



Newfoundland and Labrador Board of Commissioners of Public Utilities

Newfoundland and Labrador Automobile Insurance Expense Survey Instructions

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INTRODUCTION AND GENERAL INSTRUCTIONS

The objective of the Newfoundland & Labrador Board of Commissioners of Public Utilities (the Board) annual Automobile Insurance Expense Survey (AIES) is to provide a clear estimate of individual company expenses, unallocated loss adjustment expense (ULAE) factors and other related information for automobile insurance written in Newfoundland and Labrador (NL). This information will be used by the Board in its review of automobile insurance rate filings.

Pursuant to s.57 and s.58 of the *Automobile Insurance Act* and s.16 and s.62 of the *Public Utilities Act*, all companies writing automobile insurance in NL are required to participate and report the data identified in the survey form.

Companies are to report AIES information to the Board on the same basis as they report expense information to OSFI (i.e. calendar year or fiscal year). Reports are to be filed in Excel format and must be submitted three months following year end date. Any company not able to meet this deadline must contact the Board to inform of the circumstances resulting in the delay and formally request an extension.

This document provides detailed instructions related to the data elements required in the AIES. Companies may find that definitions provided in this document for certain survey data elements differ from those used by the companies when preparing rate filings. For the purposes of this survey, the Board requires that companies adhere to the definitions provided in this document to ensure that the AIES data is comparable and consistent across all companies. Please note however that it is not the Board's intention to influence how companies define these data elements for the purposes of their individual rate filings.

To ensure data accuracy, the Board requires that a senior executive of the reporting company familiar with the data elements being reported sign off on the AIES data report using the sign-off form discussed in Appendix 4.

Data reported to the Board is protected by the provisions of the *Access to Information and Protection of Privacy Act* (ATIPP). No company data will be released to any third party without the written consent of the respective company. However, the information filed may be used in an aggregated form and may not be subject ATIPP.

The Board's reporting form is based on the voluntary IBC Automobile Expense Survey for ease of completion as insurers are familiar with that form. The Board's form however differs from the IBC form in that it requires somewhat more detailed information.

Insurers should note the reporting of expense information to the Board is not a replacement or substitute for the IBC Automobile Expense Survey. Companies are strongly encouraged to continue participating in this IBC's annual voluntary survey, or to commence doing so if not already. This will allow IBC to continue to provide industry aggregated data.

These survey instructions, the survey form and all other applicable electronic documents can be downloaded from the Board website by following the "Insurance" link at www.pub.nl.ca

Report on a Direct Basis

Throughout this survey, companies should report all data elements on a direct basis as defined herein.

“Direct” means including amounts associated with risks ceded to reinsurance companies and excluding amounts associated with risks assumed.

FA service carriers should exclude business written on behalf of FA from the AIES data provided for their company data report.

SECTION 1: PREMIUM VARIABLE EXPENSES (VARIABLE)

In this section companies are to report premium variable expenses for automobile insurance. Direct Standard Commissions, Direct Non-Standard Commissions and Premium Taxes are included in this section. To permit calculation of the expense-to-premium ratio, companies are to report direct earned premium and direct written premium in this section.

These elements are to be reported on a direct basis as defined under “Introduction and General Instructions: Report on Direct Basis.”

Direct Standard Commissions

Direct Standard Commissions captures all standard commissions paid by the insurer for the sale of automobile insurance policies. Direct Standard Commissions should be reported on: i) a direct written basis to acquire the year’s direct premium written and, ii) a direct earned basis matched to the direct earned premium for the year.

This item must be broken down by vehicle type: Private Passenger Automobiles (PPA) and all other vehicle types (Other).

Direct Non-Standard Commissions

Direct Non-Standard Commissions captures all non-standard commissions such as contingent commissions. Direct Non-Standard Commissions paid and/or payable for the year should be reported.

This item must be broken down by vehicle type: Private Passenger Automobiles (PPA) and all other vehicle types (Other).

Premium Taxes

Premium Taxes captures the incurred premium tax. The incurred premium tax is to be reported on: i) a direct written basis to acquire the year's direct premium written and, ii) a direct earned basis matched to the year's direct earned premium.

It is not necessary to break this item down by vehicle type.

Direct Premium – Written and Earned

Direct Premium captures the total amount of premium written and earned by the reporting company for automobile insurance in the reporting year.

This item must be broken down by vehicle type: Private Passenger Automobiles (PPA) and all other vehicle types (Other).

Premium financing revenue should not be included in Direct Premium as this item is reported separately on the survey form.

SECTION 2: EXPOSURE VARIABLE EXPENSES (FIXED)

In this section companies are to report exposure variable expenses for automobile insurance. Exposure Variable Expenses include operating expenses and general expenses. To permit calculations of the expense-to-exposure ratio, companies are also to report number of car-years written and earned in this section.

This item must be broken down by vehicle type: Private Passenger Automobiles (PPA) and all other vehicle types (Other).

Companies having a specific allocation method in place to assign expenses by province for this item should use it to provide their NL breakdown. These companies are to provide an explanation of the allocation method used and to explicitly identify to the Board any changes in the method from one year to the next.

Companies that do not have a method in place for allocating this item by province should use the default allocation method based on the number of car-years earned in NL.

These data items are to be reported on a direct basis as defined under "Introduction and General Instructions: Report on Direct Basis."

Operating Expenses

Operating Expenses captures those expenses incurred in the daily automobile insurance operation. Included are expenses associated with agents, marketing, underwriting, actuarial services, client services and policy administration. Not included are expenses associated with claim handling, investment and general administration, as well as commissions, taxes, the provincial health levy and premium financing expenses. To illustrate, this data element includes, but is not limited to:

1. Salaries and employee benefits
2. Advertising
3. Inspections and investigations
4. Information technology
5. Management and professional fees
6. Out-of-pocket expenses, including those for travel, stationery and communications

FA internal operating expenses that are charged by FA to the company must be excluded from this data element.

General Expenses

General Expenses capture those expenses necessary for general administration of the company such as expense related to head office, finance, human resources and legal. To illustrate, this data element includes, but is not limited to:

1. Head office overhead
2. Occupancy, including depreciations, rental, maintenance and insurance expense for office and furniture
3. Regulatory assessments and association expense
4. Directors' remuneration
5. Donations
6. Bad debts

Operating expenses, as defined in the previous item, investment related expenses and claims handling expenses must be excluded from this data element.

Number of Car-Years – Written and Earned

Number of Car-Years Written and Earned captures the total number of vehicles insured during the reporting year; and in the case of earned exposures, weighted by the proportion of the year for which they were insured.

This item must be broken down by vehicle type: Private Passenger Automobiles (PPA) and all other vehicle types (Other).

SECTION 3: HEALTH LEVY

Health Levy captures the amount incurred during the reporting year by the reporting company to reimburse provincial governments for public health care costs resulting from automobile accidents.

SECTION 4: NET PREMIUM FINANCE REVENUE

As instructed in previous sections, premium financing revenue should be excluded from direct written and earned premium, and premium financing expense should be excluded from operating expenses. Net premium financing revenue, defined as premium financing revenue generated minus premium financing expense incurred to acquire the direct written and earned premium of the reporting year, should be reported separately in this section.

SECTION 5: UNALLOCATED LOSS ADJUSTMENT EXPENSES

In this section companies are to report the Unallocated Loss Adjustment Expenses (ULAE) for automobile insurance. ULAE captures internal loss adjustment expenses that cannot be allocated to individual claims. To permit calculation of the ULAE factors, companies are to report direct incurred claims in this section.

It is not necessary to break these items down by vehicle type.

These data items are to be reported on a direct basis as defined under “Introduction and General Instructions: Report on Direct Basis.”

Internal Loss Adjustment Expenses

Internal Loss Adjustment Expense captures the expense incurred for the operation of the claims department plus any internal expenses related to claims adjustment incurred in the legal department and other departments (client services, ombudsman services, etc.). Internal loss adjustment expense should be reported on a direct incurred basis. FA service carriers should exclude internal loss adjustment expenses for business written on behalf of FA.

Companies having a specific allocation method in place to assign expenses by province for this item should use it to provide their NL breakdown. These companies are to provide an explanation of the allocation method used and to explicitly identify to the Board any changes in the method from one year to the next.

The default allocation method is to allocate based on direct incurred claims in NL.

Direct Incurred Claims

Direct Incurred Claims captures the total amount of paid claims and allocated loss adjustment expenses plus the change in unpaid claims and allocated loss adjustment expenses (case reserves plus IBNR) for the reporting year.

Companies are to exclude internal loss adjustment expenses and the health levy from this item.

APPENDIX 1: REPORTING FORMAT

Companies are to report AIES information to the Board on the same basis as they report expense information to OSFI (i.e. calendar year or fiscal year). Reports are to be filed in Excel format and must be submitted three months following year end. Any company not able to meet this deadline must contact the Board to inform of the circumstances resulting in the delay and formally request an extension.

Please name the Excel file using the format AIES-CompanyName-YYYY.xls and send the electronic file to ito@pub.nl.ca. (ex: AIES-XYZ Insurance-2010.xls)

All data elements in the Excel file are defined in these instructions. Please do not change the column and row headers in the Excel file. All data (except car-years earned as described below) should be reported in thousands, rounded to the nearest integer and be formatted as a number without decimal point. For example, \$12,345,678.90 should be reported as 12346.

The number of car-years earned should be rounded to the nearest whole number and be formatted as a number without decimal point. For example, 1,234.66 should be reported as 1235.

APPENDIX 2: ADDITIONAL DOCUMENTS REQUIRED

For the purposes of data quality assurance, the Board requires the following additional documents from each reporting company:

1. An explanation of any method used to allocate expenses if other than the default methods as described in this instruction.
2. An explanation of any change in allocation methodology from the previous year's report.
3. An explanation of any other major changes in the reporting year that may have significant impacts on the consistency of the reported data over time. Examples include divestitures, mergers and acquisitions or other significant changes in operations or business in the province.
4. The sign-off form discussed in Appendix 4 signed by a designated officer of the company familiar with the data elements being reported.

APPENDIX 3: DATA QUALITY ASSURANCE PROCESS

The Board will check all reported data against reference data available to the Board, with reasonable tolerance, as follows:

1. Direct written premium total against auto statistical plan data.
2. Direct earned premium total against auto statistical plan data.
3. Number of car-years written against auto statistical plan data.
4. Number of car-years earned against auto statistical plan data.
5. Premium taxes in relation to the provincial premium tax rate.
6. Operating expenses and general expenses against rate filing documents.
7. Health levy amounts in relation to earned premiums and/or earned car-years against published levy amounts and rates.

This mandatory reporting of expense and other information does not replace the IBC voluntary reporting of similar information. Insurers are encouraged to provide the information reported herein to IBC on the IBC voluntary reporting form so that IBC can continue to provide industry aggregated data.

APPENDIX 4: SIGN-OFF FORM

To ensure data accuracy, the Board requires that a senior executive of the reporting company, familiar with the data elements being reported, sign off on the Automobile Insurance Expense Survey form using the sign-off form on the following page.

An electronic copy of the form can be downloaded from the Board's website at www.pub.nl.ca/insurance.htm



**Newfoundland and Labrador
Board of Commissioners of Public Utilities
Automobile Insurance Expense Survey Sign-Off Form**

Company Name:

Reporting Basis: Calendar Year Fiscal Year

Year Ended:

I, (name), (position), certify that the Company's expense information provided in this report is accurate and reliable.

I further certify that the Company's expense information provided in this report is based on the same allocation methods, where applicable, that were used in the Company's expense report to the Board last year. In case of any material changes to these allocation methods, I certify that the Company has provided the Board with detailed information on the changes and their impacts on the reported expense this year.

I further certify that the company's expense information provided in this report is consistent with the expense information reported to OSFI and/or the Newfoundland and Labrador Superintendent of Insurance through the company's annual P & C Return.

(Signature)

(Date)