

**DECISION**

**2024 NSUARB 196  
M11872**

**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 commercial vehicles.

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

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

**FINAL SUBMISSIONS:** November 13, 2024

**DECISION DATE:** **November 26, 2024**

**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 commercial vehicles. The company proposes rate changes that vary by coverage and result in an overall decrease of 4.1%. The proposal is based upon the revised indications which suggest rates should decrease by a slightly larger amount.

[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.

[3] IAO provides a series of recommended rates and differentials to its subscribers. In 2011, the Board extended an offer to IAO whereby the Board would review IAO applications for its recommended rates. Under that arrangement, the Board would issue a formal decision and an order as if IAO were an insurance company. Companies wishing to use the IAO rates still have to apply and prove to the Board that the IAO rates are appropriate to be used by that company, but they do not have to re-file the actuarial basis for the rates. IAO files on a set schedule, annually for commercial vehicles, by February 1, 2024. The Board extended this deadline to September 1, 2024, at IAO's request.

## 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 it had no further comments.

[5] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report. Based on Board staff's review of the filing, the only issue that arose surrounding the IAO analysis of its rate level needs that warrants further discussion is the inflation adjustment to future loss trends. The information request responses successfully resolved any other issues.

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

- Inflation adjustment to future loss trends;
- Proposed rate changes;
- Differential changes for rating variables; and
- Rate Group Tables.

### **Inflation Adjustment to Future Loss Trends**

[7] IAO did not develop its own loss trend selections, choosing to use the loss trend selections made by the Board's consulting actuaries, Oliver Wyman, in their report based on data through December 31, 2022. Initially, IAO did not make any adjustment to the future trend rates to reflect the unusual level of inflation referenced by Oliver Wyman.

[8] After the information request process, IAO made some adjustments to future trends. Instead of keeping them equal to past trends, IAO set the future trends equal to 50% of the past trends. IAO based this reduction on its review of the Consumer

Price Index from December 2002 to September 2024. The return to a more normal inflation level over this period caused IAO to reduce the trends selected by Oliver Wyman.

[9] Board staff recommends the Board accept the IAO selected adjustment to future loss trends for physical damage coverages, which reflects the heightened level of inflation observed recently. The Board agrees.

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

[10] Board staff recommend the Board use the IAO indications as the appropriate target against which the IAO proposal should be assessed for reasonableness.

[11] IAO proposed rates that match the revised indications for all coverages except Family Protection Endorsement (SEF#44). If IAO applied the indicated decrease, the new SEF#44 average premium would decline slightly. The proposal would increase the average premium slightly. This value compares to an industry average premium which is much higher. In this light, a reduction would not be prudent, while a gradual increase towards the industry average seems reasonable.

[12] Companies that use the IAO rates generally have a very small amount of business, which presents a greater risk to the company due to the increased volatility of the experience. The use of the higher 12%, instead of the 10% the Board has required larger companies to use for return on equity, seems reasonable. IAO's proposal for SEF#44 would result in a slightly higher return on equity. Given the rationale for the SEF#44 proposal, Board staff's opinion is that the overage does not warrant a change to reduce the return on equity.

[13] Board staff recommends the Board approve the proposed rate changes. The Board agrees.

### **Differential Changes for Rating Variables**

[14] IAO also proposed changes to several of its differentials or relativities, namely territory, classification, driving record, deductible, and liability limit (both Bodily Injury, PD-Tort, and SEF#44). No other changes were proposed.

[15] IAO provided the analysis of the above proposed changes. Based on this analysis, IAO selected changes for all the differentials that generally followed the indicated changes, but in some cases, the magnitude of the change to the differentials was capped at  $\pm 10\%$ . IAO applied actuarial judgement in cases where the indicated differentials produced anomalous results.

[16] The analysis provided seems reasonable, as do the selected changes. The approach taken is like that used in previous IAO applications. IAO adequately supported its proposed differentials and relativities.

[17] Board staff recommends the Board approve the proposed differentials. The Board agrees.

### **Rate Group Tables**

[18] IAO updated its suggested rate group tables (Table I, Table II and Table IIA) for use as recommended tables as of October 2024. This approach is consistent with previous applications.

[19] Board staff recommends the Board approve the use of the new rate group tables. The Board agrees.

### III SUMMARY

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

[21] The Board finds the proposed rates are just and reasonable and approves the changes effective December 1, 2024.

[22] The application qualifies to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. Given the difficulties encountered with preparing this application, the Board staff discussed the filing deadlines with IAO. Based on those discussions, Board staff recommend using deadlines of March 1 every year for commercial vehicles and interurban trucks and April 1 every second year (beginning in 2025) for miscellaneous vehicles. IAO noted the miscellaneous vehicles filings relied on the commercial vehicle filing necessitating the change to that deadline as well. The Board agrees and sets the new filing deadline to March 1, 2025, for commercial vehicles and interurban trucks and April 1, 2025, for miscellaneous vehicles.

[23] 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*. Because the changes are to base rates, differentials, and rate group tables, which are not included in the Automobile Insurance Manual, the Board does not require an updated manual for commercial vehicles.

[24] An order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 26<sup>th</sup> day of November 2024.

  
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Jennifer L. Nicholson