DECISION **2018 NSUARB 58**
M08525

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 commercial vehicles and interurban trucks

BEFORE: David J. Almon, LL.B., Member

APPLICANT: **THE SOVEREIGN GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: March 9, 2018

DECISION DATE: **March 23, 2018**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Sovereign General Insurance Company (Sovereign) 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 commercial vehicles (CV) and interurban trucks (IUT). The Application was filed electronically on February 1, 2018, and the original documents were received on February 5, 2018.

[2] Information Requests (IRs) were sent to the Company on February 14 and February 26, 2018. Responses were received on February 23 and March 5, 2018.

[3] As a result of a review by Board staff, a staff report dated March 8, 2018 (Staff Report) was prepared. The Staff Report was provided to the Company for review on the same date. In an email dated March 9, 2018, the Company responded, and other than identifying a typographical error, it indicated that it had no additional 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] Sovereign sought approval to change its rates and its risk-classification system for CV and IUT. Their Application was made in accordance with the Board's *Rate*

Filing Requirements for Automobile Insurance – Section 155G Prior Approval (*Rate Filing Requirements*). Their mandatory filing date was February 1, 2018.

[7] The Application included full actuarial indications and the required analysis of territorial differentials to allow it to qualify to reset the mandatory filing deadline. Board staff recommends the Board reset the mandatory filing deadline for these vehicles to February 1, 2021.

[8] Sovereign proposed the effective dates of July 1, 2018, for new business and July 31, 2018, for renewal business.

Rate Level Changes

[9] Sovereign proposes changes to its base rates that are uniform by territory. The changes for CV result in a proposed overall rate level increase of 0.2%, which compares to the indicated overall reduction of 0.5%.

[10] The changes for IUT result in a proposed reduction of 5.0% which compares to the indicated reduction of 2.2%.

[11] When the CV and IUT are combined, the proposed rate change is an overall reduction of 1.0% which compares to the overall indicated reduction of 0.9%.

[12] Sovereign will also adopt November 2017 Commercial Rate Group Tables I and IIA, published by IAO Actuarial Consulting Services Inc. (IAO) to assign rate groups for physical damage coverages. Sovereign also proposed changes to two endorsements.

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

- Loss trends and the effects of reforms (used Board's consulting actuary trends);
- Loss development;

- Credibility standards and procedure;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses (ULAE);
- Experience period and weights;
- Premium to surplus leverage ratio; and
- Target and proposed Return on Equity (ROE).

[14] Board staff advise that the only issue arising as a result of its review of the Sovereign analysis of its rate level needs is the profit provision, specifically ROE. All other issues identified during a review by Board staff were resolved through the IR process.

Profit Provision

[15] Sovereign uses a target ROE of 12% and a premium to surplus ratio of 2.05:1 in its indications. Coupled with the assumption for investment return on surplus, these assumptions produce a profit provision of 5.6% of premium.

[16] The Board, concerned over the level of profit observed for the whole industry, as evidenced by the 2012 and 2013 Financial Information Reports produced by the General Insurance Statistical Agency (GISA) despite its approving of ROEs around 12%, ordered some companies to lower the target ROE to 10%.

[17] The 2014 to 2016 version of these reports show negative ROEs for the industry for private passenger vehicles. The Board believes this results from many companies taking less than the full indicated rate changes, coupled with some deteriorating experience, including that related to inclement weather at the start of 2015, rather than from the Board forcing companies to the lower end of its profit range. As such, the Board continues to require the 10% ROE for companies unless they can demonstrate why they are different from the industry.

[18] Sovereign provided indications, for CV and IUT combined, using a 10% ROE. The result was an indicated decrease of 2.7% (down 1.8% from the original indication of -0.9%).

[19] The financial information, provided in Section 12 of the Application, shows that, apart from 2012 and 2016, the ROEs earned by the Company were well below 10%. The 2012 and 2016 values were about 14%. This highlights a certain volatility. The Nova Scotia automobile loss ratios show similar volatility. The Nova Scotia results appear to be worse than the whole of Canada for automobile insurance.

[20] In this light, Board staff believes that Sovereign experienced different profit results than the rest of the industry. Board staff recommends, and the Board allows, Sovereign to use 12% ROE, as filed, when performing its calculations of indicated rate level needs.

Comparison of Proposed Rates to Indications

[21] Based upon the recommendation regarding the profit provision, the Staff Indications, which is the target against which the Sovereign proposal should be assessed for reasonableness, would be the Sovereign indications with no changes.

[22] Board staff notes that the indicated changes by coverage are the same for CV and IUT because Sovereign developed the indications for the combined books of business. The overall indicated changes differ between the CV and IUT books as the premium weights are different.

[23] Sovereign explained the different proposals for IUT and CV was a business decision. IAO proposed larger increases for CV than IUT over the past three years. As well, when Sovereign compared its rates to those of IAO, the differences were larger for

IUT. The Company states that its larger decrease for IUT and, essentially, no change for CV results in an overall decrease close to the combined indications.

[24] For the combined books of CV and IUT, the proposed ROE (11.9%) compares closely to the 12% target and is within the Board range.

[25] Board staff believes that Sovereign has provided sufficient support for its proposed changes and recommends the Board approve the proposed changes to base rates, as filed, for both types of vehicles. The Board approves the proposed changes.

Other Proposed Changes

Territorial Differentials

[26] Sovereign has base rates that vary by territory. Sovereign did not propose any changes to the relationship between the territorial base rates in this Application. That is, the territorial differentials will not change under the proposal.

[27] A mandatory filing requires an analysis of territorial rates or differentials, if the Company rates by territory, to qualify to reset the deadline. Through the IR process, Sovereign provided information on loss experience (i.e., ratios) for its territories for all coverages combined and for the physical damage coverages, Third Party Liability Components, and for Accident Benefits (including Uninsured Automobile and SEF#44).

[28] The data shows that Sovereign had very few claims and the resulting loss ratios are somewhat volatile. The data appears to support the Company's decision to leave the relationship among the territories unchanged.

[29] Board staff recommends the Board approve the proposal for no changes to the territorial differentials. The Board approves the differentials, as filed.

Modification of Commercial Rate Group Tables

[30] Sovereign currently uses a version of the IAO Commercial Rate Group tables to assign rate groups for physical damage coverages. The Company proposed the adoption of the November 2017 version of the tables. Sovereign off-balanced the impact of the change through the base rates.

[31] Board staff recommends the Board approve the proposed adoption of the November 2017 Commercial Rate Group Tables I & IIA published by IAO, and the proposed off-balancing of the impact. The Board approves the changes, as filed.

Endorsement Changes

[32] Sovereign proposes changes to two of its endorsements, namely NSEF#20 and NSEF#27:

NSEF#20 Loss of Use Endorsement

[33] This endorsement provides coverage of certain expenses, up to a daily limit, if the use of the insured vehicles is lost as a result of any covered peril. The premium is determined, based upon the level of daily coverage provided, with the premium increasing as the daily limit on expenses increases.

[34] The current approach uses flat dollar limits for classes 33, 35 and 36. For other classes, limits are set percentages of the amount of insurance (namely 10%, 5% and 2.5%). Premiums increase as this percentage increases, and as the amount of insurance increases.

[35] Sovereign proposed a move to a flat dollar amount for each daily limit for all vehicles. The premium for each level varies with the weight of the vehicles. Light

commercial vehicles (up to 4500 kg) pay a lower premium than heavier vehicles (4500 kg+) at each daily limit. As expected, the premium increases as the daily limit increases.

[36] Sovereign estimated the change, for the vehicles that carry the endorsement, would be a reduction of 6.6% in the endorsement premiums.

[37] Board staff recommends and the Board approves the proposed changes to NSEF#20, as filed.

NSEF#27 Legal Liability for Damage to Non-Owned Automobile Coverage

[38] This endorsement provides physical damage coverage when an insured is using a non-owned automobile and damage is caused. The premium is based upon the limit purchased per vehicle with the premium increasing as the limit rises.

[39] The proposal adds a premium for incidental exposure when a non-owned vehicle is used for less than five days per year. The proposed premium varies with the coverage limit purchased, and so does the applicable deductible.

[40] Board staff recommends and the Board approves the proposed change to NSEF#27, as filed.

Automobile Insurance Manual Review

[41] Apart from those changes required to implement the proposed revisions to rates and endorsements, Sovereign is not making any other changes to its automobile insurance manual.

[42] Board staff reviewed the manual on file and found no areas where Sovereign appears to be in violation of the *Regulations*.

IV FINDINGS

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

[44] The Board accepts the Staff Indications, which equal the Sovereign indications, as the appropriate target against which to judge the reasonableness of the proposed rates.

[45] The Board approves the proposed changes to base rates for CV and IUT, as filed.

[46] The Board approves the proposal to leave territorial differentials unchanged, as filed.

[47] The Board approves the proposed adoption of the November 2017 IAO Commercial Rate Group Tables (Table I & IIA), and the associated off-balancing of the impact, as filed.

[48] The Board approves the proposed changes to endorsements NSEF#20 and NSEF#27, as filed.

[49] 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.

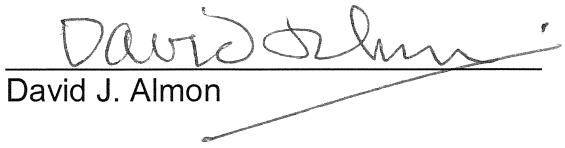
[50] The Board approves the effective dates of July 1, 2018, for new business and July 31, 2018, for renewal business.

[51] The mandatory filing date is reset to February 1, 2021, for CV and IUT.

[52] 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.

[53] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 23rd day of March, 2018.



David J. Almon