
Newfoundland & Labrador

BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

ANNUAL REPORT
ON OPERATIONS CARRIED OUT UNDER
THE AUTOMOBILE INSURANCE ACT
Chapter A-22, RSNL 1990, AS AMENDED
FOR THE PERIOD
APRIL 1, 2007 TO MARCH 31, 2008

ANNUAL REPORT

OF THE

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EXECUTIVE SUMMARY

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

In August 2005 Government implemented automobile insurance reforms which resulted in changes to the Board's regulatory processes in relation to rate filings and compliance audits. These filings now fall into one of two categories. Category 1 File and Use reflect either no change or a reduction in existing rates and can be implemented by the insurer 30 days following the date of their filing with the Board. Category 2 Prior Approval filings denote a rate increase requested by the insurer which may require actuarial justification for purposes of analysis and subsequent Order by the Board. The Board also modified its audit provisions to ensure the appropriate interpretation of underwriting guidelines and rating applied to similar risk characteristics.

During 2007-2008 the Board received 14 Category 1 rate filings and issued 25 Orders involving Category 2 rate filings. The Board also conducted compliance audits of six automobile insurers operating in the Province during the period. There were no significant changes in the market or its composition over the year. Based on the most recently available market information (2006) 47 automobile insurers reported direct premiums written of \$252,161,000 in the Province, compared to \$262,467,000 in 2005. The market continues to show a high level of concentration, with 12 insurers writing just over 90% of all the automobile insurance business in the Province.

TABLE OF CONTENTS

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TABLE OF CONTENTS

LEGISLATION	1
MARKETPLACE CHANGES	1
REGULATORY ACTIVITIES	3
Actuarial Consultants	3
Rates	3
Compliance Audit Program	4
Complaints	4
Expenses	5

LEGISLATION

The Automobile Insurance Act, Chapter A-22, RSNL 1990, as amended, provides the Board with specific statutory responsibilities concerning the regulation of automobile insurance rates in the Province of Newfoundland and Labrador.

Section 48 states:

"The Board has the general supervision of the rates an insurer charges or proposes to charge for automobile insurance."

Sections 49 to 53 delineate specific filing requirements to be adhered to by insurers.

Sections 54 to 59 outline administrative procedures of the Board and provide for the applicability of the procedural provisions of the *Public Utilities Act*.

Section 60 authorizes the implementation of regulations by the Lieutenant Governor in Council.

MARKETPLACE CHANGES

Based on the 2006 Report of the Superintendent of Insurance, the latest information available, there were 47 automobile insurers operating in Newfoundland and Labrador. This report shows that 90% of the automobile insurance market in the Province is written by 12 companies. The distribution of these companies by size and market share is shown in Table 1.

2006 Superintendent of Insurance Report

TABLE 1
2006 DISTRIBUTION OF COMPANIES BY SIZE AND MARKET SHARE
AUTOMOBILE INSURANCE

Volume of Direct Premiums Written (000's \$)	Number of Companies	Percent of Market Share (%)	Total Direct Premiums Written (000's \$)
0 - 1,000	26	1.74	4,390
1,001 - 5,000	9	9.89	24,961
Over 500	12	88.36	222,810
Totals	47	100.00	252,161

Table 2 shows comparative information for 2006 versus 2005 in relation to direct premiums written (DPW) and direct claims incurred (DCI) for automobile insurance. The total value of DPW in the Province showed a decrease of 3.9% during 2006 while total DCI decreased by 3.2%.

2006 Superintendent of Insurance Report

TABLE 2
2006 MARKET VOLUME
AUTOMOBILE INSURANCE
(000's \$)

	2006	2005	\$ Change	% Change
Direct Premiums Written (DPW)	252,161	262,467	(10,306)	(3.9%)
Direct Claims Incurred (DCI)	176,727	182,620	(5,893)	(3.2%)

Table 3 contains a two-year comparative review, showing year over year relative change, of the automobile-insurance market, broken into DPW and DCI incurred by the three premium classifications, Third Party Liability, Personal Accident and Other. The Other category includes coverages such as Collision, Comprehensive, Specified Perils and All Perils.

It should be noted that DCI does not include the overhead and operation expenses of the company.

2006 Superintendent of Insurance Report

TABLE 3 2006 MARKET VOLUME BY CLASS AUTOMOBILE INSURANCE (000's \$)					
		2005	2004	\$ change	% change
Third Party Liability	DPW	169,225	175,960	(6,735)	(3.8%)
Third Party Liability	DCI	126,859	132,026	(5,167)	(3.9%)
Personal Accident	DPW	19,449	19,265	184	1.0%
Personal Accident	DCI	7,575	12,443	(4,868)	(39.1%)
Other	DPW	63,487	67,242	(3,755)	(5.6%)
Other	DCI	42,293	38,151	4,142	10.9%

REGULATORY ACTIVITIES

Actuarial Consultants

Oliver Wyman, based in Toronto, provides actuarial consulting services to the Board pursuant to a contract awarded in April 2006 following a Request For Proposal (RFP) process.

Rates

During the period April 1, 2007 to March 31, 2008 the Board issued 25 Automobile Insurance Orders all in relation to Category 2 rate filings for rate increases or the establishment of new rates.

The Board also received 14 Category 1 rate filings. These filings represent no change or reductions in rates to insureds. Pursuant to legislative provisions, these filings are not subject to the Board's prior approval and may be implemented no sooner than 30 days following filing with the Board. In the case of such filings, Board staff review each for compliance with Category 1 rate filing requirements and, if found not to represent any increase in any rate for any insured, the filings are accepted as submitted.

Compliance Audit Program

In order to discharge its regulatory responsibilities more effectively under the *Automobile Insurance Act*, in April 1994 the Board implemented a compliance audit program of the rates and rating practices of the regulated insurance companies. The compliance audit program is designed to ensure that insurers writing business in the Province are charging rates that have been approved by the Board as required under the *Automobile Insurance Act*. The audit program also ensures that agents and brokers of the insurer are interpreting the underwriting guidelines of the insurer correctly and that insureds of similar risk characteristics are being rated correctly.

During the period April 1, 2007 to March 31, 2008 the Board conducted six compliance audits of automobile insurers operating in the Province. These were the first audits of these insurers operating under the new regulatory reforms introduced during 2005. The results of these audits did not reveal any significant issues. Additional audits are currently scheduled for the next reporting period.

Complaints

During the year the Board received a limited number of complaints and inquiries. These complaints and inquiries were generally in relation to rating practices of insurers and/or agents. In addition, the Board dealt with a number of inquiries regarding rate refunds and changes arising as a result of the elimination of age, gender and marital status as rating variables.

Expenses

Annual Report 2007-2008

The Board's expenses related to its automobile insurance regulatory activities fall into operating, consulting and special expenses. Operating expenses are assigned according to the number of hours worked per employee/commissioner during each day on automobile insurance regulation plus commensurate overhead. Consulting expenses are associated with specific rate applications by automobile insurers requiring outside expertise and consultants' review. Special expenses are those expenses incurred by the Board in automobile insurance activities other than ongoing operations and rate filings, such as the previously completed automobile insurance review and report directed by Government. The Board is required by legislation to recover all its expenses, either through its regular assessment or through special assessment from those participants in the industry regulated under the *Automobile Insurance Act* and the *Insurance Companies Act*. The Board receives no funding from any other source for its automobile insurance regulatory activities.

The operating expenses of the Board's insurance operations for the 2007-08 year were budgeted at \$512,064. These costs were assessed against insurers with the approval of the Minister, pursuant to Section 59 of the *Automobile Insurance Act*, at a rate of 1.982 mils on the direct premiums written in the Province by the market. The assessment issued each company was adjusted by a one time reduction representing a return of surplus funds accumulated in connection with prior years' assessments. The total surplus returned was \$43,786 or just over 8% of the Board's budgeted expenses for the year.

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