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12 **A.I. 5 (2008)**

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

16 **AND**

17
18 **IN THE MATTER OF** an application by
19 S&Y Insurance Company
20 (the “Applicant”) to implement revised rates
21 for its Private Passenger class of business.
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23 **Application Filing**

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25 On December 24, 2007 the Board received the Applicant’s rate filing dated December 21, 2007
26 requesting approval of a revised private passenger automobile insurance rating program for use with
27 effect from July 1, 2008 for new business and August 1, 2008 for renewal business.
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29 **Legislation**

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31 On August 1, 2005 the Government of Newfoundland and Labrador enacted legislation amending the
32 *Automobile Insurance Act* and the *Insurance Companies Act* in relation to the conduct of participants in
33 the automobile insurance industry and the regulation of rates in the Province. Under the revised
34 automobile insurance legislation, rate increases are subject to prior approval and the Board must prohibit
35 or vary a proposed rate which is found to be “too high”.
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37 In determining if a rate is too high the Board considers the documentation available with respect to the
38 justification of the rate levels including: i) the Applicant’s projected loss experience; ii) expenses; iii)
39 investment income for the Applicant’s automobile insurance business for the Province; and iv) other
40 elements considered appropriate by the Board. Where the Board determines that an insurer’s loss
41 experience is not relevant, inadequate or otherwise unreasonable for use in establishing rates, the Board
42 has discretion to establish the elements and information upon which the insurer shall file its projected loss
43 experience.

1 **Filing Instructions**

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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:

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8 **“3.1 CATEGORY - 1**

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10 **3.1.1 Category 1 - Definition**

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

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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;*

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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*

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

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

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27 **3.2 CATEGORY 2- GENERAL FILING**

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29 **3.2.1 Category 2 - Definition**

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

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

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

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

1 **The Application**

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3 The current filing is a Category 2 rate filing. Following an exchange of information between the Board's
4 Actuarial Consultants, Oliver Wyman, and the Applicant, on January 24, 2008 the Applicant submitted a
5 revised filing lowering its previous indicated rate changes from an overage average of 9.1% to 8.4%. The
6 Applicant did not alter its proposed overall rate change of 9.1%. It is the revised proposal on which this
7 Order is based.

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9 The Applicant proposes a schedule of rates based on a Return on Equity (ROE) of 11.24%, a Return on
10 Investment (ROI) of 3.75%, and a Premium to Surplus Ratio of 2.25:1. The Premium to Surplus Ratio is
11 in accordance with that detailed in the Filing Guidelines. In respect to the ROE and ROI, in its last
12 Category 2 rate filing approved by the Board the Applicant provided support for an ROI of 3.75% and an
13 ROE of 11.74%. In this application the Applicant proposes to use the same ROI previously accepted by
14 the Board and an ROE lower than that last approved, the result of which is a lower rate indication. These
15 parameters, as well as the assumptions made by the Applicant in connection with other factors considered
16 in the rate making process, are reflected in the indications and the proposed rate changes shown below.
17 The Applicant's indications are based on actuarial analysis of the data and the assumptions made in the
18 modeling exercise. The proposed changes mirror the indications as shown in the following table:

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Coverage	Company Indications	Company Proposal
Third Party Liability	14.0%	14.8%
Accident Benefits	-0.4%	0.5%
Collision	-1.3%	-0.7%
Comprehensive	-2.9%	-2.2%
Specified Perils	-11.8%	-11.7%
Uninsured Motorist	2.9%	2.0%
Underinsured Motorist	-1.7%	0.0%
Total	8.4%	9.1%

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32 The Applicant proposes to offer the following discounts:

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Discount	% Amount	Coverages	Classes
Age 55-75 Years	10%	All coverages	All Classes
Full Package	5%	All coverages	All Classes
Multi Vehicle	5%	Third Party, Accident Benefits Collision, All Perils (collision portion), Uninsured Auto	All Classes
Farmers	40%	Third Party, Collision, All Perils, Comprehensive and Specified Perils	03, 10, 11, 12 and 13
Short Commute	10%	Third Party, Accident Benefits, Collision, All Perils (collision portion), Uninsured Auto	02
University	50%	Third Party, Accident Benefits, Collision, All Perils (collision portion)	05
Hybrid	5%	All coverages	All Classes

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

1 **Detailed Analysis**

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3 A copy of the revised filing was forwarded to the Board's Actuarial Consultants, Oliver Wyman, for their
4 review and report. Oliver Wyman reviewed the filing and, where necessary, issued information requests
5 and received responses. On February 11, 2008 Oliver Wyman completed its review and issued its report.
6 A copy of the report was provided to the Applicant for additional observations or comments and a
7 telephone conference call was held on February 14, 2008 between representatives of the Applicant and
8 Board staff.

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10 Oliver Wyman reviewed the assumptions made by the Applicant and expressed the opinion that these
11 assumptions were reasonably supported. Oliver Wyman identified a minor issue related to the Applicant's
12 expense provision for contingent profit commissions. While not finding the provision unreasonable, it
13 was noted that the commission amount was higher than industry norms.

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15 Oliver Wyman reviewed the Underwriting Profit Margin used in the filing and noted the ROE and ROI
16 parameters did not comply with the Board Filing Guidelines. In its previous Category 2 filing the
17 Applicant provided support for the use of an ROE of 11.74% and an ROI of 3.75%. The Board does not
18 find it necessary to require a cost of capital review be undertaken at this time and accepts the previously
19 supported factors. The Applicant has reduced its ROE component in this filing from 11.74% to 11.24%
20 thus reducing its rate requirement and rate indications.

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22 Following the February 14, 2008 telephone conference call, on February 21, 2008 the Applicant
23 submitted a revised rate proposal as follows:

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Coverage	Company Indications	Company Proposal
Third Party Liability	14.0%	14.0%
Accident Benefits	-0.4%	-0.4%
Collision	-1.3%	-1.3%
Comprehensive	-2.9%	-2.9%
Specified Perils	-11.8%	-11.8%
Uninsured Motorist	2.9%	2.9%
Underinsured Motorist	-1.7%	0.0%
Total	8.4%	8.4%

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37 The Applicant noted that taking the -1.7% change in rates for Underinsured Motorist would result in no
38 effective change to its current rates once rounding was applied. The Board notes that all companies use
39 whole dollar values in determining premiums for all coverages.

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41 **Board Findings**

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

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50 In accordance with the legislation and as set out in the Board's Filing Guidelines the Applicant is required
51 to provide detailed justification of any rate increases. Where the Applicant does not utilize the specific
52 parameters set out in the Filing Guidelines, the Applicant is required to provide the Board with sound

1 reasoning and justification for the deviation. In the case of the cost of capital issue this would generally
2 include expert evidence and detailed financial information particular to the company and in relation to the
3 markets in general.

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5 The Board has reviewed the filing, the supporting material, responses to information requests, the report
6 of its actuarial consultants and all other information relevant to this rate filing. In relation to the proposed
7 Underwriting Profit Provisions the Board finds these are reasonable and are in line with the Board's
8 findings for these factors as supported in the Applicant's last rate filing.

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10 The Board is satisfied that the assumptions and other parameters used by the Applicant in determining its
11 rate level needs for this application are reasonable in the circumstances. The Board takes note of the
12 consultant's observations regarding the expense provision for contingent profit commission, and while
13 higher than industry norms, there is no evidence that the provision is unreasonable.

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

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20 **Costs**

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

IT IS THEREFORE ORDERED THAT:

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1. The revised rate proposal received by the Board on February 21, 2008 is approved with base rates as follows:

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Coverage	Territory 1	Territory 2	Territory 3
Third Party Liability	\$1064.39	\$575.52	\$440.89
Collision	\$136.39	\$141.41	\$171.32
Comprehensive	\$67.71	\$54.44	\$61.24
Specified Perils	\$25.14	\$13.39	\$13.39
Accident Benefits	\$109.56	\$94.62	\$94.62
Uninsured Motorist	\$42.19	\$16.46	\$13.38
Underinsured Motorist	\$10.00	\$10.00	\$10.00

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and the differentials submitted with the December 2007 filing.

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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 28th day February of 2008.

Robert Noseworthy
Chair & Chief Executive Officer

Darlene Whalen, P.Eng.
Vice-Chair

G. Cheryl Blundon
Board Secretary