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13 **A.I. 9 (2008)**  
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15 **IN THE MATTER OF** the *Automobile,*  
16 *Insurance Act*, RSNL 1990, c. A-22, as  
17 amended (the “*Act*”)

18 **AND**

19 **IN THE MATTER OF** an application by  
20 The Dominion of Canada General Insurance  
21 Company (“Dominion”) to implement revised  
22 rates for its Private Passenger class of business.  
23

24 **Application Filing**

25  
26 On February 29, 2008 the Board received Dominion’s rate filing dated February 28, 2008 requesting  
27 approval of a revised private passenger automobile insurance rating program with effect from May 1,  
28 2008 for new business and July 1, 2008 for renewal business.  
29

30 **Legislation**

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

1 **Filing Instructions**  
2

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

7 ***“3.1 CATEGORY - 1***  
8

9 **3.1.1 Category 1 - Definition**  
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11 *An insurer is considered to have made a Category 1 filing where:*

12  
13 *a) The filed base rates for every coverage are reduced from those previously*  
14 *approved or that were filed with the Board and deemed to be approved and*  
15 *there is no increase to any rate for any coverage for any insured;*  
16

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

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

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

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

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.”*  
34

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:  
37

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.”*  
46

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

1 **The Application**

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3 The current filing is a Category 2 filing. Dominion proposes a schedule of rates based on a Return on  
 4 Equity (ROE) of 12.5%, a Return on Investment (ROI) of 3.8% and a Premium to Equity (P/E) ratio of  
 5 2:1. These parameters, as well as the assumptions made by Dominion in connection with other factors  
 6 considered in the rate making process, are reflected in the indications and the proposed rate changes  
 7 shown below:

Coverage	Company Indication	Company Proposal
Third Party Liability (TPL)	83.4%	14.0%
Accident Benefits	5.4%	-0.9%
Uninsured Automobile	-5.5%	-7.1%
SEF 44	16.4%	0.0%
Collision	56.9%	19.0%
All Perils	75.6%	8.9%
Comprehensive	-5.5%	-11.2%
Specified Perils	-14.2%	-15.5%
<b>Total</b>	65.0%	11.2%

8 Dominion proposes to adopt the 2007 CLEAR rate group tables issued by Vehicle Information Centre of  
 9 Canada (VICC) instead of the existing MSRP rate group tables. This will require changes to the rate  
 10 group differentials for consistency with the change in rate group tables. Where a person insured with  
 11 Dominion would upon renewal experience an increase as a result of rate group table change, Dominion  
 12 proposes to cap the rate increase at 10% for each coverage for the first year of renewal following the  
 13 change.

14

15 Dominion proposes to offer the following discounts:

Discount	% Amount	Coverage
New Driver with Driver Training	DR = 3 if licensed less than 1 year DR = 4 if licensed over 1 year but less than 5 years	TPL, COLL, AP
New Driver without Driver Training	DR increased by one year clear record in addition to that for which they qualify, maximum DR = 4	TPL, COLL, AP
University	50% - The driver returns home only on holidays, at the end of each semester, or for seasonal breaks. 25% - The driver returns home on weekends during the school term, in addition to the above mentioned.	TPL, COLL, AP
Dual Policy	5%	All Coverages
Farmer	30% 25%	TPL, AP, COLL COMP, SP
Multi-Vehicle	10%	TPL, AB, UA, COLL, AP (COLL Portion Only)

1 **Detailed Analysis**

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3 A copy of the filing was forwarded to the Board's actuarial consultant, Oliver Wyman, for their review  
4 and report. The filing was reviewed and analyzed and, where necessary, information requests were issued  
5 and responses were received. On March 18, 2008 Oliver Wyman completed its review and issued its  
6 report, which provided alternate rate indications.

7  
8 Dominion's rate level indications are based on an ROE of 12.5%, an ROI of 3.8% and a P/E ratio of 2:1.  
9 Dominion's proposals are significantly lower than its indications. The Board's Filing Guidelines notify  
10 insurers that the Board accepts as reasonable for use in rate filings a target ROE of 10%, an ROI of 5.4%  
11 and a P/E ratio of 2.25:1. The Oliver Wyman indications are based on the Board's guideline factors. The  
12 following indications were forwarded to Dominion with the full Oliver Wyman report for review:

Coverage	Company Indication	Oliver Wyman Indication	Company Proposed
Third Party Liability (TPL)	83.4%	48.4%	14.0%
Accident Benefits	5.4%	-0.9%	-0.9%
Uninsured Automobile	-5.5%	-7.1%	-7.1%
SEF 44	16.4%	4.4%	0.0%
Collision	56.9%	47.5%	19.0%
All Perils	75.6%	67.4%	8.9%
Comprehensive	-5.5%	-11.2%	-11.2%
Specified Perils	-14.2%	-15.5%	-15.5%
<b>Total</b>	<b>65.0%</b>	<b>38.9%</b>	<b>11.2%</b>

13 Dominion did not provide any additional comment on the report.

14  
15 **Board Findings**

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17 In its review of rate filings the Board is mandated to prohibit or vary a rate which it determines is "too  
18 high". The Board makes this determination following a thorough review of all information submitted  
19 with the rate filing and consideration of the reports and findings of its expert consultants. In exercising its  
20 jurisdiction the Board reviews the base rates for each coverage and a determination is made as to whether  
21 or not the rates are "too high". This is consistent with the current legislation and is in keeping with the  
22 historical practice of the Board.

23  
24 In accordance with the legislation and as set out in the Board's Filing Guidelines Dominion is required to  
25 provide detailed justification of any rate increases. Where Dominion does not utilize the specific  
26 parameters set out in the Filing Guidelines, Dominion is required to provide the Board with sound  
27 reasoning and justification for the deviation. In the case of the cost of capital issue this would generally  
28 include expert evidence and detailed financial information particular to the company and in relation to the  
29 markets in general.

30  
31 The Board has reviewed the filing, the supporting material, responses to information requests, the report  
32 of its actuarial consultants and all other information relevant to this rate filing. The Board notes that the  
33 cost of capital parameters are not consistent with the Board's guideline assumptions and have not been  
34 sufficiently justified as reasonable and appropriate in the circumstances. However, Dominion's proposed  
35 rates are lower than its indications and are generally consistent with the Oliver Wyman indications using  
36 the Board's guideline assumptions. In relation to the proposed rates the Board finds that these are equal

1 to or less than the indications found to be reasonable by Oliver Wyman. The Board is satisfied that the  
 2 rate proposals are not too high in the circumstances.

3  
 4 The Board finds the proposed discount program is consistent with that previously approved and is  
 5 reasonable and justified in the circumstances. The discounts relate to risk, are not subjective or arbitrary,  
 6 and are in accordance with the legislative provisions. In addition, the impact of the discounts has been  
 7 appropriately reflected in the rate filing.

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 9 **Costs**

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

14  
 15 **IT IS THEREFORE ORDERED THAT:**

- 16  
 17 1. The rate proposal by The Dominion of Canada General Insurance Company received by the  
 18 Board on February 29, 2008 is approved with base rates as follows:

Coverage	Territory 1	Territory 2	Territory 3
Third Party Liability (TPL)	\$872.07	\$441.40	\$353.05
Accident Benefits	\$88.47	\$71.55	\$66.80
Uninsured Motorist	\$22.00	\$15.00	\$13.00
Collision (CLEAR)	\$123.04	\$120.22	\$147.24
Comprehensive (CLEAR)	\$72.75	\$66.91	\$78.18
Specified Perils (CLEAR)	\$32.90	\$18.59	\$17.01
All Perils (CLEAR)	\$195.79	\$187.13	\$225.42

19 and differentials as submitted with this filing.

- 20  
 21 2. The base rates for each type of coverage shall be effective for new business no sooner than May  
 22 1, 2008 and no sooner than July 1, 2008 for renewal business.  
 23  
 24 3. The implementation of the 2007 CLEAR rate group tables issued by VICC is approved.  
 25  
 26 4. The proposed discount program is approved.  
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 28 5. Dominion shall pay all the expenses of the Board arising from this filing.

**DATED** at St. John's, Newfoundland and Labrador, this 10<sup>th</sup> day April of 2008.

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Andy Wells  
Chair & Chief Executive Officer

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Darlene Whalen, P.Eng.  
Vice-Chair

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Barbara Thistle  
Assistant Board Secretary