

**ANNUAL REPORT**

**OF THE**

**BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**ON OPERATIONS CARRIED OUT UNDER**

**THE AUTOMOBILE INSURANCE ACT**

**FOR THE PERIOD APRIL 1, 2022 TO MARCH 31, 2023**

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**EXECUTIVE SUMMARY**

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This report highlights the main activities of the Board in carrying out its mandate under the **Automobile Insurance Act**.

During 2022-2023 the Board received a total of 40 rate filings and issued 33 Orders for automobile insurance rating program changes. The Board also approved requests from insurers for temporary relief measures to assist refugees arriving to Newfoundland and Labrador, as well as consumers impacted by the COVID-19 pandemic.

Based on the most recently available market information, 40 automobile insurers reported positive direct premiums written of approximately \$502 million in 2021, compared to \$482 million in 2020. The market continues to show a high level of concentration with 10 insurers writing approximately 87% of all the automobile insurance business. When common ownership among companies is considered, there are five insurer groups writing approximately 94% of all business in the province.

On December 15, 2022 the Board released a report examining the financial profitability and rate level adequacy of private passenger automobile insurance business in the province. The results of this analysis show that recent decreases in claims costs and loss ratios across the industry has resulted in a significant increase to profit levels in 2020 and 2021. This can mainly be attributed to the impact of the COVID-19 pandemic and the decline in traffic levels experienced in response to the various “stay-at-home” measures and other restrictions that were put into effect. The Board will continue to monitor this situation moving forward.

**LEGISLATION**

The **Automobile Insurance Act**, RSNL 1990, c. A-22, and the **Insurance Companies Act**, RSNL 1990, c. I-10, provide the Board with specific statutory responsibilities with respect to regulation of the automobile insurance industry in Newfoundland and Labrador. These regulatory responsibilities include rates, risk classification systems, and underwriting guidelines.

In 2019-2020, following the completion of a review of the automobile insurance product in Newfoundland and Labrador, Government amended the **Automobile Insurance Act**, the **Insurance Companies Act** and the Regulations thereunder. The key legislative changes, as well as the impact on the Board’s review of rates and rate setting processes, were outlined in the Board’s 2019-2020 automobile insurance annual report. The Board continued its regulation of the automobile industry in accordance with these legislative and process changes through the 2022-2023 fiscal year.

**REGULATORY ACTIVITIES**

**Filing Information**

During 2022-2023 the Board received 40 rate filings and issued 33 Orders for automobile insurance rating program changes.<sup>1</sup> Table 1 provides a breakdown of the number of filings received and Orders issued by the Board under each filing type from April 1, 2022 to March 31, 2023.

<b>TABLE 1 RATE FILINGS AND BOARD ORDERS BY FILING TYPE AUTOMOBILE INSURANCE</b>		
<b>Type of Rate Filing</b>	<b>Number of Filings Received 2022-2023</b>	<b>Number of Board Orders Issued 2022-2023</b>
CLEAR	9	9
Expedited Approval	0	0
IAO	3	3
Mandatory	8	6
Mandatory Simplified	1	1
Supplemental	19	14
Advisory Rates <sup>2</sup>	0	N/A
<b>TOTAL</b>	<b>40</b>	<b>33</b>

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<sup>1</sup> The number of Board Orders issued does not match the number of filings received as some Orders were issued after the March 31, 2023 cut-off for this report.

<sup>2</sup> Advisory rates are filed by the Insurers Advisory Organization (“IAO”) and may be used by IAO members as an alternative to developing company specific rates. Insurers wishing to adopt the advisory rates must submit a separate filing under the “IAO” filing type identified in Table 1.

1 A breakdown of the vehicle types for which rate filings were received is as follows:

- 2 • 27 private passenger vehicle rate filings;
- 3 • 10 commercial and interurban vehicle rate filings; and
- 4 • 3 miscellaneous vehicle rate filings.<sup>3</sup>

5  
6 Details regarding the specific changes included in each rate filing can be found on the Board's  
7 website by reviewing the applicable Board Orders ([http://www.pub.nl.ca/AI\\_orders2023.php](http://www.pub.nl.ca/AI_orders2023.php)).

### 8 9 **Information Bulletins**

10  
11 During the year the Board issued five information bulletins to the automobile insurance industry  
12 in connection with updated filing guidelines, updated loss trend factors, updated CLEAR rate  
13 group tables and the 2023 health levy figure. All information bulletins issued by the Board are  
14 posted on the Board's website ([http://www.pub.nl.ca/AI\\_InformationBulletins.php](http://www.pub.nl.ca/AI_InformationBulletins.php)).

### 15 16 **COVID-19 Relief Measures**

17  
18 On April 16, 2020 the Board issued Information Bulletin A.I. 2020-04 to notify industry that the  
19 Board was supportive of efforts to provide relief to consumers in response to the COVID-19  
20 pandemic. The Board established a simplified filing process for insurers to file temporary relief  
21 measures to be approved in an expeditious manner, typically within one business day.

22  
23 In 2022-2023, the Board received one request from an insurer to extend temporary consumer  
24 relief measures related to capping premium increases. The majority of relief measures  
25 implemented by insurers during the COVID-19 pandemic have now expired.

### 26 27 **Accommodation Rules to Support Refugees**

28  
29 The Board received requests from three automobile insurers for approval of temporary  
30 accommodation rules to assist refugees arriving in Newfoundland and Labrador. These rules  
31 pertained to waiving certain documentation requirements with respect to past driving and claims  
32 experience to allow for lower premium levels. The Board continues to be supportive of efforts to  
33 provide relief to assistance refugees.

### 34 35 **Compliance Audit Program**

36  
37 The Board utilizes a compliance audit program to periodically review the rates and rating  
38 practices of automobile insurers to ensure they are in compliance with Board approved rating  
39 programs and legislated provisions. No compliance audits were scheduled during 2022-2023 due  
40 to restrictions associated with the COVID-19 pandemic. The Board anticipates that the  
41 compliance audit program will recommence in 2023-2024.

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<sup>3</sup> Miscellaneous vehicles are any of the following vehicles when used for personal use only: (i) motorcycles, (ii) all-terrain vehicles, (iii) mopeds, (iv) snowmobiles, (v) trailer homes, (vi) antique cars, and (vii) classic cars.

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**Consumer Complaints and Inquiries**

The Board received a limited number of complaints and inquiries from consumers during the year. These were routine in nature and were generally in relation to rating practices of insurers or increases in premiums experienced following the implementation of rate changes. In no case was there an identified violation of legislative provisions or Board orders regarding rates or rating practices that necessitated further action by the Board.

**MARKETPLACE CHANGES**

Based on 2021 Office of the Superintendent of Financial Institutions (“OSFI”) data, the latest information available, there were 40 automobile insurers reporting positive direct premiums written in the province. The market continues to show a high level of concentration with approximately 87% of the automobile insurance business written by the top 10 insurers. When common ownership among companies is considered, there are five company groups writing approximately 94% of all business. Table 2 below shows a distribution of automobile insurance companies by range of direct premiums written.

<b>TABLE 2 2021 DISTRIBUTION OF COMPANIES BY SIZE AND MARKET SHARE AUTOMOBILE INSURANCE</b>			
<b>Range of Direct Premiums Written (\$000s)</b>	<b>Number of Companies</b>	<b>Percent of Market Share (%)</b>	<b>Total Direct Premiums Written (\$000s)</b>
1-1,000	24	1.1%	5,522
1,001 - 5,000	1	0.3%	1,469
5,001 - 15,000	3	4.6%	23,250
Over 15,000	12	94.0%	471,349
Total	40	100.0%	501,590

Source: 2021 OSFI data

Table 3 below shows comparative information for 2020 and 2021 in relation to total direct premiums written for automobile insurance. The total value for direct premiums written in the Province increased by approximately 4.2% from 2020 to 2021.

<b>TABLE 3 2020 AND 2021 TOTAL MARKET VOLUME AUTOMOBILE INSURANCE</b>				
	<b>2020</b>	<b>2021</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Direct Premiums Written (\$000s)</b>	481,593	501,590	19,997	+4.2%

Source: 2020 Superintendent of Insurance Report and 2021 OSFI data

1 Table 4 contains a two-year comparative review of the automobile insurance market, showing  
 2 year-over-year relative changes to the direct premiums written under the three premium  
 3 classifications: Third Party Liability, Personal Accident and Other.

TABLE 4 2021 MARKET VOLUME BY CLASS AUTOMOBILE INSURANCE				
Premium Classification (\$000s)	2020	2021	\$ Change	% Change
Third Party Liability	284,724	295,813	11,089	+3.9%
Personal Accident	37,092	38,852	1,760	+4.7%
Other	159,777	166,925	7,148	+4.5%

Source: 2020 Superintendent of Insurance Report and 2021 OSFI data

4 For 2021 there were 324,974 written insured private passenger automobiles and 23,302 written  
 5 insured commercial vehicles in the province, an increase of approximately 0.9% over 2020.

6  
 7 **PROFIT AND RATE LEVEL ADEQUACY**

8  
 9 During 2022-2023 the Board commenced a new undertaking to examine the financial profitability  
 10 and rate adequacy of private passenger automobile insurance business in the province referred  
 11 to as the “Profit and Rate Adequacy Review.” This consisted of a hindsight analysis of aggregated  
 12 industry data through December 31, 2021 which examined historic average premium and loss  
 13 amounts, historic profit levels and rate level adequacy.

14  
 15 The full Profit and Rate Adequacy Review report prepared by the Board actuarial consultants,  
 16 Oliver Wyman Limited, can be found on the Board’s website.<sup>4</sup> Some key findings from the report  
 17 are outlined below.

18  
 19 **Average Written Premiums and Losses**

20  
 21 The average written premium level for 2021 was \$1,294 per vehicle. Average premium levels  
 22 have increased steadily in recent years for both mandatory and optional coverages with the total  
 23 average written premium increasing from \$1,018 to \$1,294 over the period 2012 to 2021.

24  
 25 The total average claims costs for 2021 of \$722 was slightly higher than \$694 reported in 2020  
 26 but significantly lower than recent peaks of \$905 and \$904 reported in 2015 and 2016,  
 27 respectively. The total industry loss ratio for 2021 of 57% was in line with the 56% reported in  
 28 2020, but significantly lower than the recent peak of 84% reported in 2015.

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<sup>4</sup> [http://www.pub.nl.ca/AI\\_InformationReport.php](http://www.pub.nl.ca/AI_InformationReport.php)

1 **Estimated Profit Levels**

2

3 A summary of recent profit levels on both a Percent of Premium (“POP”)<sup>5</sup> and Return on Equity  
4 (“ROE”)<sup>6</sup> basis is presented as follows:

<b>TABLE 5</b>		
<b>Estimated Profit Levels</b>		
<b>Private Passenger Automobiles</b>		
<b>Accident Year</b>	<b>POP Pre-Tax</b>	<b>ROE After-Tax</b>
2012	3%	5%
2013	0%	0%
2014	5%	8%
2015	-3%	-5%
2016	-3%	-4%
2017	7%	10%
2018	4%	5%
2019	11%	16%
2020	24%	34%
2021	21%	29%

5 The recent increase in profit levels, as well as the decreases in claims costs and loss ratios, can  
6 be attributed to the impact of the COVID-19 pandemic and the decline in traffic levels  
7 experienced in response to the various “stay-at-home” orders and other restrictions that were  
8 put into place.

9

10 **Adequacy of Premiums**

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12 A hindsight review of the required average premium versus the actual average premium charged  
13 for accident years 2017 to 2021 is summarized as follows:

<b>TABLE 6</b>					
<b>Adequacy of Premiums - Accident Years 2017 - 2021</b>					
<b>Private Passenger Automobiles</b>					
	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Hindsight Required Average Premium	1,128	1,194	1,154	980	1,049
Actual Average Premium	1,122	1,142	1,203	1,249	1,273
Premium (inadequacy) / redundancy	(5)	(52)	50	269	224
Percentage premium (inadequacy) / redundancy	-0.5%	-4.5%	4.1%	21.5%	17.6%

<sup>5</sup> Percent of Premium (“POP”) - profits realized as a percent of premium on a pre-tax basis.

<sup>6</sup> Return on Equity (“ROE”) - profits realized as a percent of supporting capital on an after-tax basis.



1 The required average premium estimates are based on the industry average expense ratios and  
 2 investment income levels for each year, as well as the Board maximum profit benchmark of 6%  
 3 of premium. As the results show, the average aggregate premium charged was more than  
 4 adequate for accident years 2019, 2020 and 2021.

5

6 **EXPENSES**

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8 The expenses of the Board in relation to its automobile insurance operations for 2022-2023 were  
 9 budgeted at \$668,177. These costs were assessed against insurers, with the approval of the  
 10 Minister pursuant to Section 59 of the **Automobile Insurance Act**, at a rate of 1.332 mils on the  
 11 direct automobile insurance premiums written in the province. A five-year summary of  
 12 assessments and mil rates is shown in Table 5.

<b>TABLE 7 ASSESSMENTS AND MIL RATES AUTOMOBILE INSURANCE</b>		
<b>Year</b>	<b>Assessments</b>	<b>Mil Rate</b>
2022-2023	\$668,177	1.332
2021-2022	\$680,313	1.455
2020-2021 <sup>7</sup>	\$587,884	1.260
2019-2020	\$412,992	0.920
2018-2019	\$519,286	1.193

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<sup>7</sup> Starting in 2020-2021, the Board changed its cost recovery model so that individual companies were no longer directly invoiced for expenses associated with rate filings on a case-by-case basis. All expenses of the Board associated with the rate filings reviews, including actuarial costs, were shifted to the Board’s assessment process which resulted in an increase in the annual assessment amount. This was in response to the mandatory filing schedule introduced by Government as part of the January 1, 2020 reforms.