DECISION **2024 NSUARB 98**
M11555

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 INC., AON CANADA INC.** for approval to change its rates and risk-classification system for private passenger vehicles

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

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

FINAL SUBMISSIONS: May 16, 2024

DECISION DATE: **June 12, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On January 31, 2024, IAO Actuarial Consulting Services Aon Canada Inc. (IAO), applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. IAO is not an insurer. Rather, it provides a series of recommended rates and differentials to subscribers. Since 2011, the Board has reviewed annual applications by IAO for its recommended rates. Insurers wishing to use the IAO rates still apply to the Board with justification that IAO rates are appropriate for their company to use.

[2] In this application, IAO proposed changes to its current base rates that are not uniform by territory, as well as changes to a number of its differentials. The proposed changes produce an overall rate level decrease of 7.1%. IAO selected the proposed changes based on indications that suggest rates should decrease by 7.5%. The changes by coverage follow the indications except for SEF#44, where IAO proposes a small increase despite the indication for a large decrease.

[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 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 had no substantive comments on the report.

[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:

- Inflation adjustment of loss trends; and
- COVID-19 considerations.

Inflation Adjustment of Loss Trends

[7] IAO did not develop its own loss trend selections for this application, choosing to use the loss trend selected by the Board's consulting actuaries, Oliver Wyman, in their report based on data through December 2022. In developing those selections, Oliver Wyman noted the recent increase in inflation occurring in Nova Scotia, as in many other parts of Canada. Rather than allowing heightened inflation to increase loss trends, Oliver Wyman applied a scalar parameter that increased severity for 2021-22 Direct Compensation Property Damage (DCPD) and Collision claims by set percentages. Oliver Wyman than developed trends after applying this "severity shock".

[8] IAO did not initially apply an adjustment for the severity shock in its analysis. Through the information request process, IAO provided revised indications taking into account the "severity shock" calculations. The overall all-coverage combined indication was for a decrease of 7.5%. The inclusion of the severity shocks increased the indicated rates for DCPD and Collision.

[9] Board staff recommends the Board approve IAO's revised indications that reflect the one-time severity shock for DCPD and Collision, as the basis for comparing the proposed rates. The Board agrees.

COVID-19 Considerations

[10] In its analysis of rate level needs, IAO used industry information for 2020 through 2022, years that featured notable changes in driving behaviour in response to the COVID-19 pandemic. IAO noted that the frequency of claims for several coverages during those accident years were significantly lower than pre-pandemic levels. IAO also noted that losses have not yet returned to pre-pandemic levels.

[11] To reflect the impact of the pandemic on its experience data, IAO made adjustments to bring pandemic and pre-pandemic experience to the post-pandemic experience, "new normal" level for the coverages exhibiting differences in loss frequency. To support its approach, IAO cited Oliver Wyman's recommendation that "an adjustment applicable to all historical accident years will likely be necessary to reflect the reduction in claims frequency expected as a result of the general shift towards a hybrid workplace."

[12] The company stated that Bodily Injury and Property Damage-Tort, Accident Benefits, Uninsured Automobile, and Collision were most impacted by COVID-19. IAO observed that Comprehensive was least impacted. The company used different adjustments for these coverages based on its actuarial judgment and observations of the pre-, during- and post-pandemic frequency data. IAO made no adjustments to other coverages.

[13] While IAO's approach differed from adjustments applied by other companies who sought to bring pandemic experience to a pre-pandemic equivalent in previous applications, Board staff did not recommend that the Board require IAO to apply

another manner of adjustment to account for COVID-19 impacts on the data. IAO explained its rationale and the Board has no evidence that IAO's approach to COVID-19 adjustments is unreasonable.

Staff Indications

[14] Based on recommendations by Board staff, the Indications the Board used to assess the reasonableness of IAO's assumptions are the IAO indications, as revised to include the one-time severity shocks for DCPD and Collision (Staff Indications).

Comparison of Proposed Rates to Indications

[15] IAO proposed rates that match the Staff Indications for all coverages except Family Protection Endorsement SEF#44. For this coverage, IAO proposed an increase despite the indication for a fairly large decrease. The IAO recommended premium for SEF #44 is already less the industry average. If IAO applied the large, indicated decrease, the new SEF#44 average premium would be even further away from the industry average. In this light, a further reduction seems imprudent. IAO's proposal for a moderate increase moves the premium closer to the industry average, which is reasonable.

[16] Companies that use the IAO rates generally have a small number of customers, which can present a greater risk to the company due to the increased volatility of the experience. The Board has previously approved the use of a 12% return on equity (ROE) for those companies, instead of the 10% level the Board has required larger companies to use. Additionally, IAO's proposed increase for SEF#44 results in a slightly higher ROE than the levels approved previously. Board staff indicated that, given the rationale for the SEF#44 proposal, a change to reduce the return on equity is not warranted in this case. The Board followed this approach in its decision on IAO's 2023 application.

[17] Board staff recommend the Board approve the proposed rate changes. The Board agrees.

Issues Regarding Other Proposed Changes

Differentials and Relativities

[18] IAO proposed changes to many of its differentials or relativities, namely territory, class, driving record, deductible, and increased liability limits. IAO provided the analysis of indicated values for each of these differentials/relativities and the company's selected values. These selections followed the indications but, in some cases, IAO applied a cap so that the change did not exceed ±10% of the current differential. IAO again applied a cap of ±5% of the current class differential.

[19] IAO provided a reasonable analysis for its selected changes and adequately supported its proposed differentials/relativities. Board staff recommend the Board approve the proposed differentials. The Board agrees.

Adoption of 2024 CLEAR Tables

[20] IAO's current rates were based upon the use of the 2023 Canadian Loss Experience Automobile Rating (CLEAR) tables. In this application, the recommended rates reflect the use of the 2024 CLEAR table the Board recently approved for use.

[21] Board staff recommend the Board approve the use of the 2024 CLEAR table for the IAO rates. IAO's use of the annual CLEAR tables is a longstanding practice, and the Board finds it reasonable.

III SUMMARY

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

[23] Because IAO does not issue policies, it has no new business and no renewals. IAO, however, wants the proposed rates to be effective on July 1, 2024. The Board accepts the proposed effective date.

[24] Because IAO is not an insurer, IAO included no financial information in the application, nor does the Board require any. The Board will assess the impact of the IAO-approved rates on an insurer at the time the company applies to adopt those rates.

[25] 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 private passenger vehicles is January 31, 2025.

[26] IAO is only changing rates and differentials. The automobile insurance manual would not change in these circumstances. Board staff reviewed the IAO manual on file and found no areas that appear to violate the *Insurance Act* or its *Regulations*. The Board does not require IAO to provide an updated manual for this application. An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 12th day of June, 2024.

Julia E. Clark