

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

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

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

APPLICANT: **ROYAL & SUN ALLIANCE INSURANCE COMPANY OF CANADA**

FINAL SUBMISSIONS: March 28, 2019

DECISION DATE: **April 5, 2019**

DECISION: **Application is approved**

I INTRODUCTION

[1] Royal & Sun Alliance Insurance Company of Canada (RSA) applied to the Nova Scotia Utility and Review Board for approval of its rates and risk-classification system for private passenger vehicles.

[2] RSA applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. RSA proposed changes to its rates which would result in an overall all-coverages increase of 15.2%. RSA's mandatory filing date was March 1, 2019. The proposed effective dates are May 1, 2019, for new business and June 1, 2019, for renewal business.

[3] After reviewing the application, Board staff asked for, and obtained, responses to Information Requests (IRs) from RSA. Due to a correction about its expenses, RSA amended its application. Board staff then prepared a staff report (Staff Report) which was provided to RSA for review. In response, RSA accepted a Board staff recommendation to reduce the minimum deductible requirement in the specific circumstances identified.

[4] The Board did not deem it necessary to hold an oral hearing on the Application. The Board finds that the proposed rates and risk-classification system are just and reasonable and approves the application. The Board also gives direction to RSA to amend its rules restricting certain coverages.

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 comply with the *Insurance Act (Act)* and its *Regulations*.

III ANALYSIS

Rate Level Changes

[6] RSA proposed to change its rates and risk-classification system. The proposed change represents an overall rate level increase of 15.2%. RSA based its proposal on its review of its rate level needs which suggested an increase of a few percentage points higher was required.

[7] Board staff reviewed all aspects of the ratemaking procedure, including the following:

- Loss trends and the effects of reform;
- Loss development;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Premium (rate group drift) trends;
- Credibility standards and complement of credibility;
- Experience period and weights;
- Premium to surplus ratio; and
- Profit provision and proposed and target return on equity (ROE).

[8] Board staff concluded that, except for RSA's profit provision and target ROE, any other issues identified in the review were addressed.

Return on Equity

[9] RSA calculated its rate level needs using a 12% target ROE, although it had used 10% in its last application. The higher percentage would result in a profit level which is at the high end of the range the Board considers acceptable.

[10] The Board has been concerned that insurers were earning greater profits than had been approved. The Board has, over the past several years, required

companies to use a 10% ROE, unless the Board is satisfied that the company has had different results from industry.

[11] RSA said it had used a 12% ROE in a similar application in New Brunswick. RSA also said it did not intend to be treated differently, and provided the results of its rate level needs using a 10% ROE. The result showed a slightly lower overall rate increase.

[12] Because the financial information included in the application shows that RSA has had generally better results in Nova Scotia, the Board finds that RSA should use a 10% target ROE in developing its rate level needs.

[13] Board staff adopted this approach to develop the rate level needs (staff indications) against which the Board should assess the proposed rates.

[14] The Board observes that the proposed changes are quite close to the staff indications. The proposed rates are slightly less, and would result in a lower ROE than both the range the Board considers acceptable (10-12%) and the RSA target.

[15] RSA stated that it is trying to balance its competitive position and its desire to retain customers with its profit needs. In these circumstances, the Board accepts the Board staff recommendation to approve the rates as filed.

Territorial Differentials

[16] RSA proposed no changes to its territorial differentials.

Automobile Insurance Manual

[17] Board staff reviewed the Automobile Insurance Manual on file, and found several instances where RSA appeared to be in violation of the *Regulations*. The RSA Manual included rules that restrict access to:

(a) Comprehensive, Specified Perils or All Perils Coverages when:

- a vehicle had two or more theft, vandalism or fire claims in the first three years; or
- a vehicle has three or more claims (excluding glass claims) under any of these coverages in the past three years; and

(b) Collision and All Perils coverages when:

- a vehicle has had two or more hit and run claims in the past three years.

[18] The Board understands that the Superintendent of Insurance does not consider claims under Comprehensive coverages to be at-fault accidents. A hit and run claim is also not an at-fault accident.

[19] *The Automobile Insurance Underwriting Practices Regulations* do not allow insurers to use a not at-fault accident as a reason to refuse to provide or continue coverage. In recent applications, the Board has required insurers to either remove similar rules or to use a minimum deductible to replace the restriction of access to these coverages.

[20] In the review process, Board staff asked RSA to either remove the rules or impose a minimum deductible. RSA responded by proposing a \$10,000 minimum deductible. Board staff considered that such a deductible was not appropriate, and suggested that a lower amount would be more reasonable. The larger amount could represent a large percentage of a vehicle's value, and thus be like a denial of coverage. Board staff suggested that a minimum deductible of \$2,000 would still address any concerns about fraudulent claims.

[21] In its comments on the Staff Report, RSA accepted the recommendation for the \$2,000 minimum deductible. The Board finds this approach acceptable, and directs RSA to amend its Manual to reflect this change to limit these coverages.

[22] Board staff found no other areas where RSA appears to be in violation of the *Act* or *Regulations*.

IV FINDINGS

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

[24] The financial information submitted by RSA satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair its solvency.

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

[26] The Board directs RSA to amend its Automobile Insurance Manual to replace the restriction of access to coverages with the imposition of a minimum deductible of \$2,000 in the specific examples identified.

[27] The Application included full actuarial indications; therefore, it qualifies to set the new mandatory filing date for private passenger vehicles for RSA to January 1, 2021.

[28] The Board approves the effective dates of May 1, 2019, for new business and June 1, 2019, for renewal business.

[29] The Board requires RSA to file an electronic version of its updated Automobile Insurance Manual within 30 days of the date when the Board issues its Order in this matter.

[30] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 5th day of April, 2019.



Roberta J. Clarke, Q.C.