

**DECISION**

**2018 NSUARB 75  
M08582**

**NOVA SCOTIA UTILITY AND REVIEW BOARD**



**IN THE MATTER OF THE INSURANCE ACT**

**- and -**

**IN THE MATTER OF AN APPLICATION** by **ELITE INSURANCE COMPANY** for approval to modify its rates and risk-classification system for motorhomes

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

**APPLICANT:** **ELITE INSURANCE COMPANY**

**FINAL SUBMISSIONS:** April 9, 2018

**DECISION DATE:** **April 16, 2018**

**DECISION:** **Application is approved.**

## I INTRODUCTION

[1] Elite Insurance Company (Elite 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 motorhomes. The Application, dated March 9, 2018, was filed electronically on that date, and the original documents were received on March 20, 2018.

[2] Information Requests (IRs) were sent to the Company on April 4, 2018, and responses were received on April 6, 2018.

[3] As a result of a review by Board staff, a staff report dated April 6, 2018 (Staff Report), was prepared. The Staff Report was provided to the Company for review on April 6, 2018. The Company responded on April 9, 2018, 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] The Company sought approval to change its rates for motorhomes. 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 December 1, 2017; however, the Board granted an extension to March 16, 2018.

[7] The proposed effective date of May 1, 2018, was revised to June 1, 2018, for new business. The proposed effective date of July 1, 2018, for renewal business was not changed.

### **Rate Level Changes**

[8] The Company proposed to change its rates. The proposed change represents an overall rate level increase of 8.9%.

[9] The indications filed in the Application were for an overall increase which was more than double the proposed increase.

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

- Loss trends and the impacts of reform;
- Loss development;
- Premium (rate group drift) trends;
- Credibility standards and procedure;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Experience period and weights;
- Investment returns;
- Premium to surplus leverage ratio; and
- Target and proposed return on equity (ROE).

[11] Board staff stated that during the IR process, all identified concerns were resolved satisfactorily, except for the profit provision, and specifically the target ROE, where the Board might consider the use of alternate assumptions.

## **Return on Equity**

[12] The Company used a target ROE of 12% in its indications, which, combined with a 2:1 premium to surplus ratio and its selected investment return on surplus would yield a profit provision of 7.9% of premium. This target ROE is at the top end of the range (10-12%) which the Board, in many previous decisions, considered reasonable.

[13] Because of concerns about industry profits being greater than what had been approved in applications before the Board, based on the 2012 and 2013 General Insurance Statistical Agency (GISA) Financial Information Reports, the Board has required some companies to reduce their ROE to 10%. The 2014-2016 GISA Financial Information Reports show negative ROE for industry. The Board has concluded that this was more likely a result of companies choosing not to seek approval for their fully indicated rate changes rather than its requiring the use of a 10% ROE. The Board also considered that inclement weather in early 2015 may have contributed to the deteriorating industry experience. Therefore, the Board continues to require the use of 10% ROE, unless a company can demonstrate that its experience is different from industry.

[14] Elite is a sister company of Aviva Insurance Company of Canada and Traders General Insurance Company. In recent Board decisions, both sister companies were required to use a 10% ROE. In response to Board IR-1, Q. 2, Elite submitted it should be treated differently because it caters to a "niche market". The Board understands that Elite provides coverage for speciality insurance products, such as recreational vehicles, including motorhomes.

[15] In its last motorhome application, Elite was permitted to use a higher target ROE and a higher premium to surplus ratio, which would result in a 10% ROE using a 2:1

premium to surplus ratio. In Elite's most recent private passenger vehicle and motorcycle applications, the Board permitted the use of an ROE greater than 10%.

[16] In response to IRs, Elite provided indications using a 10% ROE, and the overall increase was just under 1% less than the indications used in the Application. Board staff report that the change in premium for the 10% ROE would be small. As a result, Board staff recommended that Elite should be permitted to use the 12% ROE in its indications against which the Board should assess the reasonableness of the proposed changes. The Board accepts this recommendation.

[17] Consequently, the Elite indications are the same as the Staff indications. Elite's proposed changes are all directionally the same as the indications, but result in overall changes that are less than one-half of the indications. The greatest differences are for Property Damage-Tort, Direct Compensation Property Damage, Uninsured Automobile, and All Perils coverages. The proposed changes result in an ROE that is very significantly lower than Elite's target, as well as the Board's range.

[18] The Company stated in response to IR-1, Q.7:

The deviation from the indicated rate changes are there to avoid big swings in premium rates for our existing customers. The proposed rate changes also take into considerations our business strategy for the province.

[19] The Board is generally concerned when companies choose to seek approval for rates that are much less than indicated; however, in the particular circumstances of this Application, and considering the nature of the Elite market, it accepts the recommendation of Board staff to approve the proposed changes. While the Board considers it is reasonable to gradually move toward the higher indicated rates, it cautions the Company to be mindful of the Board's concerns in its next motorhome application.

### **Territorial Differentials**

[20] Elite does not rate motorhomes by territory. Therefore, no territorial analysis was required.

### **Automobile Insurance Manual Review**

[21] Board staff reviewed the Manual on file and questioned Elite regarding a concern that some coverage declination rules may violate *Regulations*. In response, Elite removed the rules. Board staff found no other instances where the Company appears to be in violation of the *Regulations*.

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

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

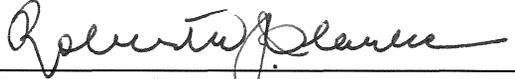
[25] The Application included full actuarial indications; therefore, it qualifies to set the new mandatory filing date for motorhomes for the Company to March 1, 2021.

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

[27] 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.

[28] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 16<sup>th</sup> day of April, 2018.

  
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Roberta J. Clarke