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## P07 Ratemaking Components

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### **Policy:**

The Board will consider the following ratemaking components in its review of insurer filings and in its adjustment of premium level for the Grid.

- Profit
- Administrative Expenses and ULAE
- Health Cost Recovery
- Discount of Claims
- Loss Development
- Loss Trending

### **Procedures:**

**Profit:** The Board has established percent of premium as a target pre-tax profit provision for all coverage. The Board will annually review and determine the percentage of premium that represents a reasonable level of profit for insurers for all coverage. Insurers must justify any target that is higher than the Board's selected percentage of premium for profit. The Board will apply the selected target profit provision for any adjustment to premium level for the Grid rating program for basic coverage

**Administrative Expense & ULAE:** The Board will use the General Insurance Statistical Agency's (GISA) Automobile Insurance Financial Information exhibit to establish the industry averages for administrative expenses and unallocated loss adjustment factor (ULAE). The industry averages are pertinent to any review of industry's overall performance and any adjustment to premium level for the Grid rating program. The industry averages will provide points of reference when considering administrative expenses and ULAE in the review of individual insurer filings, though the review will recognize the individual insurer's own experience. Individual insurer filings must include the company specific forecast and history of variable and fixed expenses for at least the past three years and its submissions to the GISA Automobile Insurance Financial Information exhibit as they become available.

**Health Cost Recovery:** The Board considers the Health Cost Recovery as a component of claims costs reported by insurers.

**Discount of Claims:** Insurers must discount claim costs for the investment income on policyholder funds until claims are paid. Industry-wide payment patterns based on the GISA Loss Development exhibits will be applied for any review of industry's overall performance and any adjustment to premium level for the Grid rating program. Individual insurers' payment patterns will apply in the review of their filings. The rate of return on investment (RoI) can be a risk-free rate based on Government of Canada bond yields of appropriate durations for any review of industry's overall performance and any adjustment to premium level for the Grid rating program.

**Loss Development:** Historical number of claims and claim amounts must be projected to expected ultimate values by coverage and sub-coverage. Prior years' experience provides insight as to how the number and amount of claims tend to develop from initial reporting. The Board will select loss development factors following an analysis of information presented in the GISA Loss Development exhibits and industry feedback on that analysis. The selected loss development factors will be applied for any review of industry's overall performance and any adjustment to premium level for the Grid rating program. Individual insurers' experience will be recognized in the review of their filings.

**Loss Trending:** Loss trending is a means of evaluating how changes over time affect claim costs. Loss trend varies by coverage and sub-coverage. The Board will select loss trend rates following an analysis of information presented in GISA's biannual published Loss Development exhibits and industry feedback on that analysis. The selected rates will apply to any review of industry's overall performance and any adjustment to premium level for the Grid rating program. The selected rates will be used as guidance in the review of insurers' filings, though the review will recognize each insurer's own experience. The Board will introduce the most recent trend analysis into its consideration in situations where the preparation of the filing predated the availability of the data.

**Authority:**

*Automobile Insurance Premiums Regulation*

**Required approvals**

*2(1) No insurer may charge or collect a premium for basic coverage or additional coverage unless the insurer's rating program with respect to that coverage has been approved in accordance with this Regulation.*

*(2) The Superintendent may prohibit the use of any rating variable in an insurer's rating program.*

**Annual review**

*9(1) The Board must, in accordance with its policies and procedures, conduct an annual review of automobile insurance trends and premiums relating to basic coverage and additional coverage for private passenger vehicles.*

*(2) The review must consider, on an industry-wide basis,*  
*(a) loss costs, as that term is understood by the Board;*  
*(b) administrative expenses, including commissions, taxes and general expenses;*  
*(c) profitability;*  
*(d) other matters recommended by the Superintendent and approved by the Board;*  
*(e) any other matters that the Board considers appropriate.*

*(3) The Board must publish a preliminary report of its findings of the review.*

*(4) Following publication of its preliminary report, the Board must invite comment from insurers, the consumer representative and the public and must give at least 30 days for any comments to be provided.*

*(5) The Board must publish a final report of its findings by September 30 of each year.*

- (6)** *The final report must include*
- (a) the Board' s findings on the matters referred to in subsection (2),*
  - (b) a report of the consumer representative,*
  - (c) the Board' s responses to comments received from the automobile insurance industry, the consumer representative and the public,*
  - (d) the target for profitability for the following year, and*
  - (e) the target for administrative expenses for the following year.*
- (7)** *In addition to, or as part of, an annual review referred to in subsection (1), the Board must also conduct an open meeting each year, in accordance with the Board ' s policies and procedures, to receive comments from the automobile insurance industry, the consumer representative and the public.*

**Approved by the Board: June 27, 2014**

**Effective date: July 1, 2014**

Approved:

original signed  
Honourable Doug Horner  
President of Treasury Board  
Minister of Finance

Date: July 22, 2014