For Immediate Release

PRESS RELEASE

PUBLIC UTILITIES BOARD ANNOUNCES 2003 AUTOMOBILE INSURANCE BENCHMARKS

The Public Utilities Board today announced automobile insurance benchmarks will remain unchanged for 2003. Existing benchmark rates were established in 2001 and the decision to maintain these rates was taken by the Board following consideration of an independent review conducted by the Board's actuarial consultants of insurance activity in the province, including claims and payouts.

While benchmarks have remained stable during this three year period and indeed have decreased over the past five years, many consumers are nevertheless experiencing increases in their automobile insurance premiums.

According to the Board's Director of Regulatory and Advisory Services, Mr. Robert Byrne, there could be a number of reasons for such increases, including:

- Companies increasing premiums within the upper and lower limit of these benchmark rates which provide a +/- 10% variance.
- Companies may have previously filed insurance premiums below benchmark rates and are now filing for increased rates that fall within the established benchmark range.
- Companies may be discontinuing previously offered discounts, for example, multi-vehicle or renewal discounts.
- An insured's premium may be increasing due to an accident claim or conviction.

Mr. Byrne notes that consumers should examine new insurance documents carefully to determine the cause of any increases and questions on new or renewed policies and associated rates should be explored with the insurance company.

With benchmark limits providing for price variances of 20%, companies have flexibility to adjust current rates within these limits based on Board approval. Companies wishing to charge rates for 2003 outside established benchmark limits may apply to the Board who will then conduct an independent actuarial review.

Benchmarks do not apply to high risk drivers insured through the Facility Association. Insurance increases in this area are the subject of a separate hearing currently being conducted before the Board.

The Public Utilities Board is responsible for the general supervision of rates charged by automobile insurance companies operating in the province. The Board exercises this responsibility by annually setting benchmark rates that strive to balance the interests of both consumers and the insurance companies. Benchmarks are designed to provide premiums that are fair to consumers while allowing a reasonable return to insurers given their loss experience. The Board annually reviews and approves rate applications in respect of established benchmark rates for all licensed insurance companies operating in the Province.

Schedule "A" attached shows 2001 benchmark rates which are continued for 2003. Attached also is a Backgrounder outlining additional details on the establishment of benchmarks by the Board.

Questions on this information or consumer complaints on automobile insurance may be directed to the Board.

Media Contact: Robert Byrne, Director of Regulatory and Advisory Services

Phone: (709) 726-0742
Toll Free: 1-866-728-0006
E-mail: rbyrne@pub.nf.ca
Facsimile: (709) 726-9604

Attachments

Schedule "A"
Province of Newfoundland and Labrador
Board of Commissioners of Public Utilities
2001 Private Passenger Benchmark Base Rate Ranges
(to be continued for 2003)

	Territory 1	Territory 2	Territory 3
Private Passenger[1]			
Third Party Liability	$ 693 - 847	$384 - 470	$278 - 376
Accident Benefits	49 - 115	49 - 115	49 - 115
Uninsured Motorist	19 - 43	10 - 24	7 - 19
Collision (MSRP)[2]	174 - 212	212 - 259	215 - 291
Comprehensive (MSRP)	106 - 130	85 - 103	102 - 138
Specified Perils (MSRP)	31 - 47	17 - 25	16 - 24
All Perils (MSRP)	257 - 314	279 - 340	295 - 399
Collision (CLEAR)[3]	183 - 223	223 - 273	227 - 307
Comprehensive (CLEAR)	111 - 136	89 - 108	106 - 114
Specified Perils (CLEAR)	28 - 43	16 - 23	15 - 22
All Perils (CLEAR)	270 - 330	293 - 358	310 - 396

Territory 1 - Avalon Peninsula

Territory 2 - Remainder of the Island

Territory 3 - Labrador

1. **Third Party Liability** rates are based upon: Class 02, Driving Record 5, $200,000 Limit. **Collision** rates are based upon: Class 02, Driving Record 5, Rate Group 9, $250 Deductible. **Comprehensive** and **Specified Perils** rates are based upon: Rate Group 9, $50 Deductible. **All Perils** rates are based on the sum of the Collision and Comprehensive rates for the same rate group, adjusted to the $250 Deductible level.

2 & 3. **MSRP** and **CLEAR** are methods used by insurance companies to assign risk to various types of vehicles.
MSRP - Manufacturer's Suggested Retail Price sets rates based on price.
CLEAR - Canadian Loss Experience Automobile Rating determines rates utilizing price and other risk factors including susceptability to theft, cost of repairs, etc.

BACKGROUNDER

Automobile insurance and the role of the Public Utilities Board

Background

By Law, operators of motor vehicles in this province are required to carry a minimum amount of Liability insurance of $200,000 as well as Uninsured Motorist Coverage. The remaining coverages (Accident Benefits, Collision, Comprehensive and Specified Perils) may be purchased at the discretion of the insured.

The automobile insurance industry in the province of Newfoundland and Labrador is comprised of approximately 55 companies providing all classes of automobile insurance coverage. These classes include private passenger, commercial, and miscellaneous which includes snowmobile, all terrain and recreational vehicles such as campers and motor homes. The industry is highly concentrated with the top 12 companies writing 90% of all automobile insurance business. In 2001, the most recent year for which statistics are available, the largest insurer wrote $31,295,000 in premiums while the smallest wrote $1,000 in premiums. Many insurers operate exclusively in a single market area such as private passenger or commercial coverages.

As reported by insurers to the Superintendent of Insurance, the total of all automobile insurance premiums written in the province in 2001 was $201,354,000. At the same time, claims paid, before accounting for the cost of doing business, such as salaries, office expense, agent commissions and other expenses were reported to be $201,142,000.

What role does the Public Utilities Board play in regulating automobile insurance?

The Board's overall role is to provide general supervision of the rates charged by automobile insurance companies as directed in Section 48 of the Automobile Insurance Act.

The specific activities of the Board in relation to automobile insurance include:

-Setting and approving rates for all forms of automobile insurance;
-Dealing with consumer complaints regarding rates and rating practices; and
-Compliance auditing.

The setting of rates is principally achieved by the formulation of annual benchmark rates for purposes of rate filing comparisons from regulated companies. In general, the Board applies the principle of fairness and equity to ensure that insurers treat individuals, in like circumstances, equally. The Board sets or approves rates annually for each insurer licensed by government to provide automobile insurance in the province.

The Board enforces the rates approved by way of a compliance audit where insurers are audited in relation to the rates charged and the application of the insurer's underwriting guidelines. Underwriting guidelines are the rules which determine how an insurer will charge an insured driver for the coverage to be purchased. If, as a result of the Board's audit, it is found that an insured driver has been overcharged, the insurance company is required to refund the excess. If an insured driver has been undercharged, the company is not permitted to charge additional premium during the current policy term, but is required to correct the error upon policy renewal.

Why does the Board set a Benchmark range for automobile insurance?

Benchmarks are used by the Board to establish ranges within which automobile insurance companies may file their rates. For each line of insurance coverage (Third Party Liability, Accident Benefits, Collision, etc.) the Board sets an upper and lower limit within which rates must be filed with the Board for approval. Insurers filing rates with the Board within the benchmark ranges receive automatic approval following a comprehensive review by Board staff of the filed rates, differentials and discounts to ensure conformance with the benchmarks. If an insurer wishes to charge rates above or below the benchmark ranges, the proposed rates must be supported by an actuarial analysis and supporting information which is subjected to an independent actuarial review by the Board's retained Actuary.

The use of a benchmark process is designed to streamline the approval process and reduce overall expense to the Board, the industry and ultimately the consumer. The benchmarks are based on an actuarial review of the most recent industry loss experience in the province of Newfoundland and

Labrador as reported by the statistical gathering agency, the Insurance Bureau of Canada. Benchmarks are designed to represent rates at which insurers can price their product with provision for a reasonable return on the insurer's capital.

The benchmarks also provide a good approximation of industry costs and experience for those companies that write a small amount of business in the province and for whom the cost of performing an actuarial analysis would be prohibitive.

The attached chart illustrates the historical trending of the benchmark rates for each territory for the period 1996 to 2003 for an insured with full coverage which includes Liability, Uninsured Motorist, Collision, Comprehensive and Accident Benefits. This chart shows that the benchmarks have remained constant since 2001.

If the benchmarks have not changed since 2001, why are Consumers experiencing increased automobile insurance premiums?

There are a number of reasons consumers may be experiencing increases in rates at this time.

1. The benchmark range provides a +/- 10% variance above and below the established benchmark rate, allowing for a total variance on the rates of approximately 22%. To illustrate, assume the benchmark rate for a specific coverage is $100.00. The upper limit of the range would be $110.00 (100 x 1.10) and the lower limit of the range would be $90.00 (100 x .90). If an insurer in a previous filing established its rate for the coverage at the lower limit of $90 and in a subsequent filing moved to the upper limit of $110, the total change in rates would be $20.00 or 22.2%. The company's rates however for both cases are within the benchmarks.

2. The insurer may increase its rates by 10% and at the same time reduce or eliminate one or more discounts previously offered. One discount could be a Multi-Vehicle discount of 10% and the other a Renewal discount of 5%. If the insured driver qualified for both of these discounts in the previous policy term and these discounts were no longer offered the cumulative effect could be an increase of +28.6%. To illustrate, the insured was charged a premium of $100.00. This rate was previously reduced by the application of the 10% Multi-Vehicle discount and the 5% Renewal discount. The insured's premium in year one was $100.00 x 0.90 x 0.95 = $85.50. In year two the insurance company instituted a 10% rate increase, and eliminated the two discounts. The same insured would see a premium of

$100.00 x 1.10 = $110.00. The net change in rate for this example is 28.6%. If the insurer took a 15% rate increase, the variance would be $100.00 x 1.15 = $115.00 for a difference of 34.5%.

3. Many insurance companies had previously filed and justified rates below the lower end of the benchmarks and have subsequently raised their rates to levels within the benchmark range. Any increase to a benchmark filing will require the gap between current rates and benchmark minimum to be closed in addition to the increase necessary to bring the rates to the level within the benchmark at which the insurer decides. The following example is based on an actual insurer and applies to a Territory 1 insured. This insured, with a policy effective in September 2001, would have seen an adjusted base rate for liability of $579.00, which was below the benchmark minimum of $693.00. The company changed its rates in October 2001 and June 2002 such that upon renewal of this policy in September 2002 the adjusted base rate was $741.00, which is within the benchmark range. The total net change to the rate was a 28% increase in rates.

4. In addition to the above, a true comparison of policy premiums and rating would require a review of the renewal documents for the periods in question. A change in driving record due to a claim or conviction is another cause for an insurance increase. A change in coverage for liability limit, deductible or other added coverage will also impact the total policy premium. Purchasing a newer vehicle could impact both collision and comprehensive rates. A complete review of the insured driver's renewal documents would reveal any or all of the foregoing or may indicate that an error in rating took place at the time the policy was originally issued (i.e. the insured was undercharged) which was corrected on a subsequent renewal. During compliance audits of insurers, the most common found error is incorrect rating of the policy.

What information is available from the Board and how do I access it?

The Board is a public agency and as such information is accessible in respect to correspondence and filings relative to every insurer. The Board posts information on proceedings before the Board, all Orders issued by Board and a variety of other information on its web site, www.pub.nf.ca.

How do I contact the Board?

The Board's offices are located at:

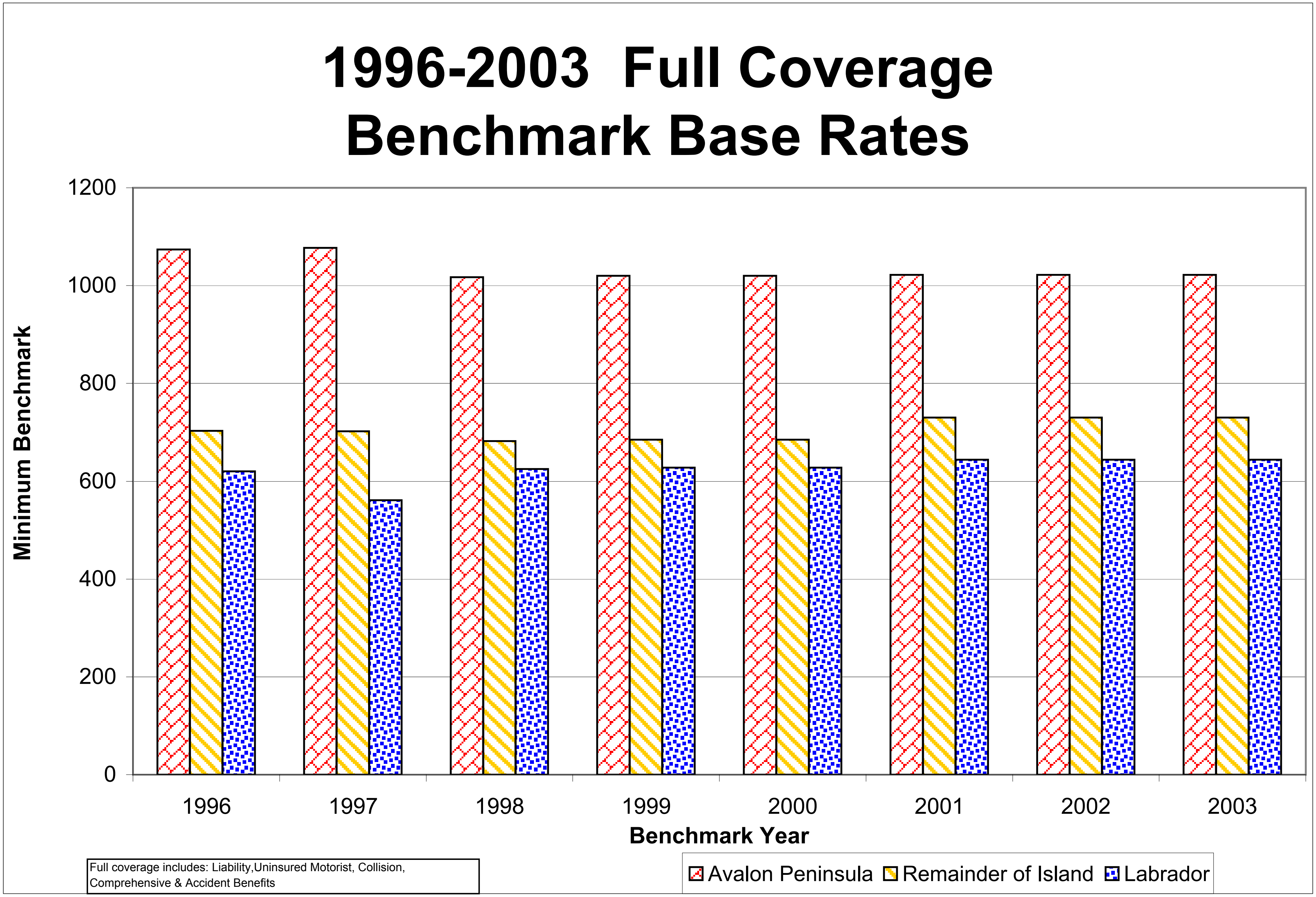
Prince Charles Building, 2nd Floor
Suite E-210
120 Torbay Road
St. John's, NL

By mail at:

Public Utilities Board
P.O. Box 21040
St. John's, NL
A1A 5B2

By email at:	ito@pub.nf.ca
On the web at:	www.pub.nf.ca
By phone:	Robert Byrne, Director of Regulatory and Advisory Services 709-726-0742 Donald Seaward, Compliance Auditor 709-726-1097
Toll free at:	1-866-782-0006

The Board's offices are open between 8:30 am to 12:30 pm and 1:30 pm to 4:30 pm Monday to Friday. Please feel free to visit or call us.


1996-2003 Full Coverage
Benchmark Base Rates
Minimum Benchmark
1200
1000
800
600
400
200
0
1996
1997
1998
1999
2000
2001
2002
2003
Benchmark Year
Full coverage includes: Liability,Uninsured Motorist, Collision, Comprehensive & Accident Benefits
Avalon Peninsula
Remainder of Island
Labrador