

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

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- and -

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

BEFORE: Jennifer L. Nicholson, CPA, CA, Member

APPLICANT: **FEDERATED INSURANCE COMPANY OF CANADA**

FINAL SUBMISSIONS: August 28, 2018

DECISION DATE: **September 24, 2018**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Federated Insurance Company of Canada (Federated 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. The Application, dated July 13, 2018, was filed electronically on the same day. On July 30, 2018, the Company submitted an amended filing to replace the original.

[2] Information Requests (IRs) were sent to the Company on August 8, 2018, and responses were received on August 14, 2018. Additional IRs were issued on August 23, 2018, to which the Company responded on the same day.

[3] As a result of a review by Board staff, a staff report dated August 28, 2018 (Staff Report), was prepared. The Staff Report was provided to the Company for review on the same date. The Company responded on August 28, 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 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 July 1, 2018, but the Board approved an extension to July 13, 2018.

[7] The proposed effective date is November 15, 2018 for new and renewal business.

Use of IAO Rates and Risk-Classification System

[8] The Company proposed to adopt the rates and risk-classification system that was recently approved by the Board for IAO Actuarial Consulting Services Inc. (IAO) for private passenger vehicles (2018 NSUARB 69). IAO provides consulting services to the insurance industry, including recommendations on rates to be used by insurers who subscribe to their services. In June 2010, the Board advised IAO that it would treat IAO's applications as if they were made by an insurer or rating bureau, and issue an order approving, rejecting or altering the recommended rates proposed by IAO to levels that the Board determines to be just and reasonable.

[9] An insurer intending to adopt approved IAO rates may apply to the Board without the necessity of filing an actuarial basis for the rates if it can satisfy the Board that those rates are appropriate for use by the insurer. An insurer filing such an application may seek an adjustment for differences arising from a lower proposed return on equity

than that approved for IAO and for differences arising from the insurer's expense ratio, relative to that approved for IAO by the Board.

[10] The Company submitted that it was appropriate to use Board approved IAO rates because it does not have sufficient volume to justify its own class or differential analysis. The Company made no adjustments for return on equity or expense differences, as allowed. The Company proposed to reduce IAO's differentials for commercial policy holders with class 07 vehicles (vehicles with business use) by 5% to help manage dislocations for this class.

[11] Board staff recommend approval of this change and the Board agrees.

Canadian Loss Experience Automobile Rating (CLEAR) Table

[12] To assign rate groups for physical damage coverage and for Accident Benefits, the Company uses the 2017 CLEAR (Canada, Collision, DCPC and Comprehensive Separated, for Alberta and Atlantic Canada) table and proposes to adopt the 2018 version of this table that the Board approved for use in February 2018.

[13] Board staff recommend this adoption and the Board agrees.

Automobile Insurance Manual

[14] Board staff have reviewed the Automobile Insurance Manual on file and found no instances where the Company is in violation of the *Regulations*. The Company proposed no changes to its Automobile Insurance Manual other than those necessary to reflect the changes noted in this Decision.

IV FINDINGS

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

[16] 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.

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

[18] 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 date for private passenger vehicles for the Company to July 1, 2020.

[19] The Board approves the reduced class 07 differentials, as filed.

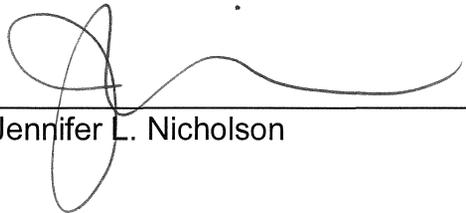
[20] The Board approves the adoption of the 2018 CLEAR table, as filed.

[21] The Board approves the effective date of November 15, 2018, for both new and renewal business.

[22] 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.

[23] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 24th day of September, 2018.



Jennifer L. Nicholson