

DECISION

**2017 NSUARB 85
M07969**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

IN THE MATTER OF AN APPLICATION by THE SOVEREIGN GENERAL INSURANCE COMPANY for approval to modify its rates and risk-classification system for private passenger vehicles

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

APPLICANT: THE SOVEREIGN GENERAL INSURANCE COMPANY

FINAL SUBMISSIONS: April 28, 2017

DECISION DATE: May 29, 2017

DECISION: Application is approved.

I INTRODUCTION

[1] The Sovereign General Insurance Company (“Sovereign” 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 private passenger vehicles on March 31, 2017.

[2] Information Requests (“IRs”) were sent to the Company on April 20, 2017, and responses were received on April 24, 2017.

[3] As a result of a review by Board staff, a staff report dated April 28, 2017 (“Staff Report”) was prepared. The Staff Report was provided to the Company and the Company responded on April 28, 2017, 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 risk-classification system is just and reasonable and in compliance with the *Insurance Act* (“Act”) and its *Regulations*.

III ANALYSIS

[6] The Company sought approval to modify its rates and risk-classification system for private passenger vehicles. The Application was made in accordance with the

Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Adopt IAO Rates* ("Rate Filing Requirements"). The Company's mandatory filing date was April 1, 2017.

[7] The proposed effective dates are August 13, 2017, for new business and September 12, 2017, for renewal business.

Rates and Risk-Classification System

[8] The Company's amended proposal is to adopt the rates and risk-classification system for IAO Actuarial Consulting Services Inc. ("IAO"), as approved by the Board in its Decision [2017 NSUARB 35], for private passenger vehicles. The adoption of these rates results in an overall, all coverages combined, rate level increase of 15.6%.

[9] 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 (12.3%); 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).

[10] The Company has written a small number of insurance contracts for individually rated private passenger vehicles under its current rates. As well, these rates are generally only available to accommodate a commercial client who might require a private passenger vehicle to be insured individually. Under these circumstances, it seems reasonable for the Company to adopt rates based upon the IAO approved rates. Therefore, criterion (i) is met.

[11] The Company reviewed the 12.3% ROE that was included in the approved IAO rates and indicates that it is comfortable with this level. A review of information in section 12 indicates that the actual ROE for the Company ranged from 5.89% to 14.02%. In this light, the 12% ROE seems appropriate for use and as such, no adjustment under (ii) above has been requested nor is necessary.

[12] Sovereign indicates that its expense ratio for the Company exceeds the provision that IAO incorporated for private passenger automobiles. Sovereign indicates that the more costly commercial business drives up the expense ratio and the Company expects its private passenger ratio would be lower. However, due to its selling of insurance through brokers, Sovereign believes its private passenger expense ratio would still be in excess of the IAO assumption. Despite the higher expense ratio, given the small size and the accommodation nature under which it proposes to write these policies, Sovereign does not wish to make any adjustment for the expense ratio as allowed under (iii).

[13] Given that it has met the three criteria noted above, Board staff support Sovereign's adoption of the IAO rates.

[14] The Board approves Sovereign's adoption of the IAO rates and differentials as approved in the 2017 NSUARB 35 Decision.

Other Changes

Discounts and Surcharges Beyond Those in IAO Risk-Classification System

[15] Sovereign offers all the IAO suggested discounts and has a number of other Board-approved discounts and surcharges. These are:

- Anti-theft discount;
- Farmer discount;
- Multi-vehicle discount;
- Other Operator Attending School Out of Town discount;
- New driver discount;
- Minor, Major and Criminal conviction surcharges; and
- Chargeable Accident surcharges.

[16] As noted, these items were all previously approved by the Board in other filings and Sovereign proposes no change to the level or eligibility requirements for them.

[17] The Board approves the continued use of these discounts and surcharges.

Territories

[18] The IAO rates only use the four statutory territories. However, Sovereign's commercial business uses five territories. In order to appropriately administer the business with minimal system changes, Sovereign proposes to continue its use of five territories for private passenger automobiles. Sovereign uses a territory 3A and 3B, which reflect statutory territory 500. For private passenger automobiles, the Company will charge the same rate in each of these two territories. This approach allows the Company to implement the IAO rates as approved by the Board for these territories while allowing it to fit the current system.

[19] The Board approves the continuation of this approach.

Facility Association Table A

[20] In its last application, Sovereign was approved to continue the use of the Facility Association Table A as a "by value" rate group table to be used when the CLEAR table does not include a vehicle or when the rating group of the vehicle is shown in the

Vehicles Rate group table as 'A'. This table assigns a rating group based upon the value of the vehicle. Sovereign proposes again to continue the use of this table.

[21] The Board approves the continued use of this table.

Dependent Vehicles

[22] Sovereign indicates there are some vehicle types for which the rating algorithm is dependent upon the private passenger rates. The relationship to private passenger rates is not changing in this application. The Board approves the continued use of the relationships between the dependent vehicles and the private passenger vehicles, as filed.

Deductibles for Collision, Comprehensive and Specified Perils

[23] The Board, in previous decisions, approved the use of deductibles above the IAO maximum \$5,000 as well as Sovereign's proposal to use the same differential for all these deductibles.

[24] The IAO rates, which Sovereign proposes to adopt, had a new differential for the \$5,000 deductible. Sovereign proposes to adopt this differential for the \$5,000 deductible as well as for all the higher deductible levels Sovereign wishes to continue to offer.

[25] The Board approves the continued used of the higher deductibles with the proposed new differentials, as filed.

Adoption of 2017 Canadian Loss Experience Automobile Rating ("CLEAR") Table

[26] After the information request process was completed, Sovereign revised its proposal to adopt the most recent approved rates for IAO (i.e. 2017 NSUARB 35). This Application included the proposed adoption of the 2017 CLEAR table. Sovereign currently uses the 2015 version of this table to assign rate groups where needed.

[27] Because the IAO rates were developed assuming the use of the 2017 CLEAR table, Sovereign is able to adopt those rates without off-balancing the impact of the change to the new table.

[28] The Board approves the proposed adoption of the 2017 CLEAR table, as filed.

IV FINDINGS

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

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

[31] The Board is satisfied the Company's proposal to adopt the current IAO rates and risk-classification system for private passenger vehicles, with no adjustment, is just and reasonable and approves the Application.

[32] Given that the current IAO rates and risk-classification system included the required actuarial analysis prior to approval, the Board finds the Application qualifies to

reset the new mandatory filing deadline for private passenger vehicles for the Company to April 1, 2019.

[33] The Board approves the effective dates of August 13, 2017, for new business and September 12, 2017, for renewal business.

[34] 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.

[35] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 29th day of May, 2017.



Murray E. Doehler