

**NOVA SCOTIA UTILITY AND REVIEW BOARD**

**IN THE MATTER OF THE INSURANCE ACT**

- and -



**IN THE MATTER OF AN APPLICATION** by **IAO ACTUARIAL CONSULTING SERVICES INC.** for approval to modify its rates and risk-classification system for interurban trucks

**BEFORE:** Roberta J. Clarke, Q.C., Member

**APPLICANT:** IAO ACTUARIAL CONSULTING SERVICES INC.

**FINAL SUBMISSIONS:** March 10, 2017

**DECISION DATE:** March 20, 2017

**DECISION:** Application is approved

## I INTRODUCTION

[1] IAO Actuarial Consulting Services Inc. (“IAO” or “Company”) filed supporting documents and materials (“Application”) with the Nova Scotia Utility and Review Board (“Board”) for approval to modify its rates and risk-classification system for interurban trucks (“IUT”). The Application, dated January 30, 2017, was filed electronically on February 1, 2017, and the original documents were received on February 3, 2017.

[2] Information Requests (“IRs”) were sent to the Company on March 2, 2017, and responses were received on March 7, 2017. Additional IRs were issued on March 7, 2017, to which the Company responded on that day.

[3] As a result of a review by Board staff, a staff report dated March 10, 2017 (“Staff Report”) was prepared. The Staff Report was provided to the Company for review on March 10, 2017. The Company responded on the same day, indicating that it had reviewed the Staff Report and had no comments.

[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 changes to the risk-classification system are just and reasonable and in compliance with the *Insurance Act* (“Act”) and its *Regulations*.

### III ANALYSIS

[6] IAO provides a series of recommended rates and differentials to subscribing companies. Those companies may then apply to the Board for approval of the IAO rates, but are not required to file actuarial support for their respective proposals. The Board has, since June, 2011, permitted IAO to apply for approval of its recommended rates. In this Application, the Company sought approval to change its rates and its risk-classification system for IUT. The Application was made in accordance with the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (“*Rate Filing Requirements*”). IAO is required to file its application annually on February 1 for IUT.

[7] IAO seeks to recommend its rates, if approved, to its subscribers, with a proposed effective date of July 1, 2017.

#### **Rate Level Changes**

[8] The Company proposed to change its base rates that are uniform by territory, and its differentials. The proposed change represents an overall rate level increase of 2.60%.

[9] The proposed changes are based upon indications which suggest an overall rate increase of 3.38%, and except for SEF #44 (Family Protection Endorsement) and All Perils coverages, the proposed changes follow the indications. For SEF #44, IAO proposes no change despite a large indicated reduction. For All Perils coverage, the proposed change reflects the proposed changes for Collision and Comprehensive coverages.

[10] In considering the Application, Board staff reviewed all aspects of the ratemaking procedure, including the following:

- Loss trends and the effects of reform;
- Loss development;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Credibility standards and complement of credibility;
- Experience period and weights;
- Premium to surplus leverage ratio; and
- Target and proposed return on equity (“ROE”).

[11] Based on its review, Board staff reported that the only issue which arose requiring additional consideration was loss trends, which differed from those of the Board’s consulting actuaries, Oliver Wyman (“OW”). All other issues were successfully resolved through the IR process.

### **Loss Trends**

[12] As is common in the insurance industry, due to a lack of sufficient data to develop separate trends for IUT, IAO used its commercial vehicle trends as a proxy. This approach has been accepted by the Board.

[13] OW and IAO both based their selected loss trends mainly on a review of the industry experience in Nova Scotia through December 31, 2015. OW selected loss trends without splitting them based on frequency and severity, after examining both five and ten years of data. OW’s view is that separating loss trends may obscure the correlation between them, and thus uses trends for loss costs directly. OW also considers that commercial data is less credible, and therefore, its selected future trends match its past loss trends.

[14] In contrast, IAO analysed severity and frequency trends separately to develop its loss cost trends. However, as did OW, the Company matched its future trends and past trends.

[15] The differences between the IAO and OW trends were less than 1% for all mandatory coverages, except for Accident Benefits coverage. Board staff noted that the IAO trends are more conservative than OW for Comprehensive and Accident Benefits, but less conservative for the other coverages.

[16] Board staff requested IAO to provide indications using the OW loss trends, and the results show relatively small differences for all coverages, except Accident Benefits, and Uninsured Auto coverages. Overall, the difference is minimal with IAO proposed rates being slightly higher.

[17] Board staff recommended that the IAO indications be used as the basis on which to assess the reasonableness of the proposed rates, and the Board accepts that recommendation.

[18] In prior filings, IAO has suggested that the data for SEF # 44 losses is sparse and volatile, and thus an indication for large decrease should not be followed. The Board finds that IAO's decision not to change the rate for SEF # 44 is reasonable, given that the average IAO premium for this coverage is less than \$17.00, and the indicated decrease would lower this to just under \$10.00, which compares to the industry average of approximately \$47.00. The Board considers it would be imprudent to force IAO to take the indicated decrease for this coverage.

[19] As for the changes for All Perils coverage, the Board understands that the selected change relates to the changes in Collision and Comprehensive coverages which in fact underlie All Perils. The Board considers this to be consistent.

### **Return on Equity**

[20] In past decisions, the Board has expressed concerns about the ROE earned by various companies. The Board has indicated that it considered a range of 10-12% as reasonable for ROE, and has required some companies to use the low end of the range as a target ROE. The Board observes that IAO's proposed rates will result in a target ROE that is very slightly over the high end of the range.

[21] The Board understands that the companies which subscribe to IAO generally underwrite only a small portfolio, which represents a greater risk, due to the increased volatility of their experience. Therefore, the Board is satisfied that the proposed rates, using the IAO target ROE, are just and reasonable, and approves them.

### **Differentials**

[22] IAO proposed changes to several of its differentials, namely: classification, driving records, deductible, and liability limit for both Third Party Liability and SEF # 44. The Board notes that IAO does not rate IUT by territory. IAO provided the required analysis of the differentials, and proposed changes which generally follow the indications. In some instances, the magnitude of the change to the differentials was capped at plus or minus 10%.

[23] The Board is satisfied that IAO has supported the proposed changes to the differentials in question, and finds them to be reasonable. They are approved.

### **Direct Compensation Property Damage**

[24] In most of its prior applications, IAO split the indicated Third Party Liability rates into Bodily Injury, Property Damage-Tort, and Direct Compensation Property Damage (“DCPD”) following the Board’s suggestions for the simplified April 1, 2013 Reform filing.

[25] In this Application, as it did in its last application, IAO developed indicated changes for Bodily Injury and for Property Damage-Tort and DCPD Combined. It did so because separate DCPD experience information is not yet available from the General Insurance Statistical Agency (“GISA”).

[26] While the Board considers this approach is appropriate in the circumstances of this Application, the Board expects that, once the information becomes available from GISA, the Company will use a separate analysis of DCPD rather than a combined approach.

### **Rate Manual Review**

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

#### IV FINDINGS

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

[29] The Board finds the proposed rates are just and reasonable.

[30] The Application included full actuarial indications and the required territorial analysis; the Board sets the new mandatory filing date for IUT for IAO to February 1, 2018.

[31] The Board approves the effective date of July 1, 2017, which IAO proposed for use by its subscribers, for both new and renewal business.

[32] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 20<sup>th</sup> day of March, 2017.

  
Roberta J. Clarke