DECISION **2020 NSUARB 131**
M09869

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 change its rates for motorcycles

BEFORE: David J. Almon, LL.B., Member

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

FINAL SUBMISSIONS: October 22, 2020

DECISION DATE: **November 3, 2020**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Co-operators General Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates for motorcycles.

[2] Co-operators and its sister company, CUMIS General Insurance Company, use the same rates and risk-classification system. CUMIS will adopt the rates approved by the Board for Co-operators but with different effective dates.

[3] Board staff provided a table showing the proposed changes by coverage compared to the indicated changes.

[4] Co-operators proposed changes to base rates that varied by coverage but not territory. These changes result in an overall increase of 5.1%. The actuarial indications suggested the increase could be slightly higher.

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

II ANALYSIS

[6] Co-operators applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Co-operators 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 Co-

operators. The company reviewed the report and informed Board staff that it had no comments.

[7] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested that the Board further review the profit provision and experience weights, which are the only issues with the Co-operators' analysis of its rate level needs. Board staff consider that Co-operators satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

Profit Provision

[8] Co-operators used a target return on equity (ROE) of 12% and a premium to surplus ratio of 2.05:1 in its indications. These assumptions are consistent with the company's recent private passenger vehicle application. Coupled with the chosen investment return on surplus, these assumptions produce a profit provision of 5.6% of premium.

[9] The Board grew concerned over the level of profit observed in the industry evidenced by the 2012 and 2013 General Insurance Statistical Agency (GISA) Financial Information Reports. The high returns arose despite the Board approving a return on equity of around 12%. To address this concern, the Board ordered some companies to lower the target return on equity to 10%.

[10] The 2014 to 2019 versions of the GISA report each show a negative return on equity for the industry. The Board believes this is due to many companies not taking full indicated rate changes along with deteriorating experience. The Board does not believe this is a result of the Board forcing companies to the lower end of its profit range.

The Board continues to require a 10% target return on equity unless the company can demonstrate it differs from the industry.

[11] In recent Co-operators applications, the Board allowed Co-operators to use a 12% return on equity based on the information that Co-operators provided to demonstrate its experience was different from the industry. Board staff advised that the financial information in this filing, and additional information included in the IR process, demonstrates this pattern continues.

[12] Board staff recommends, and the Board agrees, that Co-operators continue the use of the 12% return on equity in the indications rather than replacing it with a 10% return on equity.

Experience Period Weights

[13] To account for any impact of third party-liability reform, including the introduction of DCPD, Co-operators used six years of experience data for Bodily Injury, DCPD and Property Damage-Tort. The company used ten years of data for all other coverages. Given the reform of Accident Benefits in 2012, Board staff asked Co-operators, why it chose to use ten years instead of the six used like it did for Bodily Injury.

[14] The company provided a table showing revised indications using six years for Accident Benefits which showed that the impact was small, thus not requiring need for a change in the Co-operators' indications.

[15] Based on these recommendations, Board staff recommends the Board use Co-operators indications with no changes as the target against which the company's proposal should be assessed for reasonableness.

Comparison of Proposed Rates to Indications

[16] Board staff provided a table comparing the Co-operators proposal to the Staff Indications.

[17] For all coverages, except Comprehensive, the proposed changes result in lower rates than the indicated changes would produce. The difference between indicated and proposed changes for comprehensive, however, is small. The overall proposal results in a ROE of 1.8%, which is well below the 12% allowed.

[18] Co-operators has a goal to return to rate adequacy. Given the lack of sufficient credible loss experience for this business, the indications are heavily influenced by industry data. The Company chose, therefore, to make a more gradual approach to its return to adequate rates by taking less than the indicated changes. Board staff notes, however, the proposed changes still take reasonably large steps towards the indications.

Other Observations

Territorial Analysis

[19] While the company does rate motorcycles by territory (i.e., urban vs rural), Co-operators did not propose changes to the territorial differentials. In this case, Board staff advises that the Board does not require a territorial analysis and Co-operators did not provide one.

Automobile Insurance Manual Review

[20] Because Co-operators proposed only changes to rates, as did CUMIS, no revised manual pages were in the application. Board staff reviewed the manuals on file with the Board and found no areas where either company appears to be in violation of the *Act* or its *Regulations*.

[21] Because only a rate change is proposed and the automobile insurance manual does not include rates, the Board does not require either company to provide an updated manual.

III SUMMARY

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

[23] The Board finds the proposed rates are just and reasonable, and approves the changes effective February 24, 2021, for new business and March 26, 2021, for renewal business for Co-operators.

[24] The Board also allows CUMIS to adopt the approved rates for Co-operators effective May 1, 2021, for both new business and renewals.

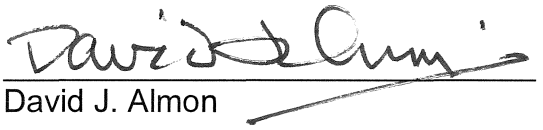
[25] The financial information supplied by Co-operators satisfies the Board, under Section 155I(1)(c) of the *Act,* that the proposed changes are unlikely to impair the solvency of the company.

[26] The application qualifies to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The new mandatory filing date for motorcycles for both Co-operators and CUMIS for is October 1, 2023.

[27] Board staff reviewed both Co-operators' and CUMIS's Automobile Insurance Manuals filed with the Board and did not find any instances where the Manuals contravened the *Act* and *Regulations*. Because the companies only propose rate changes and the Manuals do not include rates, neither company needs to file an updated Manual.

[28] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 3rd day of November 2020.



David J. Almon