

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

IN THE MATTER OF AN APPLICATION by **CO-OPERATORS GENERAL INSURANCE COMPANY** for approval to modify its rates and risk classification system for commercial vehicles

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

APPLICANT: **CO-OPERATORS GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: December 5, 2018

DECISION DATE: **January 10, 2019**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Co-operators General Insurance Company (CGIC 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 commercial vehicles. The Application, dated November 13, 2018, was filed on November 14, 2018.

[2] Information Requests (IRs) were sent to the Company on November 22, 2018, and responses were received on December 4, 2018.

[3] As a result of a review by Board staff, a staff report dated December 4, 2018 (Staff Report) was prepared. The Staff Report was provided to the Company for review on December 4, 2018. The Company responded on December 5, 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 commercial 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 January 1, 2019. Board staff recommend resetting the mandatory filing deadline to November 1, 2021.

[7] The proposed effective dates are April 10, 2019, for new business and May 10, 2019, for renewal business.

Rate Level Changes

[8] The Company's proposed changes to its rates and risk classification system represents an overall rate level increase of 1.6% which is marginally lower than the staff indications.

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

- Loss trends (uses Oliver Wyman (OW) selections December 2017 based report);
- Effects of Reform (Minor injury cap in 2010 and AB reform in 2012);
- Loss development;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Experience period and weights;
- Credibility standards, procedures, and the complement of credibility;
- Premium to surplus leverage ratio; and
- Target and proposed Return on Equity (ROE).

[10] The only issue warranting further discussion is the profit provision.

Profit Provision

[11] CGIC uses a target ROE of 12% and a premium to surplus ratio of 2.05:1 in its indications. The ROE assumption is consistent with the last application for

commercial vehicles which was made in January 2016. The premium to surplus ratio has increased from the 1.85:1 that was used in that filing. When considered with the assumption for investment return on surplus, this application produces a profit provision of 5.6% of premium which is lower than the level the Board approved in the Company's last commercial vehicle filing.

[12] The Board typically requires companies to limit their target ROE to 10% unless they can demonstrate that their results differ from the broader market. CGIC provided financial information in support of its selection of a ROE above the 10% level the Board has required other companies to use. Based on this information, the Board accepts the use of the higher level for CGIC. The Board also acknowledges that the proposal is for an overall change which is less than the indicated change and will produce a ROE below the CGIC target.

[13] Board staff recommend approving CGIC's rates as filed and the Board agrees.

Vehicle Rate Group Table

[14] CGIC currently uses the August 2017 Commercial Rate Group Tables (Table I and Table II) developed for use by IAO Actuarial Consulting Service Inc. (IAO). In this application, CGIC proposes to move to the July 2018 Commercial Rate Group Tables (Table I and Table II) published by IAO. The Company proposes to off-balance the impact of the change in tables to make the change revenue neutral.

[15] Board staff recommend approving the proposed adoption of the 2018 tables and the Board agrees.

Dependent Vehicles

[16] CGIC insures a small number of private buses. The rates for these vehicles depend on the rates for commercial vehicles. This rate increase results in an average 3.9% rate increase for private buses.

Automobile Insurance Manual

[17] Board staff have reviewed the Automobile Insurance Manual on file and found no instances where the Company is in violation of the *Regulations*. Because only rates and rate group tables are changing, the Board does not require CGIC to file an updated Automobile Insurance Manual in response to this decision.

FINDINGS

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

[19] 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.

[20] The Board finds the proposed rates are just and reasonable and approves them.

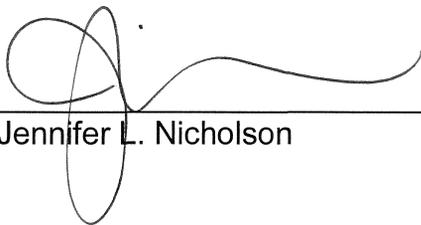
[21] The Board approves the adoption of the July 2018 Commercial Rate Group Tables (Table I and Table II) produced by IAO to assign vehicle rate groups as filed.

[22] The Application included full actuarial indications. Therefore, it qualifies to set the new mandatory filing date for commercial vehicles for the Company to November 1, 2021.

[23] The Board approves the effective dates of April 10, 2019, for new business and May 10, 2019, for renewal business.

[24] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 10th day of January, 2019.



Jennifer L. Nicholson