

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 miscellaneous vehicles



BEFORE: Peter W. Gurnham, Q.C., Chair

APPLICANT: **THE SOVEREIGN GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: December 14, 2017

DECISION DATE: **January 8, 2018**

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 miscellaneous vehicles. The Application was dated and filed on December 1, 2017.

[2] An initial review of the Application was done by Board staff and it was determined no additional information was required.

[3] As a result of a review by Board staff, a staff report dated December 14, 2017 (Staff Report) was prepared. The Staff Report was provided to the Company for review on December 14, 2017, and the Company responded on the same date, indicating that it 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 miscellaneous 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 December 1, 2017.

[7] The proposed effective dates are May 1, 2018, for new business and June 1, 2018, for renewal business.

[8] Sovereign also proposed the continued use of a \$10 million liability limit for all-terrain vehicles, motorcycles, mopeds and snow vehicles and determined a new differential for that level. The Company also proposed the continued use of its extension of the rate group table for snow vehicles and all-terrain vehicles. Finally, Sovereign proposed the continued use of factors applied to the Direct Compensation Property Damage rates for private passenger vehicles to determine rates for this coverage, for ambulances and taxis.

Rates and Risk-Classification System

[9] The Company proposed 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 45] for miscellaneous vehicles.

[10] 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 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.

[11] The Company has written a small amount of premiums for individually rated vehicles in these classes under its current rates. Sovereign generally only makes these rates available to accommodate a commercial client who might require such a 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.

[12] In previous filings, the Company viewed the 12% ROE in the IAO rates as reasonable considering the Company's automobile exposure in Nova Scotia. Sovereign proposed no adjustment under (ii) above, consistent with those prior applications. Board staff advised this approach seems reasonable in the circumstances.

[13] The Sovereign expense ratio, from its financial information, is higher than that used by IAO in its recent application. As it did with previous filings, the Company proposed no change to reflect this difference as allowed under (iii).

[14] Board staff believe that Sovereign provided adequate support for both its decision to use IAO rates and to make no adjustments for differences in ROE and expenses and recommended approval.

[15] The Board approves the proposed use of IAO rates as filed.

Additions to the IAO Rates and Risk-Classification System

Bodily Injury and SEF#44 Liability Limits

[16] The IAO liability limits for Bodily Injury and SEF#44 do not include a limit of \$10 million. Sovereign wants to keep this limit available to its commercial clients seeking

to insure a miscellaneous vehicle because commercial clients would see this level available on commercial vehicles.

[17] Sovereign proposed a new differential extrapolated from the approved IAO differentials based upon the marginal increase in those differentials. Sovereign used this approach in the last miscellaneous vehicle application, which the Board approved. Board staff believe Sovereign justified both the continued need for the higher limit and the proposed differential and recommended that the Board approve the higher limit and the proposed differential, as filed.

Extension of Rate Group Tables – Snow Vehicles and All-terrain Vehicles

[18] To write higher value vehicles, Sovereign received Board approval to extend the rate group table provided by IAO from \$13,000 to \$25,000 in prior filings. The increase in rate group (one rate group for every \$500 for snow vehicles and one rate group for every \$1,500 for all-terrain vehicles) replicates the rate group advancement methodology from the end of the current IAO table. Sovereign proposed the continued use of the extended table and the approved differentials. Board staff recommended that the Board approve the proposal, as filed.

Ambulance and Taxi Direct Compensation Property Damage Rates

[19] IAO does not provide rates for Direct Compensation Property Damage for taxis or ambulances. The Board approved, in a prior application, Sovereign's proposal to use an approach like that used by IAO to assign rates for Collision and Comprehensive. To determine taxi rates for these coverages, IAO multiplies the Class 07 private

passenger vehicle rates by a factor. This factor reflects the extra exposure faced by taxis that drive significantly more miles than the average Class 07 vehicle. Similarly, to determine ambulance rates for these coverages, IAO multiplies the Class 07 private passenger rates by a factor.

[20] Board staff recommended that the Board approve the continued use of these factors, as filed.

Effective Date

[21] Sovereign proposed an effective date of May 1, 2018, for new business, and June 1, 2018, for renewals. These dates seem reasonable, and Board Staff recommended that the Board approve them.

IV FINDINGS

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

[23] 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.

[24] The Board is satisfied the Company's proposal to adopt the current IAO rates and risk-classification system for miscellaneous vehicles with no adjustment for ROE or expense differences, is just and reasonable and approves the Application. The Board also approves additions to the IAO rate class and risk-classification system as requested by Sovereign.

[25] 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 set the new mandatory filing deadline for miscellaneous vehicles for the Company to December 1, 2020.

[26] The Board approves the effective date of May 1, 2018, for new business and June 1, 2018, for renewal business.

[27] The Company is required to file an electronic version of its updated Automobile Insurance Manual within 30 days of the issuance of the Order in this matter.

[28] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 8th day of January, 2018.



Peter W. Gurnham