

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -



IN THE MATTER OF AN APPLICATION by **ECHELON INSURANCE** for approval to introduce new rates and a new risk-classification system for interurban trucks

BEFORE: David J. Almon, LL.B., Member

APPLICANT: **ECHELON INSURANCE**

FINAL SUBMISSIONS: February 7, 2017

DECISION DATE: March 23, 2017

DECISION: **Application is approved.**

I INTRODUCTION

[1] Echelon Insurance (“Echelon” or “Company”) filed supporting documents and materials (“Application”) with the Nova Scotia Utility and Review Board (“Board”) for approval to introduce new rates and a new risk-classification system for interurban trucks. The Application, dated January 24, 2017, was filed, electronically, on January 31, 2017. The Application was made in accordance with the Board’s filing requirements, namely, *Rate Filing Requirements for Automobile Insurance – Section 155G Adopt IAO Rates* (“Rate Filing Requirements”).

[2] As Echelon currently does not underwrite these vehicles, a new mandatory filing deadline must be created for them. As the Application was filed on January 31, 2017, the Board sets the new mandatory filing deadline for Echelon, for these vehicles, to February 1, 2020.

[3] Information Requests (“IRs”) were sent to the Company on February 7, 2017, and responses were received on the same date.

[4] The Board did not deem it necessary to hold an oral hearing on the Application.

II ISSUE

[5] The issue in this Application is whether the proposed rates and risk-classification system are just and reasonable and in compliance with the *Insurance Act* (“Act”) and its *Regulations*.

III ANALYSIS

[6] The Company proposes to adopt the IAO Actuarial Consulting Services Inc. ("IAO") rates that were approved by the Board in its decision [2016 NSUARB 83]. No changes are proposed to the IAO rates or risk-classification system.

[7] The Company proposes to adopt the rates and risk-classification system recently approved for IAO, unaltered.

Use of IAO Rates and Risk-classification System

[8] For the Company to adopt IAO rates under the Board's agreement with IAO, a company must make an application that:

- i. Explains why it is appropriate for the company to adopt the rates;
- ii. Adjusts (downward only) the rates to reflect the desire to use a proposed return on equity ("ROE") that is lower than the ROE approved for IAO (12%); and
- iii. Adjusts the rates, if desired, to reflect any differences in the company's expense ratio relative to that included in the approved IAO rates.

[9] The Board understands that the Company is entering the market to compete in a specialized niche segment of the market. As a new entrant, it does not have any of these vehicles underwritten and, therefore, has no experience to draw upon. The use of IAO rates seems a prudent approach to entering such a market.

[10] A sister company, The Insurance Company of PEI ("ICPEI"), offers rates for these vehicles. When asked why Echelon did not use these rates, the Company indicated that this Application was part of a country-wide initiative and ICPEI does not operate in all jurisdictions. The Company further noted that the approved ICPEI rates for interurban trucks are much higher than the IAO rates for mandatory coverages, but lower for optional coverages. It appears the use of IAO rates would lead to lower premiums for Nova Scotia

drivers. The Board accepts this as a reasonable approach in the circumstances, thus satisfying criterion (i).

[11] Echelon proposed to make no adjustment to rates for ROE under (ii) above. The IAO rates use a 12% ROE. In its last private passenger vehicles application, Echelon selected a 10% ROE, consistent with the Board's approach to ROE, at that time.

[12] When asked about such an adjustment, Echelon estimated the change would result in a small decrease in rates (e.g., about 0.5%). The Company further estimates the changes in base rates would range from \$1-\$3. Board staff does not deem it appropriate to order this small a change.

[13] The Board notes that IAO recently filed an Application seeking to raise its recommended rates by a larger amount (overall about 3%). Echelon was unaware of this application when it filed, but when told about the filing, the Company elected not to change its proposal. Board staff observed if the Board were to approve the IAO Application, it could be argued that because the Echelon proposed rates are lower than the IAO rates, the Company is proposing an ROE well below the 12% level and likely below even the 10% level.

[14] The Board accepts this as a reasonable approach in the circumstances, thus satisfying criterion (ii).

[15] The average Echelon expense ratio, over the years 2011-2015, is not significantly different from the assumption used by IAO when it developed the interurban truck rates that the Company proposes to use. As Echelon does not wish to make any adjustment for the expense ratio as allowed under (iii), the Board accepts this as a reasonable approach and finds that criterion (iii) is met.

[16] The Board approves the Company's proposal to adopt the IAO rates and risk-classification system approved in Board decision [2016 NSUARB 83], without adjusting for differences in ROE and expenses.

Rate Manual Review

[17] Board staff have reviewed the rate manual on file and found no instances where the Company is in violation of the Regulations. The Company is not proposing any changes to the rate manual despite the introduction of these new classes of vehicles.

IV FINDINGS

[18] The Board finds that the Application complies with the *Act and Regulations*, as well as the *Rate Filing Requirements*.

[19] The financial information submitted by the Company satisfies the Board, pursuant to Section 155(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the Company.

[20] The Board is satisfied the Company's proposal to adopt the IAO rates and risk classification system approved in 2016, for interurban trucks is just and reasonable and approves the Application.

[21] The Board establishes February 1, 2020, as the next mandatory filing date for these vehicles.

[22] The Board approves the effective date of April 1, 2017, for new business.

[23] The Company is required to file an electronic version of its updated Rate Manual within 30 days of the issuance of the Order in this matter.

[24] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 23rd day of March, 2017.



David J. Almon