

DECISION

**2022 NSUARB 175
M10716**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **SECURITY NATIONAL INSURANCE COMPANY** for approval to change its rates and risk-classification system for commercial vehicles

BEFORE: Julia E. Clark, LL.B., Member

APPLICANT: **SECURITY NATIONAL INSURANCE COMPANY**

FINAL SUBMISSIONS: October 4, 2022

DECISION DATE: **November 18, 2022**

DECISION: **Application is approved as modified**

I INTRODUCTION

[1] Security National Insurance applied to the Nova Scotia Utility and Review Board for approval of its initial rates and risk-classification system for commercial vehicles.

[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 Security National's revised application meets these requirements and approves the company's proposed rates and risk-classification system. The Board approves the company's proposed discounts (i.e., Group Discount, Multi-product Discount; Multi-vehicle Discount and Electric Vehicle Discount), the Newly Licensed Operator Surcharge, the company's proposed standard endorsements and the non-standard Accident Forgiveness endorsement, and the monthly installment payment fee. The Board approves the Automobile Insurance Manual, including underwriting and rating rules.

II ANALYSIS

[3] Security National applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. Since the filing of this application, Security National 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 Security National. After reviewing the report, Security National returned a revised application with corrections, including revised indications.

Board staff revised the report with the new information from Security National. The company informed Board staff that it had no further comments on the revised report.

[4] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the revised Staff Report and suggested that the Board further review certain issues.

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

- Security National's proposed initial base rates and differentials
- Discounts
- Newly Licensed Occasional Operator Surcharge
- Endorsements
- Fees
- Automobile Insurance Manual

Initial Base Rates and Differentials

[6] Security National relied on commercial vehicle indications from IAO Actuarial Consulting Services Aon Canada Inc. (IAO) to develop its initial commercial vehicle rates and risk classification system, with some modifications. It replaced several IAO assumptions with assumptions that, in its view, better reflected Security National's business model. It then proposed rates by coverage that compared to those indications.

[7] In considering Security National's application, Board staff reviewed the rate level indications developed by the company, relative to the current IAO rates. In the most recent IAO application (2022 NSUARB 53), the Board accepted the IAO assumptions and methodologies to develop its rates. Board staff examined these aspects of the rate making procedure with the assumption changes made by Security National and recommended that the Board review several components, including Security National's analysis of the profit provision and the investment return on cash flow.

Profit Provision

[8] In its model, Security National uses a target 12% return on equity (ROE). This target ROE is at the top end of the Board's target range of 10-12%. Security National explained that it relied on IAO's indications to develop its rates for commercial vehicles. Its assumptions are consistent with IAO's use of a 12% ROE in determining the indications.

[9] The Board approved IAO's use of 12% ROE in developing its indications in its most recent application. Further, the Board has accepted the use of 12% by small companies that adopted IAO rates. However, the Board's approval of the ROE for companies adopting IAO rates must still be based on the characteristics of the individual company adopting the rates. In a recent application by TD Insurance Group, of which Security National is a member, the Board approved rate changes for private passenger vehicles using a 10% rate of return (2022 NSUARB 63). Security National is a much larger entity than other companies the Board has typically approved to use the IAO rates and methodology.

[10] The Board has concerns with industry profit levels well above the target ROE range, as seen in part by the results of the 2012 and 2013 GISA Financial Information Reports. The 2014 to 2019 versions of the report show negative returns for the industry, while the 2020 and 2021 versions show small positive values. To address this, the Board required other companies to lower the allowed ROE in indications to 10%, the low end of its approved range. The Board continues to require most companies to use 10% unless a company can demonstrate that it is different from the industry. The Board believes that recent lower returns result from many companies not implementing

the full indicated rates, coupled with some deteriorating experience, rather than from the Board's imposition of the 10% ROE.

[11] At the request of Board staff, Security National provided a revised submission using 10% ROE in its calculations. The overall indicated change in average premium decreases from 3.5% to 1.7%. Comparing the revised indications with the original indications, and considering Security National's company profile, Board staff recommended that the Board disallow the use of the 12% ROE in assessing the proposed rates for commercial vehicles. The Board agrees that a 10% ROE is appropriate in the determination of the indicated rates for this application.

Investment Return

[12] The company used the same yield rates that it used in its recent private passenger vehicle application to develop its indications for commercial vehicles. The company based the return on cash flow on the average bond yield between October 2016 and October 2020, purportedly to temper the impact of COVID-19. However, in 2022, bond yields rose dramatically. The rate from the last private passenger vehicle filing now appears too low in the current context.

[13] Board staff recommended the Board require Security National to use a return on cash flow that matches the proposed level of investment return for surplus assets. This level of investment return, when compared to returns over the past five years, seems appropriate. Security National provided revised indications using the same assumption for investment return for both cash flow and surplus assets. This lowered the overall indicated premium change from 3.5% to 1.9%. The Board agrees with staff's

recommendation to use the same investment return rate for cash flow and surplus assets in the indications.

Comparison of Proposed Rates to Indications

[14] The Board agrees with staff's recommendation to use the staff indications, i.e., those calculated using the 2021 IAO methodology with the company's assumption changes and the staff assumption changes, as the appropriate target to assess Security National's proposed base rates against.

[15] For all coverages, the company's proposed rates exceed the staff-indicated rates. As such, the ROE from the proposed rates would exceed the 10% ROE accepted by the Board.

[16] Board staff recommends the Board approve the staff-indicated rates as the initial set of rates for commercial vehicles, for all coverages except for SEF#44. The Board accepts staff's recommendation. The Board approves the SEF#44 rate as proposed by Security National and sets the base rates for all other coverages in accordance with the staff indicated rates.

Discounts

[17] Security National proposed the following discounts:

- Group Discount, for eligible categories of groups (e.g., professional associations, university and college alumni, and non-sponsored groups) that have an active marketing agreement with the company;
- Multi-Product Discount for clients holding other products with Security National;
- Multi-vehicle Discount for clients insuring multiple vehicles.

The company justified these discounts based on the lower marginal cost of their administration and lower claims experience. Security National off-balanced the estimated impact of the discounts, based on the estimated uptake by eligible and new customers, to make them revenue neutral.

[18] These discounts are common in the industry and the proposed levels are not out of line with others in the industry. The Board approves these discounts and the off-balancing of their estimated impacts.

[19] Security National also proposed an Electric Vehicle discount for Bodily Injury and Property Damage coverage for commercial electric vehicles. The company did not determine an impact for the purposes of off-balancing the discount because of the small volume of electric vehicles in commercial use. The Board approves this discount.

Surcharges

[20] Security National proposed a surcharge for inexperienced occasional operators called the Newly Licensed Occasional Operator Surcharge. The surcharge will apply to most coverages, excluding Comprehensive, Specified Perils, SEF#44 and other endorsement premiums. The proposed surcharge has three levels of decreasing surcharge based on the number of years the least-experienced occasional operator has held a license. No surcharge would apply if the least-experienced occasional operator has held a license for more than six years.

[21] Board staff noted that the assumptions relied on by Security National may overstate the number of clients expected to be subject to the surcharge. The company had limited data upon which to estimate the potential eligibility for the surcharge. Nevertheless, the company proposed to off-balance the estimated impact of the

surcharge with lower base rates. The outcome of any overestimation, therefore, is that the resulting base rates are lower than they may have been if the surcharge uptake was calculated differently.

[22] Board staff advised that the proposed surcharge and off-balancing was reasonable. The Board approves the Newly Licensed Occasional Operator Surcharge and associated off-balancing of the impact through base rates.

Endorsements

[23] Security National proposed to offer a suite of standard endorsements as well as a single non-standard endorsement for its commercial business. For most of those endorsements offered for a premium or where the endorsement modifies a premium, the company relied on the premiums for its private passenger vehicle endorsements. For some endorsements, the company compared its competition's offerings or relied on its underwriters' expertise to determine premiums for commercial vehicles. The Board accepts the company's approach to establishing premiums for its proposed standard endorsements in this application.

[24] Security National proposed an Accident Forgiveness endorsement that would, if purchased, allow one at-fault accident by an eligible driver to be forgiven without impact on the renewal premium. The endorsement uses a similar formula as for the company's endorsement provided for private passenger vehicles, which applies a percentage to the premium charged for Bodily Injury, Property Damage-Tort, DCPD, Accident Benefits and Collision.

[25] This proposed endorsement uses non-standard wording. The Superintendent of Insurance must approve all non-standard endorsement wordings.

Security National provided the Board with evidence of the Superintendent's approval of the variation.

[26] Board staff recommended that the Board approve the proposed endorsements and proposed premiums and adjustments, if any, for those endorsements. The Board agrees.

Fees

[27] Where a client elects to pay the policy premium in equal monthly installments, Security National proposed a Monthly Installment Payment Fee rate of interest. The company uses the same rate for private passenger vehicles. Security National confirmed that it reflected the additional revenue as an offset to expenses in its revised indications, as the Board requires. The Board accepts that the increased transaction costs of monthly installment payments and potential for lost investment income justify this fee. The Board approves the Monthly Installment Payment Fee.

Automobile Insurance Manual

[28] Security National provided a draft commercial vehicle section of its Automobile Insurance Manual. After discussion with Board staff, the company made some revisions to the draft. The Board accepts the staff recommendation to approve the revised Manual.

III SUMMARY

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

[30] The Board finds the proposed risk classification system and rates, as modified by this decision, are just and reasonable and approves them effective March 1, 2023.

[31] The financial information supplied by Security National satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed initial rates and risk classification for these vehicles are unlikely to impair the solvency of the company.

[32] The application requires the Board to set a mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The first mandatory filing date for Security National for commercial vehicles is August 1, 2025.

[33] Board staff reviewed Security National's revised Automobile Insurance Manual and did not find any instances where the Manual contravened the *Act* and *Regulations*. The company must file an electronic version of its Manual, updated for the changes approved in this decision, within 30 days of the issuance of the Order in this matter.

[34] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 18th day of November, 2022.



Julia E. Clark