



Information Bulletin 07-01

January 9, 2007

This bulletin highlights determinations by the Nova Scotia Insurance Review Board (the Board) that affect industry. This publication is not a legal document. It contains general information and is provided for convenience and guidance in applying the *Insurance Act* (Chapter 231 of the Revised Statutes of Nova Scotia, 1989, as amended), and Regulations. In all circumstances reference should be made to the legislation.

Clarification of Information Bulletin NSIRB 06-05

On December 15, 2006, the Board issued simplified filing requirements for inexperienced driver rate changes made in response to the introduction of the Facility Association risk sharing pool for drivers with less than six years experience.

A number of questions have arisen concerning these requirements. To address these, the Board issues the attached frequently asked questions surrounding the requirements.

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Executive Officer

Nova Scotia Insurance Review Board

Frequently Asked Questions Concerning Information Bulletin NSIRB 06-05

Q. What does “detailed description” mean in requirement number four?

A.

The Board recognizes that there are a number of ways in which a company could reduce its rates for the inexperienced driver class. For instance, a company could:

- Undertake complete actuarial analysis of inexperienced operators
- Attempt to replicate the Board approved rates currently charged by Facility Association
- Alter its underwriting rules to credit more years experience than an inexperienced driver would normally qualify for
- Etc.

The Board has not mandated a particular solution to the potentially significant dislocation problem that would occur if the industry fails to lower rates in response to the creation of the risk sharing pool. Instead, the Board selected a flexible process to allow a company to choose how best to make such a change. The Board requires that a company describe the methodology it used to assign rates to this class and why it chose to adopt this approach. The level of detail provided is not meant to be onerous but must be sufficient to allow the Board to understand the approach and assess its reasonableness. For instance, adopting a New Brunswick like solution (i.e. crediting driving record 6 to all clean drivers with less than 6 years experience) because the company has few policies in Nova Scotia, the system changes to handle this approach already exist, and it is the most convenient alternative for the company (and the reason) to use.

The Board has the statutory obligation to ensure that rates are just and reasonable in the circumstances. Therefore, the company applying must provide evidence to the Board, actuarial, informed business judgement, competitive analysis and so forth, upon which the Board can make an informed decision.

Q. What level of support do you require if a company chooses to include a gender differential for inexperienced operators?

A.

Currently Facility Association insures the majority of the risks that eventually will be insured in the Risk Sharing Pool. Facility Association rates do not include a gender differential. The Board realizes that gender is not a prohibited rate classification factor in Nova Scotia. However, this information is required in order to compare the company proposed rates to the current Facility Association rates for this class of driver. The Board is aware that the inclusion of a gender differential may result in some significantly higher rates for male drivers. This will be considered in assessing whether the proposed rates are just and reasonable in the circumstances.

The requirement to provide support for the gender differential is included to provide assurance to the Board that the chosen differentials between male and female drivers for these classes are supported actuarially and are not simply a legacy from a time when male inexperienced drivers were a class to be avoided. If a company has sufficient industry information to support the use of differentials, this information should be provided

Q. Is a company required to include a capping mechanism?

A.

There are circumstances where individual risks may experience an increase in rates as a result of the implementation of the risk sharing pool. This is dependent on the method of developing rates selected by a company. This may also be true for some drivers vis-à-vis Facility Association rates. In the later instance, a company could opt to cap the premium for a current risk in Facility Association to mitigate this increase.

While a cap is not required by the Board, the cap provides a demonstration of the industry's desire to introduce the Risk Sharing Pool with minimal dislocation to the risks already in Facility Association. The Board requires that any cap be described in requirement five along with a sample case to explain the workings of the cap.

Use of a cap will also be a consideration in the Board's determination of what is just and reasonable in the circumstances.

Q. What is the purpose of requirement seven?

A.

In response to industry feedback, the Board has removed the requirement to provide estimates of the volume of business and the amounts likely to be ceded to the pool. The Simplified Filing Requirements for Inexperienced Drivers is amended to remove this item (see attached).

However, the Board still requires a brief description of how the company will decide if a risk will be ceded to the pool or retained. The Board is interested in understanding how the risk sharing pool will be utilized. The decision process provides an early (at the outset) look at how the industry feels the pool will develop. It will also provide an indication as to how experience in the pool may develop. That is, if all filing companies expect to cede 100% of the risks, the experience will be closer to that of Facility Association. If all companies expect to retain 100% of the risks, the Board has an indication of the appropriateness of the Facility Association rates.

Please note, the information is being treated as part of the confidential sections per the Board's ruling and will not be routinely disclosed.

Q. When will the profiles with the completed Facility Association rates be available?

A.

Facility Association has populated the selected profiles with information on the current Facility Association rates that would apply today. These profiles can be downloaded from the Board's website at <http://www.gov.ns.ca/nsirb/industry.asp>.

Profiles with the Facility Association rate can also be obtained by contacting Barry Cotnam (cotnambj@gov.ns.ca) or the Board's generic address (NSIRB@gov.ns.ca). Please note, while requirement three indicated an occasional operators profile would be required, these profiles are not required at this time.

If you have further questions regarding this simplified filing process, please contact the Nova Scotia Insurance Review Board office at (902) 424-8685 or at NSIRB@gov.ns.ca