DECISION

2017 NSUARB 156
M08153

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **THE PERSONAL INSURANCE COMPANY** for approval to modify its rates for private passenger vehicles

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

APPLICANT: **THE PERSONAL INSURANCE COMPANY**

FINAL SUBMISSIONS: September 7, 2017

DECISION DATE: **September 29, 2017**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Personal Insurance Company ("TPIC" or "Company") filed supporting documents and materials (Application) with the Nova Scotia Utility and Review Board (Board) for approval to modify its rates for private passenger vehicles. The Application, dated June 30, 2017, was filed on July 4, 2017.

[2] Information Requests (IRs) were sent to the Company on July 25, and August 2, 2017, and responses were received on August 2 and 9, 2017.

[3] As a result of a review by Board staff, a staff report dated August 9, 2017 (Staff Report), was prepared. The Staff Report was provided to the Company for review on the same day. The Company responded on August 15, 2017, indicating that it had reviewed the Staff Report and had two suggested corrections and identified an area that had not been addressed in the original report. Additional IRs were sent on August 29, 2017, and responses were received on September 6, 2017. The second staff report dated September 7, 2017, was sent to the company on the same day. On September 7, 2017, TPIC indicated it had reviewed the second staff report and had no more 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 are just and reasonable and in compliance with the *Insurance Act* (*Act)* and its *Regulations*.

III ANALYSIS

[6] The Company sought approval to change its rates for private passenger vehicles. The Application was made in accordance with the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements)*. The Company's mandatory filing date was July 1, 2017, however, due to the Canada Day Holiday, the Board changed it to the next business day being July 4, 2017.

[7] The proposed effective dates are January 8, 2018, for new business and March 10, 2018, for renewal business.

Rate Level Changes

[8] The Company proposed changes to its base rates that are uniform by territory. The proposed change represents an overall rate level increase of 14.5%, which is less than indicated.

[9] In considering the Company's Application, Board staff reviewed all aspects of the ratemaking procedure, including the following:

- Loss trends and the effects of reform;
- Loss development factors;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Number of years for which loss trend is projected;
- Experience period and weights;
- Credibility standards, procedure and complement of credibility;
- Premium to surplus leverage ratio; and
- Target and proposed Return on Equity.

[10] The only issue that arose surrounding the TPIC analysis that warrants further discussion is the expense provision, specifically the treatment of the Health Services Levy. The information request process successfully resolved all other issues.

Expense Provision

[11] In the calculation of indicated rate level change, TPIC included a provision for the Health Services Levy. The value used was $23.35. Earlier this year the Superintendent of Insurance released a bulletin that set the 2017 level for this Levy at $33.09. The large increase was a result of an actuarial study undertaken for the first time in 15 years. The Health Services Levy is paid by all the insurance companies.

[12] When asked why the 2017 value for the Levy was not used, the Company revised its indications to reflect the 2017 value. The change resulted in the overall indications increasing. A change in the calculation of the indications was also made so that only the variable expense loadings would apply to the Levy.

[13] Board staff support the use of the Company's indications using the new Health Services Levy and the method of its calculation.

[14] The Board accepts the revised indications.

Comparison of Proposed Rates to Recommended (Staff) Indications

[15] TPIC proposed changes, by coverage, that were lower than the indicated changes.

[16] Where TPIC proposed changes, they are all in the direction of the indications, but the percentage amount is less than indicated. For Bodily Injury and

Property Damage-Tort, TPIC proposed no change, even though the indications were for increases.

[17] While the proposed overall increase is less than half the indicated change, TPIC believes the proposal provides a reasonable balance between responsiveness and stability. The smaller than indicated increases will allow the Company to address its experience while not subjecting the clients to larger increases, making them more palatable.

[18] The proposed changes produce a return on equity of -5.7%. This result is clearly outside the Board range of reasonability of 10-12%. TPIC believes the proposal is appropriate and balanced as described earlier. As well, TPIC states it will be taking a more segmented look at the Nova Scotia risk exposures in the next 12 months.

[19] Board staff state that the Company has provided sufficient support for its proposal. The Board approves the TPIC proposal, as filed in the revised Application.

Other Proposed Changes

Territorial Differentials

[20] The Company established its current territories and differentials in its 2011 filing after conducting an analysis of the loss claim experience in each of its territories using a Generalized Linear Model approach. For this filing, as it did in the last filing, TPIC provided a comparison of the pure premium relativities developed from a one-way analysis to those from the 2011 filing. This analysis revealed that the patterns remained consistent although some coverages may be experiencing a changing cost environment.

[21] TPIC proposed to make no change to the territorial differentials, nor does it propose any changes to the territories. The Company will, however, review the territorial differentials in more detail, as it conducts its segmentation review in the next twelve months.

[22] Board staff support the Company's proposal for no change to the territorial differentials and the Board approves it.

Premium Dislocation Cap

[23] TPIC applies a premium dislocation cap, that automatically limits premium increases to 10% on any individual risk. The Company proposes to increase this cap to 15%. Because the proposed increase is, on average, 14.5%, this change will allow for more of the proposed increases in this Application to be implemented. TPIC stated that without the change, almost all of the insurance contracts would be capped. The new level lowers the number to be capped to a smaller fraction of the total.

[24] TPIC also outlined the circumstances where the cap would no longer apply. The removal of the cap under these circumstances could result in higher increases for certain individuals which may lead to consumer complaints to the Superintendent of Insurance.

[25] Board staff consider that it is in the best interests of all involved to remove the cap in a more efficient or quicker manner to avoid a large future rate increase. This is supported by discussions on the issue that have occurred at various rate regulators meetings. The increase to 15% is a move in this direction.

[26] The Board approves the proposed change in the premium dislocation cap, as filed.

Rate Manual Review

[27] The Company made changes to the Rate Manual to implement the base rate changes proposed in the Application. TPIC also proposed some changes to the naming of certain endorsements to conform with recent regulatory changes and to reflect provincial differences.

[28] Board staff have reviewed the Rate Manual on file and found no instances where the Company is in violation of the *Regulations*.

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 155I(1)(c) of the *Act,* that the proposed changes are unlikely to impair the solvency of the Company.

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

[32] The Application included full actuarial indications and the required territorial analysis; therefore, it qualifies to set the new mandatory filing date for private passenger vehicles for the Company to July 2, 2019.

[33] The Board approves the effective dates of January 8, 2018, for new business and March 10, 2018, 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 September, 2017.

Murray E. Doehler