

**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 CANADA INC.** for approval to change its rates and risk-classification system for miscellaneous vehicles

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

**APPLICANT:** **IAO ACTUARIAL CONSULTING SERVICES AON CANADA INC.**

**FINAL SUBMISSIONS:** June 10, 2021

**DECISION DATE:** **July 15, 2021**

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

## I INTRODUCTION

[1] IAO Actuarial Consulting Services Aon Canada Inc. applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for miscellaneous vehicles. The company proposed rate changes that vary by coverage and result in overall changes of:

- a. Motorcycles +2.1%
- b. All-terrain vehicles +6.3%
- c. Snow vehicles +9.3%
- d. Motorhomes +13.6%
- e. Taxis +9.7%
- f. Buses +11.3%
- g. Ambulances -2.2%.

[2] 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 rates and risk-classification system

## II ANALYSIS

[3] 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 one Information Request (IR) 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 it had no further comments beyond a rounding change in one of the tables.

[4] 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 Health Services Levy. Board staff consider that IAO satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR response.

### **Health Services Levy**

[5] Section 18 (11) of the Nova Scotia *Health Services and Insurance Act*, section 18 (11) requires a Health Services Levy to be imposed. This is required to recover insured hospital services and benefits under the Insured Prescription Drug Plan. This also recovers costs for ambulance services to which the Province has made payment, or insured professional services pursuant to this *Act*, incurred by third parties as a result of personal injury in motor vehicle accidents. The levy does not apply to taxis, buses and ambulances.

[6] Board staff recommended the Board require IAO to use a \$46.23 levy for those vehicles where the levy applies and to remove the levy from taxis and buses when developing the indicated rate level needs. The Board agrees.

### **Staff Indications**

[7] Board staff recommended the Board use the Staff indications, which equal the IAO revised indications with the Health Services Levy changes noted, as the target against which to assess the appropriateness of the IAO proposal. The Board agrees.

### **Comparison of Proposed Rates to Recommended Indications**

[8] Because the indicated changes by coverage were very large in some cases,

IAO proposed smaller adjustments to reduce the impact for its subscribers. IAO explained that to avoid big fluctuations, the indicated changes by coverage were capped for all vehicles. The level of the cap on increases and on decreases varied by vehicle type.

[9] The Board in recent decisions, reflecting its concerns about higher than approved returns on equity being earned for some time in the industry, has required some of the larger participants to propose rates that produce a return on equity in the lower end of its reasonable range for return on equity (i.e., the 10% level given the range is 10%-12%). The users of the IAO recommended rates are generally very small participants in the Nova Scotia market. Most users would view the target 12% return on equity and the expenses selected by IAO as sufficient for their purposes, allowing them to adopt the IAO rates without change. Board staff recommend allowing IAO to use a 12% return on equity and the Board agrees.

[10] Based on the proposals for lower than indicated rates, all vehicles should have a return on equity well below the 12%. In some cases, the return on equity will be negative.

[11] Board staff recommended the Board approve the revised proposed changes. The Board agrees.

### **Issues Regarding Other Proposed Changes**

[12] IAO also proposed changes to a number of its differentials or relativities, namely class, driving record, deductible, and liability limit. No other changes were proposed.

Differentials or Relativities

[13] IAO provided the analysis of each of these differentials/relativities and selected changes for all the differentials. These changes generally followed the indicated changes. As in other vehicle classes (e.g., private passenger vehicles, commercial vehicles), IAO capped the relativity changes in some instances.

[14] The analysis provided seems reasonable, as do the selected changes. IAO adequately supported its proposed differentials/relativities. Board staff recommended the Board approve them as proposed. The Board agrees.

**SUMMARY**

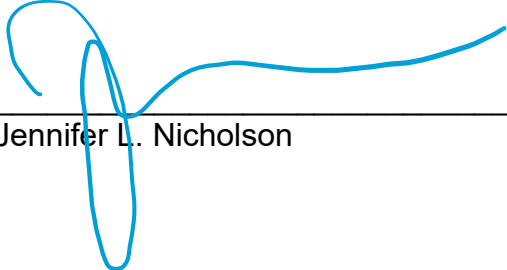
[15] The Board finds that the application follows the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

[16] The Board finds the proposed rates are just and reasonable, and approves the changes effective August 1, 2021, for new and renewal business.

[17] 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 IAO for miscellaneous vehicles is February 1, 2023.

[18] An order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 15<sup>th</sup> day of July, 2021.

  
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Jennifer L. Nicholson