

**DECISION**

**2020 NSUARB 7  
M09525**

**NOVA SCOTIA UTILITY AND REVIEW BOARD**

**IN THE MATTER OF THE INSURANCE ACT**



**- and -**

**IN THE MATTER OF AN APPLICATION** by **IAO ACTUARIAL CONSULTING SERVICES AON REED STENHOUSE INC.** for approval to change its rates and risk-classification system for private passenger vehicles

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

**APPLICANT:** **IAO ACTUARIAL CONSULTING SERVICES AON REED STENHOUSE INC.**

**FINAL SUBMISSIONS:** January 14, 2020

**DECISION DATE:** **January 20, 2020**

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

## I INTRODUCTION

[1] IAO Actuarial Consulting Aon Reed Stenhouse Inc. applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposed changes to its base rates that are not uniform by territory. The changes result in an overall increase of 4.7%. In addition to changes to rates, the company also asked the Board to approve changes to several of its differentials.

[2] IAO is not an insurer but provides a series of recommended rates and differentials to its subscribers. Since June 2011, the Board has permitted IAO to submit applications for recommended rates. After the Board has considered the application, a decision and order are issued in the same way as if the application were made by an insurer. Companies who wish to use IAO rates are then required to apply and satisfy the Board that the IAO rates are appropriate for adoption. The Board requires IAO to apply annually for approval of its rates.

[3] The Board must consider whether the proposed rates and risk-classification system are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*. The Board is satisfied that IAO's application meets these requirements and approves the company's proposed recommended rates and risk-classification system.

## II ANALYSIS

[4] IAO applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. Since the filing of this application, IAO received and responded to Information Requests (IRs) from Board

staff. Board staff prepared a report to the Board with recommendations on the application (Staff Report). Before providing the Staff Report to the Board, Board staff shared it with IAO. The company reviewed the report and informed Board staff that, other than noting a typographical error, it had no further comments.

[5]           Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested that the Board further review certain issues. Board staff consider that IAO satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

[6]           The Board will examine the following issues in this decision:

- Loss Trends
- Differentials
- 2020 CLEAR Tables

### **Loss Trends**

[7]           Board staff requested the Board's consulting actuaries, Oliver, Wyman Limited (Oliver Wyman) to develop assumptions for loss trends for private passenger vehicles after the General Insurance Statistical Agency released industry claims experience data through to December 2018. Oliver Wyman selects loss trends after analysing the data in several different ways. IAO selected its loss trend assumptions based on a review of industry data in Nova Scotia from 2004 to 2018. Both Oliver Wyman and IAO selected future trends that generally matched past trends, although their selections were different.

[8]           Board staff report that the IAO selected trends were within about 1% of the Oliver Wyman changes and were either the same or lower for all but Accident Benefits – Death where higher rates would result. IAO also provided indications using the Oliver

Wyman selected trends. Board staff concluded that the results were in line with the selections made by IAO. As a result, Board staff recommended that the IAO loss trends should be used by the Board in assessing the reasonableness of the proposed changes.

[9] The changes proposed by IAO matched its indications for all coverages except SEF #44 (Family Protection Endorsement) where a large decrease was indicated. IAO proposed no change because its current average premium is already significantly lower than the industry average. Board staff said that the proposal to leave the rate unchanged for SEF #44 is therefore reasonable.

[10] The Board notes that the companies which use IAO rates usually underwrite a smaller number of policies. Such companies are at a greater risk of volatility in their experience. While the Board has been requiring companies to reduce the target Return on Equity (ROE) to 10%, it has allowed the use of 12% for companies which are likely to have different experience than the industry as a whole. Choosing to leave the rate for SEF #44 unchanged results in an ROE that slightly exceeds 12% for IAO. In the circumstances, Board staff recommend that the Board not require a reduction in the target ROE and approve the proposed rate changes. The Board agrees.

### **Differentials**

[11] IAO proposed changes in many of its differentials: territory, class, driving record, deductible, and increased liability limits. IAO provided the necessary analysis and reviewed the reasonableness of the differentials. In some cases, IAO applied a 10%± cap to the change from the current differential. Board staff recommended that the proposed differentials be approved. The Board accepts the recommendation.

## **2020 CLEAR Tables**

[12] IAO analysed its proposed rates using the 2019 Canadian Loss Experience Automobile Rating (CLEAR) Table because the Board had not yet approved the 2020 version of the Table. While the Board expected to approve the 2020 Table soon, IAO chose, when asked if it wanted to reflect that version, to continue to use the 2019 CLEAR Table. IAO advised it would not impact its analysis. Therefore, Board staff concluded the use of the 2019 is reasonable, and the Board agrees.

## **III SUMMARY**

[13] The Board finds that the application follows the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

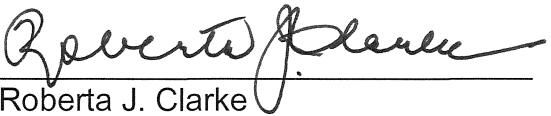
[14] The Board finds the proposed rates are just and reasonable and approves the changes. IAO is permitted to recommend the proposed rates to its subscribers as effective July 1, 2020. IAO is next required to file proposed rates for private passenger vehicles by December 31, 2020.

[15] As IAO is not an insurer, the company was not required to provide financial information in the application. When a subscriber applies to the Board to adopt the IAO rates, the Board will assess the resulting impact on the solvency of the relevant company as required under the *Act*.

[16] Board staff reviewed IAO's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. As IAO has proposed only changes to rates and differentials, filing an updated Manual is not required.

[17] An order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 20<sup>th</sup> day of January, 2020.

  
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Roberta J. Clarke