

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28  
29  
30  
31  
32  
33  
34  
35  
36  
37  
38  
39  
40

**NO. A.I. 12 (2008)**

**IN THE MATTER OF** the *Automobile, Insurance Act*, RSNL 1990, c. A-22, as amended (the “*Act*”)

**AND**

**IN THE MATTER OF** an application by Traders General Insurance Company (the “Applicant”) to implement revised rates for its Private Passenger class of business.

**Application Filing**

On February 26, 2008 the Board received the Applicant’s rate filing dated February 21, 2008 requesting approval of a revised private passenger automobile insurance rating program for use with effect from July 1, 2008 for new business and August 1, 2008 for renewal business.

**Legislation**

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

In determining if a rate is too high the Board considers the documentation available with respect to the justification of the rate levels including: i) the Applicant’s projected loss experience; ii) expenses; iii) investment income for the Applicant’s automobile insurance business for the Province; and iv) other elements considered appropriate by the Board. Where the Board determines that an insurer’s loss experience is not relevant, inadequate or otherwise unreasonable for use in establishing rates, the Board has discretion to establish the elements and information upon which the insurer shall file its projected loss experience.

1 **Filing Instructions**

2  
3 In the context of existing legislation the Board issued Filing Instructions and a Guidance Document for  
4 use by insurers in connection with rate filings, hereinafter referred to as Filing Guidelines. The Filing  
5 Guidelines detail the requirements respecting rate filings and provides the following definitions of two  
6 types of filing categories:

7  
8 **“3.1 CATEGORY - 1**

9  
10 **3.1.1 Category 1 - Definition**

11  
12 *An insurer is considered to have made a Category 1 filing where:*

13  
14 *a) The filed base rates for every coverage are reduced from those previously*  
15 *approved or that were filed with the Board and deemed to be approved and*  
16 *there is no increase to any rate for any coverage for any insured;*

17  
18 *b) The filed base rates for every coverage are not changed from those*  
19 *previously approved or that were filed with the Board and deemed to be*  
20 *approved and there is no increase to any rate for any coverage for any*  
21 *insured; or*

22  
23 *c) A combination of A and B above.*

24  
25 *Any filings not meeting this requirement will be considered a Category 2 filing.*

26  
27  
28 **3.2 CATEGORY 2 - GENERAL FILING**

29  
30 **3.2.1 Category 2 - Definition**

31  
32 *Where a rate filing contemplates changes to base rates less than the 5% mandated by*  
33 *legislation on September 1, 2005 or in any other case an increase in a rate for any*  
34 *coverage for any insured, the filing will be considered a Category 2 filing.”*

35  
36 The Filing Guidelines include a Guidance Document, which sets out specific detailed direction with  
37 respect to Category 2 filings. Specifically the Filing Guidelines state:

38  
39 *“Insurers should have reference to the Category 2 Rate Application Guidance Document which is*  
40 *attached to these Filing Guidelines as Appendix A. Insurers should note that this document sets*  
41 *out guidance on completion requirements and various assumptions for such parameters as the*  
42 *trend factor, loss development factors, credibility, ROE, ROI and premium to surplus ratio. To*  
43 *the extent that insurers vary from the Category 2 Rate Application Guidance Document they will*  
44 *be required to provide complete justification for consideration by the Board. Insurers should*  
45 *note that the Board may have reference to advice from its consultants or may hold a hearing to*  
46 *consider these proposals.”*

47  
48 While an Applicant may utilize factors at variance with those set out in the Filing Guidelines, it is  
49 required to provide sufficient evidence for the Board to assess these factors. It is in the context of the  
50 foregoing that this filing is reviewed.

1 **The Application**

2  
3 The current filing is a Category 2 rate filing. On May 12, 2008 the Applicant submitted a revised filing  
4 withdrawing a proposed Group Discount, adjusting the Return of Equity (ROE) and Return on Investment  
5 (ROI) to 11.74% and 4.89% respectively, and lowering proposed overall rate changes from 4.5% to 4.4%.  
6 It is the revised proposal on which this Order is based.

7  
8 The Applicant originally proposed a schedule of rates based on an ROE of 11.24%, an ROI of 3.85% and  
9 a Premium to Equity Ratio of 2.25:1. The original rate indications based on actuarial analysis of the data  
10 and the assumptions made in the modeling exercise are shown in the following table:

Coverage	Company Indication	Company Proposal
Third Party Liability	9.5%	9.0%
Accident Benefits	0.6%	0.6%
Collision	0.6%	0.0%
Comprehensive	-12.4%	-12.6%
Specified Perils	-12.8%	-13.0%
Uninsured Motorist	3.9%	3.4%
<b>Total</b>	<b>4.9%</b>	<b>4.5%</b>

11 The Applicant proposes to offer the following discounts:

Discount	% Amount	Coverage	Classes
Multi-Vehicle	10%	All coverages except Comprehensive and Specified Perils	All Classes except 05
Package	5%	Third Party, Accident Benefits, All Perils, Comprehensive and Specified Perils	All Classes except 05
Multi Policy	5%	All coverages	All Classes
Preferred Driver	10%	All coverages	Class 01, 02, 03, 07
Short Commute	10%	Third Party, Accident Benefits, Collision, All Perils (Collision portion), Uninsured Auto	02
Student	50%	All coverages	05
Hybrid	5%	All coverages	All Classes

12 The Applicant proposes no changes to the previously approved Class of Use definitions.

13  
14 **Detailed Analysis**

15  
16 A copy of the original filing was forwarded to the Board's Actuarial Consultants, Oliver Wyman, for their  
17 review and report. The filing was reviewed and analyzed and, where necessary, information requests were  
18 issued and responses were received. On March 24, 2008 Oliver Wyman completed its review and issued  
19 its report, which provided alternate rate indications. A copy of the report was provided to the Applicant  
20 for additional observation or comments.

1 Oliver Wyman reviewed the Underwriting Profit Margin used in the original filing and noted that the  
 2 ROE and ROI parameters did not comply with the Board Guidelines. In its previous Category 2 filing the  
 3 Board accepted as reasonable for the Applicant an ROE of 11.74% and an ROI of 4.89%.

4  
 5 Following the April 8, 2008 telephone conference call, on May 12, 2008 the Applicant submitted the  
 6 following revised rate proposal to reflect an ROE of 11.74% and an ROI of 4.89%:

Coverage	Company Indication	Company Proposal
Liability	8.8%	8.8%
Accident Benefits	0.3%	0.3%
Collision	0.3%	0.3%
Comprehensive	-12.8%	-12.8%
Specified Perils	-12.9%	-12.9%
Uninsured Motorist	3.9%	3.9%
All Perils	3.1%	1.5%
<b>Total</b>	<b>4.4%</b>	<b>4.4%</b>

7 **Board Findings**  
 8

9 In its review of rate filings the Board is mandated to prohibit or vary a rate which it determines is “too  
 10 high”. The Board makes this determination following a thorough review of all information submitted by  
 11 the Applicant and consideration of the reports and findings of its expert consultants. In exercising its  
 12 jurisdiction the Board reviews the base rates for each coverage and a determination is made as to whether  
 13 or not the rates are “too high”. This is consistent with the current legislation and is in keeping with the  
 14 historical practice of the Board.

15  
 16 In accordance with the legislation and as set out in the Board’s Filing Guidelines the Applicant is required  
 17 to provide detailed justification of any rate increases. Where the Applicant does not utilize the specific  
 18 parameters set out in the Filing Guidelines, the Applicant is required to provide the Board with sound  
 19 reasoning and justification for the deviation. In the case of the cost of capital issue this would generally  
 20 include expert evidence and detailed financial information particular to the company and in relation to the  
 21 markets in general.

22  
 23 The Board has reviewed the filing, the supporting material, responses to information requests, the report  
 24 of its actuarial consultants and all other information relevant to this rate filing. In relation to the proposed  
 25 Underwriting Profit Provisions the Board finds the ROE and ROI incorporated in its May 12, 2008 filing  
 26 are reasonable and in line with the Board’s findings for these factors as supported in the Applicant’s last  
 27 rate filing.

28  
 29 The Board is satisfied that the assumptions and other parameters used by the Applicant in determining the  
 30 rate level needs set out in its May 12, 2008 filing are reasonable in the circumstances.

31  
 32 The Board finds the proposed discount program is consistent with that previously approved and is  
 33 reasonable and justified in the circumstances. The discounts relate to risk, are not subjective or arbitrary,  
 34 and are in accordance with the legislative provisions. In addition, the impact of the discounts has been  
 35 appropriately reflected in the rate filing.

**Costs**

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

**IT IS THEREFORE ORDERED THAT:**

1. The rate proposal received by the Board on May 12, 2008 is approved with base rates as follows:

<b>Coverage</b>	<b>Territory 1</b>	<b>Territory 2</b>	<b>Territory 3</b>
Third Party Liability	\$1124.33	\$557.46	\$391.83
Collision	\$108.04	\$107.36	\$119.54
Comprehensive	\$52.23	\$41.41	\$49.52
Specified Perils	\$25.81	\$14.56	\$12.57
Uninsured Motorist	\$21.82	\$11.43	\$8.31
Accident Benefits	\$94.28	\$78.23	\$78.23

and the differentials submitted with the February 2008 filing.

2. The base rates for each type of coverage shall be effective for new business no sooner than July 1, 2008 and no sooner than August 1, 2008 for renewal business.
3. The proposed discount program is approved.
4. The Applicant shall pay all the expenses of the Board arising from this filing.

**DATED** at St. John's, Newfoundland and Labrador, this 26<sup>th</sup> day of June 2008.

---

Andy Wells  
Chair & Chief Executive Officer

---

Darlene Whalen, P.Eng.  
Vice-Chair

---

G. Cheryl Blundon  
Board Secretary