



NEWFOUNDLAND AND LABRADOR

## **BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

### **Invitation for Proposals for Actuarial Consulting Services Automobile Insurance**

The Newfoundland and Labrador Board of Commissioners of Public Utilities is requesting proposals for the provision of actuarial consulting services to assist the Board in fulfilling its legislated mandate in the regulation of automobile insurance rates. The services required will include actuarial analysis of rate filings as well as assisting the Board as required in relation to other matters involving the insurance industry.

A copy of the Terms of Reference may be obtained from Robert Byrne, Director, Regulatory and Advisory Services, at telephone number 709-726-0742, fax number (709)-726-9604 or e-mail at [rbyrne@pub.nl.ca](mailto:rbyrne@pub.nl.ca) or may be downloaded from the Board's website, [www.pub.nl.ca](http://www.pub.nl.ca).

The closing date for the submission of proposals is 4:00 p.m., Friday, January 22, 2016.

ROBERT BYRNE  
DIRECTOR OF REGULATORY AND ADVISORY SERVICES



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## **BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

### **Invitation for Proposals for Actuarial Consulting Services Automobile Insurance**

#### **PURPOSE**

The Board of Commissioners of Public Utilities of Newfoundland and Labrador ("the Board") is seeking proposals for the provision of actuarial consulting services for a five-year period. The services to be provided will include a core level of recurrent work with respect to the Board's mandate for regulation of automobile insurers as well as other requirements that may arise from time to time.

#### **BACKGROUND**

##### Description

The Board operates as a quasi-judicial regulatory agency responsible for the regulation of public utilities, automobile insurers, certain motor carriers, and establishing prices of petroleum products in accordance with:

- i) *the Public Utilities Act, R.S.N.L. 1990, c.P-47;*
- ii) *the Electrical Power Control Act, S.N.L. 1994, c.E-5.1;*
- iii) *the Automobile Insurance Act, R.S.N.L. 1990, c.A-22;*
- iv) *the Insurance Companies Act, R.S.N.L. 1990, c.I-10;*
- v) *the Petroleum Products Act, S.N.L 2001, c.P-10.1; and*
- vi) *the Motor Carrier Act, R.S.N.L. 1990 c.M-19.*

Pursuant to the *Automobile Insurance Act* and the *Insurance Companies Act*, the Board's responsibilities include:

- the review of rate increase applications for automobile insurers, including Facility Association;
- the Risk Classification System used by insurers to determine rating classes;
- the Underwriting Guidelines used to rate risks; and

- the grounds used by insurers to decline to issue, terminate, or refuse to issue a contract or refuse to provide or continue a coverage, or endorsement.

### The Board

In accordance with the *Public Utilities Act*, the Board consists of a Chairperson and Chief Executive Officer, a Vice-Chair and two Commissioners. There are 14 full-time staff members.

### Industry

Automobile insurance services in Newfoundland and Labrador are provided by private companies. The current automobile insurance system is tort-based. Certain reform measures were legislated in 2004 and 2005 which impact the product, the rates and the regulation of the industry. Proponents shall make themselves fully aware of the current legislation affecting the Newfoundland and Labrador automobile insurance market.

Total automobile insurance premiums written in Newfoundland and Labrador during 2014 was \$398,637,000. This was comprised of \$244,663,000 third party liability, \$30,319,000 personal accident, and \$123,655,000 own or direct damages. During 2014 there were 56 automobile insurers actively writing business in the province. The volume of business written by these insurers ranged from a low of \$1,000 to a high of \$72,089,000.

The automobile insurance industry in Newfoundland and Labrador is competitive with a high level of market concentration. During 2014, the five largest insurers wrote 62% of the total market, the top ten insurers wrote 82%, and the top fifteen wrote 92%.

### Regulation

Automobile insurance rates in the Province are regulated on a prior-approval basis for filings by insurers for rate increases, and in other cases on a file-and-use basis. The Board requires an insurer seeking to increase a rate for any class of automobile insurance business to individually actuarially justify the increase.

### **ELIGIBILITY**

Before preparing a proposal for the provision of actuarial consulting services to the Board proponents are advised to ensure that their firm can meet the following eligibility criteria:

- well-developed professional actuarial techniques and a sound system of control and review of actuarial work performance;
- substantial resources in the fields of actuarial technology, statistical analysis, information technology and management consulting;
- experience in the provision of actuarial consulting services; and

- knowledge of the insurance industry in general and the automobile insurance industry in particular.

## **DISCLOSURE OF CONFLICT**

The Board requires that any possible conflict of interest be reported. Failure to report any such conflict may be cause for disqualification. The Board requires disclosure by candidates of any actuarial work undertaken, within the past three years, for any insurer engaged in the business of automobile insurance, regardless of whether such insurer is currently active in the Newfoundland and Labrador automobile insurance market.

## **SCOPE AND REQUIREMENTS**

The range of services to be provided may vary from year to year but will include a core level of activities. The potential activities to be undertaken by the actuarial consultant are described under two headings. Part A covers those activities that are likely to be recurrent from year to year. Part B is a list of activities that may be initiated by the Board from time to time.

### **PART A**

It is expected that annually recurring activities will include the following:

- assist the Board in preparation or revision of filing instructions to insurers;
- review and analysis of filings by the residual market insurer, Facility Association;
- review and analysis of filings by the Insurers' Advisory Organization on behalf of member companies;
- review and analysis of filings for an increase in automobile insurance rates by individual companies. The Board cannot advise as to the number of filings the consultant may be required to review annually as it is within the discretion of each insurer as to whether a filing is made. Each filing must be fully tested and verified. This may require that the consultant contact the filing company for further particulars or information required to complete a review of the filing. Following this review the consultant will submit to the Board a detailed report setting out the consultant's analysis and conclusions in relation to the filing;
- review and analysis of the semi-annual loss trend rates for private passenger and commercial vehicles;
- review and analysis of the annual CLEAR rate group drift adjustment factor; and
- review and analysis of CLEAR rate group filings by individual companies;

## **PART B**

The following is a list of some of the activities which the consultant may be called upon to perform from time to time:

- advising on actuarial policies and techniques which may be appropriate for use in regulating the automobile insurance industry;
- conducting training sessions for Commissioners and staff with respect to costs and earnings, rates and the basic economics of the industry;
- advising the Board in the conduct of investigations as to the level of rates pursuant to Section 53 of the *Automobile Insurance Act*;
- advising the Board in the context of inquiries into the establishment of or review of rates for an insurer and other matters which may require a hearing before the Board. This may require that the consultant provide testimony at the hearing;
- advising the Board with respect to the determination of the appropriate rates charged by automobile insurers, including advising the Board on refinements, improvements, or changes to the rate review process, or models used in determining the appropriate rates;
- advising the Board in relation to other matters arising from its responsibilities for the general supervision of all automobile insurers, pursuant to the *Automobile Insurance Act*.

## **TERM OF ENGAGEMENT**

It is expected that the successful firm will be engaged for a period of five years. However, the appointment will be on an annual basis with potential renewal based on performance every year over the five-year period. The Board reserves the unqualified right not to reappoint annually. Where the Board determines that it is necessary and appropriate the Board may extend the contract beyond the initial five-year term.

## **PROPOSAL EVALUATION**

Proposals will be evaluated on the basis of the following factors:

- (a) educational, professional and technical qualifications of personnel assigned;
- (b) the experience of the firm in providing services similar to those being requested by the Board;
- (c) canadian-based expertise;
- (d) the quality of the proposal and the extent to which it demonstrates insights into how the responsibilities to be assigned can be successfully executed;

- (e) access to an appropriate level of resources and support services;
- (f) the absence of conflict of interest; and
- (g) rates.

## **PROPOSAL CONTENT**

### **Services**

Proposals should describe the special expertise or qualifications of your firm to provide the actuarial consulting services requested. The manner of reviewing and evaluating rate increase filings should also be set out. A sample report in relation to a similar matter shall be provided.

Information should be included in the proposal regarding any advisory services which may be available to the Board on “routine” matters. These may include staff assistance and/or publications relating to matters such as automobile insurance rate regulation, cost factors to be considered in rate establishment, rate development programs, information technology and management consulting.

Proposals should detail local content if any.

### **Fees**

The hourly rates for services to be rendered by each assigned person should be set out for each year of the five-year term on the basis of the professional designation. Where the rates are changing over the five-year term proposals must set out the percentage change for each year.

In each year, on the anniversary date of the engagement, the consultant and the Board will agree to a schedule of the hourly rates to be charged for the next year.

While the Board may require prior approval of expenses associated with each project to be commissioned, your proposal should provide a statement of expectations respecting reimbursement of expenses, travel costs and other out of pocket expenses.

The Board is not seeking fully-costed proposals for any of the projects to which reference has been made.

## **MONITORING PERFORMANCE**

During the five-year term of engagement the evaluation of the consultant’s performance will be based on but not limited to the following criteria:

### **Adherence to Proposed Fees**

Any project to be undertaken may require prior approval of a work plan by the Board and this

prior approval may cover a time budget for the project as well as a disbursement budget. For all projects the consultant must keep an account of actual time spent by assigned personnel on each major task and submit to the Board upon completion of each major task a schedule which shows the actual time spent. The cost of this accounting of time shall be considered to be included in the hourly rate quoted under this proposal. Where a project is expected to take longer than one month the consultant may be required to provide progress reports.

#### Persons Assigned

For the initial year of the engagement the persons assigned should be those originally proposed. Any subsequent changes to the assigned personnel must be approved by the Board. The Board requires that the most senior of the assigned personnel be accessible to the Board as reasonably required.

#### Deadlines

Reports in relation to rate increase filings are expected be completed within 45 days of receiving the completed filing. Other deadlines will be established by the Board from time to time. The deadlines established for work assigned to the consultant will be rigorously imposed. Failure to meet deadlines will be an important component of the Board's evaluation of performance.

#### Quality

Annual renewal of the engagement will depend upon the provision of the highest quality of work in all of the services performed for the Board.

### **CONDITIONS**

It is possible that the Board's consideration of the proposals submitted in response to this invitation will lead to the selection of two or more firms, rather than a single firm, to provide the services being requested. It is also possible that the decision of the Board will be to refrain from any appointment at this time.

Any major change in the requirements of the Board may lead to a further invitation for proposals and the termination of any arrangement that may be established pursuant to the present invitation.

The Board makes no claim, expressed or implied, with regard to the volume of work that may result from the acceptance of a proposal for the provision of these professional services. The Board reserves the exclusive right to accept or reject any or all proposals.

The Board reserves the right to discuss any or all proposals and to request additional information from any or all proponents.

The Board will not be liable for any fees, expenses or other costs incurred by the candidates in the presentation of their response to this request for proposals.

**DOCUMENTS AVAILABLE**

Copies of relevant legislation, the Board's Filing Guidelines, orders of the Board and other information are available upon request or may be accessed by following the appropriate links on the Board's website at [www.pub.nl.ca](http://www.pub.nl.ca).

**PROCESS****Closing Date and Time**

Five copies of the proposal must be delivered to Ms. Cheryl Blundon, Board Secretary, no later than 4:00 P.M., on Friday, January 22, 2016.

For mail or courier delivery the envelope should be sealed and clearly marked and addressed as follows:

**PROPOSAL FOR ACTUARIAL CONSULTING SERVICES**

Director of Corporate Services & Board Secretary  
Board of Commissioners of Public Utilities  
P. O. Box 21040  
Suite E- 210, 120 Torbay Road  
St. John's, NL  
A1A 5B2

Electronic submissions may be sent to [cblundon@pub.nl.ca](mailto:cblundon@pub.nl.ca).

**Additional Information**

Additional information can be provided, if necessary, by telephone or by email. Please contact Mr. Robert Byrne, Director, Regulatory and Advisory Services, at (709)-726-0742 or [rbyrne@pub.nl.ca](mailto:rbyrne@pub.nl.ca).

**Selection Committee**

A short list of eligible candidates may be interviewed as part of the selection process. If selected to make an oral presentation it is expected that persons who would be assigned to provide actuarial consulting services to the Board will make the presentation.

**Decision**

The appointment is expected to be made prior to March 11, 2016 to take effect on April 1, 2016.