

**DECISION**

**2017 NSUARB 45  
M07861**

**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 miscellaneous vehicles

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

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

**FINAL SUBMISSIONS:** March 21, 2017

**DECISION DATE:** **March 28, 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 miscellaneous vehicles, i.e., private passenger motorcycles; all terrain vehicles; snow vehicles; motorhomes; taxis; buses; and ambulances. 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 7, 2017, and responses were received on March 10, 2017. Additional IRs were issued on March 13, 2017, to which the Company responded on March 20, 2017.

[3] As a result of a review by Board staff, a staff report dated March 21, 2017 (“Staff Report”) was prepared. The Staff Report was provided to the Company for review on March 21, 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 the categories of miscellaneous vehicles outlined above. 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 bi-annually on February 1 for miscellaneous vehicles.

[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. It also proposes to change its rating algorithm for some vehicles. The proposed changes represent increases for all classes of miscellaneous vehicles except private passenger motorcycles, where a decrease is proposed.

[9] The proposed changes are based upon indications which suggest overall rate changes in the same direction, but differing in magnitude. For all terrain vehicles, the proposed changes will result in slightly higher premiums; however, in most other cases, the proposed changes will result in lower premiums than indicated.

[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 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] Because of a lack of data, IAO developed loss trends for miscellaneous vehicles from the loss trends for private passenger and commercial vehicles. For private passenger motorcycles, all terrain vehicles, snow vehicles, motorhomes, and taxis, IAO used private passenger vehicle loss trends. Commercial vehicle loss trends were used for ambulances and buses.

[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, for both private passenger and commercial vehicles.

[14] For commercial vehicles, 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.

[15] 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.

[16] The differences between the IAO and OW trends were less than 1% for all mandatory coverages, except for Accident Benefits coverage. With the exception of the Comprehensive and Accident Benefits, the OW trends selections would lead to higher rates.

[17] For its private passenger vehicle loss trends, the selections made by IAO matched those of OW, with the exception of the Medical and Rehabilitation Costs component of Accident Benefits coverage which impacted the total Accident Benefits loss trends, and for the Comprehensive coverages. Board staff noted that the IAO trends are more conservative than OW for Comprehensive and Accident Benefit coverages and would provide lower rates.

[18] Board staff requested IAO to provide indications for each class of miscellaneous vehicles using the OW loss trends, and the results show relatively small differences for all coverages. The use of IAO trends results in generally lower premiums than using OW trends would.

[19] 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.

[20] The Board observes that IAO chose to cap its proposed changes at plus or minus 12% due to a concern about volatility in its indications, and the impact of some large claims. IAO explained the same cap is applied in the other Atlantic Provinces.

[21] IAO proposes no changes for SEF # 44 coverage (Family Protection Endorsement), regardless of indications; despite no indications for All Perils coverage, changes were proposed based on the component coverage for Collision and Comprehensive. Board staff considered these proposals to be reasonable and the Board agrees.

[22] The capping at plus or minus 12% results in overall rates which are lower than indicated for all vehicles except all terrain vehicles, where the proposed increase is slightly greater than indicated.

### **Return on Equity**

[23] 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 target ROEs within the range, with the exception of all terrain vehicles which is only slightly over the high end of the range.

[24] The Board understands that the companies which subscribe to IAO generally underwrite only a small portfolio of miscellaneous vehicles, mostly on an accommodation basis for their private passenger vehicle clients, which represents a greater risk, due to the increased volatility of their experience. Board staff consider that

these subscribers would likely be satisfied to apply for approval of IAO rates without change. Therefore, the Board is satisfied that the proposed rates, using the IAO target ROEs, are just and reasonable, and approves them.

### **Differentials**

[25] IAO proposed changes to several of its differentials, namely: class, driving records, deductible, and liability limit for both Third Party Liability and SEF # 44. It 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%.

[26] 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**

[27] 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.

[28] 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").

[29] 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**

[30] 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**

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

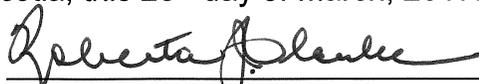
[32] The Board finds the proposed rates are just and reasonable.

[33] The Application included full actuarial indications and the required territorial analysis; the Board sets the new mandatory filing date for miscellaneous vehicles for IAO to February 1, 2019.

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

[35] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 28<sup>th</sup> day of March, 2017.

  
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Roberta J. Clarke