

DECISION

**2019 NSUARB 98
M09312**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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



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

APPLICANT: CUMIS GENERAL INSURANCE COMPANY

FINAL SUBMISSIONS: July 17, 2019

DECISION DATE: July 23, 2019

DECISION: Application is approved.

I INTRODUCTION

[1] CUMIS General Insurance Company (CUMIS) applied to the Nova Scotia Utility and Review Board under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)* for approval of its rates and risk-classification system for private passenger vehicles.

[2] CUMIS proposed changes to its rates which would result in an overall all-coverage increase of 7.5%. It also proposed to adopt the 2019 version of the Canadian Loss Experience Automobile Rating (CLEAR) Table. The current mandatory filing date for CUMIS is May 1, 2020. The proposed effective dates are November 1, 2019, for new business and December 1, 2019, for renewal business.

[3] After reviewing the application, Board staff asked for, and obtained, responses to information requests from CUMIS. Board staff then prepared a staff report which was provided to CUMIS for review. CUMIS made no comments in response to the staff report.

[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, including the adoption of the 2019 CLEAR Table.

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] CUMIS proposed to change its rates and risk-classification system. The proposed change represents an overall rate level increase of 7.5%. CUMIS based the proposal on its review of its rate level needs which suggested a slightly higher increase was required.

[7] Board staff reviewed all aspects of the ratemaking procedure and concluded that, except for CUMIS's profit provision and target return on equity (ROE), all other issues identified in the review were addressed satisfactorily.

Return on Equity

[8] CUMIS calculated its rate level needs using a 12% target ROE, as permitted by the Board in the company's last application. In this application, CUMIS used a higher assumption for return on surplus assets than in its last application, resulting in a lower profit provision than it had used then.

[9] The Board has been concerned that insurers were earning greater profits than had been approved. This concern was reflected in the 2012 and 2013 General Insurance Statistical Agency (GISA) Financial Information Reports. The GISA versions of these reports for 2014-2017 show industry is earning negative rates of ROE. The Board attributes this result primarily to companies choosing to increase rates at lower percentages than their actuarial analyses indicated would be required, in addition to

deteriorating experience. 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.

[10] CUMIS said that its volume of business in Nova Scotia is relatively small, and its loss experience is quite volatile. The information provided by the company showed that its experience in Nova Scotia has generally not been good, and worse than its experience across the country.

[11] Board staff recommended that CUMIS be allowed to use a 12% target ROE to develop the rate level needs (staff indications) against which the Board should assess the proposed rates. Thus, the staff indications are the same as the CUMIS indications.

[12] CUMIS proposed smaller increases than indicated for Third Party Liability coverages, as well as for Comprehensive and Specified Perils coverages. For SEF # 44 (Family Protection Endorsement), it proposed no change although a decrease was indicated. While a change would bring the SEF # 44 premium closer to the industry average, the dollar amount is not significant. Board staff suggested that, given the lower increases for other mandatory coverages, requiring the decrease did not seem warranted.

[13] Although the indication for Uninsured Automobile coverage was for a large increase, the company chose to make no change. Board staff said that the current premium is less than the industry average, and since the indicated change would be a small dollar amount, an increase was not warranted. For all other coverages, CUMIS proposed no increases. The Board accepts the Board staff recommendation to approve the rates as filed.

Other Proposed Changes

Territorial Differentials

- [14] CUMIS proposed no changes to its territories or territorial differentials. Therefore, no territorial analysis was provided or required.

Adoption of 2019 CLEAR Table

- [15] To assign rating groups for Accident Benefits and physical damages coverages, CUMIS currently uses the 2018 CLEAR (AB Alberta & Atlantics) – Collision, DCPD, and Comprehensive Separated version. The company proposed to adopt the 2019 version of this table which the Board has already approved. CUMIS off-balanced the impact of this change to be revenue-neutral.

- [16] The Board accepts the recommendation of Board staff and approves the adoption of the 2019 CLEAR Table as proposed, and the related off-balancing.

Premium Dislocation Cap

- [17] CUMIS proposed to continue its current premium dislocation cap of +15% for increases and -5% for decreases, at the vehicle level, at renewal. The company said that most of the currently capped risks would have limited cap amounts available after the first renewal. CUMIS said that most of those risks that are not capped currently, which become subject to the cap under the proposed increase, will reach the “true premium” after the first renewal under the rates proposed in this application.

- [18] The company provided information to show that, for the negative caps, the extra premium collected does not exceed the foregone premium, which meets the Board’s requirements for negative capping.

[19] Board staff recommend approval of the continued use of the premium dislocation cap, and the Board agrees.

Automobile Insurance Manual

[20] Board staff reviewed the CUMIS Automobile Insurance Manual and found no areas where CUMIS appears to be in violation of the *Act* or *Regulations*. The company proposed no changes to its Automobile Insurance Manual, other than those required to implement the proposed rates and adoption of the 2019 CLEAR table approved in this Decision.

IV FINDINGS

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

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

[23] The Board finds the proposed rates are just and reasonable and approves them. The Board also approves the adoption of the 2019 CLEAR Table as proposed, as well as the continuation of the premium dislocation cap.

[24] The application included full actuarial indications; therefore, it qualifies to set the new mandatory filing date for private passenger vehicles for CUMIS to July 1, 2021.

[25] The Board approves the effective dates of November 1, 2019, for new business and December 1, 2019, for renewal business.

[26] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 23rd day of July, 2019.



Roberta J. Clarke
Roberta J. Clarke, Q.C.