filings not meeting this requirement will be considered a Category 2 filing.*

### 31 **3.2 CATEGORY 2- GENERAL FILING**

#### 33 **3.2.1 Category 2 - Definition**

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 35 *Where a rate filing contemplates changes to base rates less than the 5% mandated by*  
 36 *legislation on September 1, 2005 or in any other case an increase in a rate for any*  
 37 *coverage for any insured, the filing will be considered a Category 2 filing.”*

38  
 39 In addition, insurers were advised:

40  
 41 *“Insurers should have reference to the Category 2 Rate Application Guidance Document which is*  
 42 *attached to these Filing Guidelines as Appendix A. Insurers should note that this document sets*

1        *out guidance on completion requirements and various assumptions for such parameters as the*  
 2        *trend factor, loss development factors, credibility, ROE, ROI and premium to surplus ratio. To*  
 3        *the extent that insurers vary from the Category 2 Rate Application Guidance Document they will*  
 4        *be required to provide complete justification for consideration by the Board. Insurers should*  
 5        *note that the Board may have reference to advice from its consultants or may hold a hearing to*  
 6        *consider these proposals.”*  
 7

8        While an Applicant may utilize factors at variance with those set out in the Filing Guidelines, it  
 9        is required to provide sufficient evidence for the Board to assess these factors. It is in the context  
 10       of the foregoing that this application is reviewed.

11  
 12       **The Application**

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 14       The Board notes that, in response to the August 1, 2005 legislated changes, the Applicant filed a  
 15       Category 1 filing on July 18, 2005 that has been in effect since September 1, 2005 to the present  
 16       time.

17  
 18       This current filing is the Applicant’s first Category 2 rate filing. The Applicant has proposed a  
 19       schedule of rates based on a Return on Equity (ROE) of 12%, a Return on Investment (ROI) of  
 20       5.0%, and a Premium to Surplus Ratio of 2:1. These parameters, as well as the assumptions  
 21       made by the Applicant in connection with other factors considered in the rate making process,  
 22       are reflected in the indications and the proposed rate changes shown below:  
 23

<b>Coverage</b>	<b>Company Indications</b>	<b>Company Proposal</b>
Third Party Liability	21.2%	8.4%
Accident Benefits	-16.2%	-15.2%
Collision	7.9%	-0.6%
Comprehensive	-18.8%	-17.2%
Specified Perils	-18.8%	-17.2%
Uninsured Motorist	13.3%	12.6%
Underinsured Motorist	-8.5%	2.3%
Other Operators	14.9%	3.9%
<b>Total</b>	<b>11.7%</b>	<b>3.0%</b>

1 The Applicant also proposed the following changes to the approved rating program:

- 2 i) The addition of a \$4,000.00 deductible to Section C coverages
- 3 ii) Changes to the deductible rating factors.
- 4 iii) Introduction of the CLEAR 2006 Vehicle Rate Group Tables.
- 5 iv) Removal of the caps implemented in the Applicant's previous Category 1 filing.
- 6 v) Introduction of new capping provisions for Other Operators.
- 7 vi) Changes to the years claims free/years licensed grid.

8

9 The Applicant proposed to continue the following discounts approved by the Board in previous  
10 filings:

<b>Discounts</b>	<b>%</b>	<b>Coverages</b>
Multi Product	20%	Third Party, Accident Benefits, Collision, Comprehensive and Specified Perils
Extra Vehicle	10%	Third Party and Collision
Renewal Claims Free	10%	Third Party, Accident Benefits, Collision, Comprehensive and Specified Perils
Driver Training	10%	Third Party and Collision
More Vehicles than Operators	5%	Third Party, Accident Benefits and Collision

11

12 The Applicant proposed Class of Use definitions that vary from those established by the  
13 Superintendent of Insurance. The Applicant utilizes a combination of factors in determining  
14 Class designation including a Use code and an Exposure factor. The combination of these factors  
15 follows closely the designated Classes in the Statistical Plan.

16

17 The Application has proposed to remove the current capping provisions introduced in the last  
18 rate filing. The estimated impact of this is a +2.9% overall increase in rates. The Applicant noted  
19 that the removal of the cap as well as the changes in base rates will have a significant impact on  
20 certain insureds in the Other Operators category. To mitigate these impacts the Applicant has  
21 proposed new capping provisions for its current Other Operator insureds to limit the impact to a  
22 maximum of \$200.00 per year. The cap is to remain in place until the Applicant makes a further  
23 Category 2 filing.

1 **Actuarial Review**

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3 A copy of the filing was forwarded to the Board's actuarial consultants, Mercer Oliver Wyman  
4 (MOW) for their review and report. MOW reviewed and analyzed the filing and, where  
5 necessary, issued information requests and received responses. On December 13, 2006 MOW  
6 completed its review and issued its report, which identified a number of issues and provided  
7 alternate rate indications.

8

9 MOW reviewed the assumptions made by the Applicant and expressed the opinion that certain of  
10 the assumptions were not fully supported. MOW substituted alternate assumptions felt to be  
11 more appropriate or reflective of market or other conditions as follows:

12

13       o Loss Development 6 to 12 months – MOW identified and made an adjustment for the  
14       6 to 12 month loss development factor. In reviewing the selected loss development  
15       MOW noted that, due to volatility, the Applicant used the weighted all-half-years  
16       average for developments for the 12 to 30-month period and the weighted five-year  
17       average for the 6 to 12-month period. MOW noted that the 6 to 12-month period  
18       exhibited as much or more volatility as the 12 to 30-month period and substituted the  
19       weighted all-half-years average development in its place.

20

21       o Underwriting Profit Margin – the Applicant used a target ROE of 12%. The Board's  
22       Filing Guidelines notify insurers that an ROE of 10% is acceptable for rate  
23       determination and that an alternate ROE may be used provided sufficient cost of  
24       capital evidence is provided in support of a higher ROE. The Applicant did not  
25       provide evidence in support of a 12% ROE. The MOW indications are based on an  
26       ROE of 10% as set out in the Filing Guidelines.

The impact of these alternative assumptions is provided in detail in the MOW report and is summarized in the table below:

Coverage	Company Indications	Company Proposal	Mercer Indications
Third Party Liability	21.2%	8.4%	17.9%
Accident Benefits	-16.2%	-15.2%	-17.9%
Collision	7.9%	-0.6%	5.5%
Comprehensive	-18.8%	-17.2%	-20.7%
Specified Perils	-18.8%	-17.2%	-20.7%
Uninsured Motorist	13.3%	12.6%	10.8%
Underinsured Motorist	-8.5%	2.3%	-10.3%
Other Operators	14.9%	3.9%	12.4%
Total	11.7%	3.0%	8.8%

In addition MOW commented on the Applicant's Unallocated Loss Adjustment Expense Provision (ULAE), which was found to be significantly above the reported industry average. While the ULAE appears to be above the reported industry average it is based on the historical data provided and, for purposes of this filing, was found by MOW to be reasonable.

### **Revised Proposal**

Following review of the MOW report, on January 8, 2007 the Applicant provided additional information and comment on the MOW findings along with a revised rate proposal as follows:

Coverage	Mercer Indications	January 8, 2007 Proposal
Third Party Liability	17.9%	10.6%
Accident Benefits	-17.9%	-18.1%
Collision	5.5%	-0.6%
Comprehensive	-20.7%	-20.7%
Specified Perils	-20.7%	-20.7%
Uninsured Motorist	10.8%	2.3%
Underinsured Motorist	-10.3%	-14.8%
Other Operators	12.4%	3.9%
Total	8.8%	3.0%

1 The Applicant accepted the MOW finding in respect to the 6 to 12-month loss development and  
2 also noted that, while the indicated rate changes are based on an ROE of 12%, the selected rate  
3 changes, being lower than indicated, yield an effective ROE of 3.7%.

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5 **Findings**

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7 In its review of rate filings the Board is mandated to prohibit or vary a rate which it determines is  
8 “too high”. The Board makes this determination following a thorough review of all information  
9 submitted by the Applicant and careful consideration of the reports and findings of its expert  
10 consultants. In exercising its jurisdiction the Board reviews the base rates for each coverage and  
11 a determination is made as to whether or not the rates are “too high”. That is to say, the review  
12 is on a coverage by coverage basis. This is consistent with the amended legislation and is in  
13 keeping with the historical practice of the Board, which was adopted to avoid the cross  
14 subsidization of rates between coverages.

15  
16 As identified in the Board’s detailed Filing Guidelines the Applicant is required to provide  
17 justification of any rate increases. Where the Applicant does not utilize the specific parameters  
18 set out in the Filing Guidelines the Applicant is required to provide the Board with sound  
19 reasoning and justification for the deviation.

20  
21 The Board has reviewed the application, the supporting material, responses to information  
22 requests, the consultants’ report and all other information relevant to this rate filing. The revised  
23 rate proposals are consistent with the indications found to be reasonable by MOW and the Board  
24 is satisfied that the proposals are not too high in the circumstances. The Applicant proposed an  
25 ROE of 12% but does not reflect it in the proposed rates, which yield an effective ROE of only  
26 3.7%. In the absence of evidence to support the proposed ROE the Board would not accept the  
27 ROE of 12% but, since the Applicant did not reflect this ROE in its rate proposals, the matter is  
28 not at issue in this filing.

1 The Board finds the proposed Class of Use definitions closely follow the Statistical Plan and  
2 those previously approved by the Board for the Applicant. The proposed discount program is  
3 consistent with that previously approved and is reasonable and justified in the circumstances.  
4 The discounts relate to risk, are not subjective or arbitrary, and are in accordance with the  
5 legislative provisions. In addition, the impact of the discounts has been appropriately reflected in  
6 the rate filing.

7  
8 The proposed rate differentials were reviewed by MOW. The only issue raised by MOW was in  
9 connection with the years claims free/years licensed differentials. The proposed changes to the  
10 years claims free/years licensed grid were found by MOW to be transitional in nature and not  
11 unreasonable. The Board therefore accepts the rate differentials submitted with the filing,  
12 including the changes to the deductible rating factors and the CLEAR 2006 Vehicle Rate Group  
13 Tables.

14  
15 While the removal of the caps implemented in the Applicant's previous Category 1 filing will  
16 result in rate increases for some insureds the rates have been justified and are not too high in the  
17 circumstances. The Board approves the revised capping provision applicable to the Other  
18 Operator rates and notes that the cap will remain in effect until a further Category 2 filing by the  
19 Applicant.

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21 **Costs**

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23 As set out in the Filing Guidelines, pursuant to section 57 of the *Automobile Insurance Act* and  
24 section 90 of the *Public Utilities Act*, the Applicant will be required to pay the costs of the Board  
25 associated with this application, including the costs of the actuarial review.



1 **IT IS THEREFORE ORDERED THAT:**

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- 3 1. The rates proposed in the Applicant's January 8, 2007 revised rate proposal are approved
- 4 as follows with effect from March 1, 2007 for new and renewal business:

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Coverage	Territory 1	Territory 2	Territory 3
Liability	\$554	\$240	\$175
Accident Benefits	71	37	27
Uninsured Motorist	10	10	10
Collision (CLEAR)	63	58	72
Comprehensive (CLEAR)	39	34	32
Specified Perils (CLEAR)	10	5	4
SEF 44	2	2	2

- 6
- 7 2. The proposed Class of Use definitions are accepted for use.
- 8
- 9 3. The proposed discount program is approved.
- 10
- 11 4. The proposed capping provisions for Other Operators are approved and are to remain in
- 12 place until a further Category 2 filing is made.
- 13
- 14 5. The Applicant shall pay all the expenses of the Board arising from this application.

**DATED** at St. John's, Newfoundland and Labrador, this 22nd day of January 2007.

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Robert Noseworthy  
Chair & Chief Executive Officer

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Darlene Whalen, P.Eng.  
Vice-Chair

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Barbara Thistle  
Assistant Board Secretary