

DECISION

**2016 NSUARB 93
M07363, M07364, M07365, M07366 & M07367**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF THE APPLICATIONS by ZENITH INSURANCE COMPANY, NORTHBRIDGE PERSONAL INSURANCE CORPORATION, NORTHBRIDGE GENERAL INSURANCE CORPORATION, FEDERATED INSURANCE COMPANY OF CANADA and TOKIO MARINE AND NICHIDO FIRE INSURANCE COMPANY for approval to modify the rates and risk-classification system for personal miscellaneous vehicles

BEFORE: Murray E. Doehler, CPA, CA, P.Eng., Member

APPLICANTS: ZENITH INSURANCE COMPANY, NORTHBRIDGE PERSONAL INSURANCE CORPORATION, NORTHBRIDGE GENERAL INSURANCE CORPORATION, FEDERATED INSURANCE COMPANY OF CANADA and TOKIO MARINE AND NICHIDO FIRE INSURANCE COMPANY

FINAL SUBMISSIONS: April 26, 2016

DECISION DATE: June 3, 2016

DECISION: Applications are approved.

I INTRODUCTION

[1] Zenith Insurance Company (“Zenith”), Northbridge Personal Insurance Corporation (“NPIC”), Northbridge General Insurance Corporation (“NGIC”), Federated Insurance Company of Canada (“Federated”) and Tokio Marine and Nichido Fire Insurance Company (“Tokio”) (collectively “Companies”) filed supporting documents and materials (“Applications”) with the Nova Scotia Utility and Review Board (“Board”) for approval to modify their respective rates and risk-classification systems for personal miscellaneous vehicles (i.e. all-terrain vehicles, motorcycles, snow vehicles, motorhomes, antique vehicles, trailers and camper units). The Applications, dated February 26, 2016, were filed electronically on March 15, 2016.

[2] As a result of a review by Board staff, staff reports dated April 18, 2016 (“Staff Report”) were prepared. Each company was provided with its Staff Report for review on April 18, 2016. The Companies responded on April 26, 2016, indicating that after a review of the Staff Reports, and making a few corrections, they had no comments on the recommendations.

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

II ISSUE

[4] The issue in these Applications is whether the proposed rates and changes to the risk-classification systems are just and reasonable and in compliance with the *Insurance Act* (“Act”) and its *Regulations*.

III ANALYSIS

[5] The Companies have sought approval to change the rates and risk-classification systems for personal miscellaneous vehicles. The Applications were made in accordance with the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Adopt IAO Rates* (“*Rate Filing Requirements*”). The Companies' mandatory filing dates were February 1, 2016, which the Board extended to March 15, 2016.

[6] The proposed effective dates, as subsequently amended, are August 1, 2016, for new business and September 1, 2016, for renewal business (except for Federated where August 1, 2016, was proposed for new and renewal business).

Rates and Risk-Classification Systems

[7] The current rates and risk-classification system used by the Companies were based upon the IAO rates when they made the last applications to the Board. Given that the Companies' combined number of insurance contracts are fairly small for personal miscellaneous vehicles in Nova Scotia, the Companies propose to adopt the IAO rates approved by the Board (2015 NSUARB 150) for motorcycles, ATVs, snow vehicles and motorhomes while leaving current rates unchanged for antique vehicles, camper units and trailers. All existing discounts and surcharges will remain as approved by the Board in the last filing.

[8] 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 (as modified, if done, by the Board in its decision).

[9] In aggregate, the Companies have written relatively few insurance policies for motorcycles, ATVs, motorhomes, snow vehicles, trailers, or camper units. It is unclear if any company has written a policy for antique vehicles. With the small number of policies, it is unlikely that actuarial analyses would produce meaningful results. Rather than analyzing industry data, the Companies plan to adopt the IAO analysis and the Board decisions on that analysis, subject to some modifications. Under these circumstances, it seems reasonable for the Companies to adopt rates based upon the IAO approved rates. Therefore, criterion (i) is met.

[10] The Companies do not propose any adjustment under (ii) above. This approach is reasonable in the circumstances.

[11] The Companies' expense ratio, from the financial information, falls within the range used by IAO in its recent application. The Companies do not propose to make any adjustment for the expense ratio as allowed under (iii).

[12] Board staff support the Companies' decisions to adopt the new IAO rates, with no adjustments for differences in ROE and expenses and recommends approval of the Applications.

[13] The Board approves the Applications to adopt the IAO rates for motorcycles, motorhomes, ATVs and snow vehicles and to leave rates for antique vehicles, camper units and trailers unchanged, as filed.

Comment on Rates in Motorcycle Cover Letter

[14] In its decision on the last Zenith, NPIC, and NGIC application for miscellaneous vehicles (including motorcycles) (2013 NSUARB 63), the Board approved the use of IAO proposed rates at that time with a provision that they would file to adopt any changes to the IAO rates that the Board ordered. Specifically the Board stated (using Zenith as the example):

[18] The Board considers that, in the unusual circumstances of this Application, approval of the proposed IAO rates for PMV is appropriate. However, Board staff in communication with ZIC [Zenith] obtained confirmation from the Company that it will file within 30 business days of the Board's decision in Matter M05434 to adopt any changes which may result if the Board orders changes to the proposed IAO rates. The Board therefore grants its approval of this Application on the condition that the Company will apply to adopt any changes ordered to the IAO rates for PMV within 30 business days of the date of the Order approving those rates.

[2013 NSUARB 63]

[15] During the review process of the above mentioned IAO application, an issue was discovered. IAO, in addressing the issue, developed higher motorcycle rates than were included in the original application. The original application is the one that the three companies had used in the 2013 applications.

[16] The three companies indicated that because of the large increase, they had chosen to not implement the proposed changes, at that time, as had been required by the Board. This explanation was provided by the three companies for the larger than expected increase in motorcycle rates for these Applications.

[17] The three companies, by their decision which was made without informing the Board, were not in compliance with the Board Order. In fact, this is a violation of the *Insurance Act* because the companies were offering rates that had not been approved for use by the Board.

[18] The Office of the Superintendent of Insurance has advised the Board it will not likely proceed with any disciplinary action in this case. The reasons given are the small number of vehicles involved, and that these clients received lower rates than they should have had if the three companies had approached the Board as required to increase the rates.

[19] Zenith, NPIC and NGIC are cautioned that they must approach the Board when making such decisions so as to avoid being, perhaps unknowingly, in violation of Board Orders and/or the *Insurance Act*.

Rate Manual Review

[20] Board staff have reviewed the Rate Manual on file and found no instances where the Companies are in violation of the *Regulations*. The Companies proposed no changes to its Rate Manuals other than those necessary to effect the changes noted in this Decision.

IV FINDINGS

[21] The Board finds that the Applications comply with the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

[22] The financial information submitted by the Companies satisfies the Board, pursuant to Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of Zenith, NPIC, NGIC, Federated or Tokio.

[23] The Board is satisfied that the Companies' proposals to adopt the IAO rates and risk-classification system will produce rates which are just and reasonable and approves the Applications.

[24] The Companies' use of the IAO actuarial analysis is sufficient for the circumstances of these Applications. Therefore, the Board resets the mandatory filing deadlines for personal miscellaneous vehicles to March 1, 2019, for each Company.

[25] The Board approves the effective dates of August 1, 2016, for new business and September 1, 2016, for renewal business for Zenith, NPIC, NGIC and Tokio. The Board approves the effective date of August 1, 2016, for new and renewal business for Federated.

[26] The Companies are required to file an electronic version of the updated Rate Manuals within 30 days of the issuance of the Order in this matter.

[27] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 3rd day of June, 2016.



Murray E. Doehler