

**DECISION**

**2024 NSUARB 91  
M11633 and M11634**

**NOVA SCOTIA UTILITY AND REVIEW BOARD**

**IN THE MATTER OF THE INSURANCE ACT**

**- and -**

**IN THE MATTER OF APPLICATIONS by NORTHBRIDGE GENERAL INSURANCE CORPORATION, VERASSURE INSURANCE COMPANY, TOKIO MARINE & NICHIDO FIRE INSURANCE COMPANY LTD. and FEDERATED INSURANCE COMPANY OF CANADA for approval to change their rates and risk-classification systems for commercial vehicles and interurban trucks**

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

**APPLICANTS:** NORTHBRIDGE GENERAL INSURANCE CORPORATION, VERRASURE INSURANCE COMPANY, TOKIO MARINE & NICHIDO FIRE INSURANCE COMPANY LTD. and FEDERATED INSURANCE COMPANY OF CANADA

**FINAL SUBMISSIONS:** May 1, 2024

**DECISION DATE:** June 3, 2024

**DECISION:** Applications are approved.

## I INTRODUCTION

[1] Northbridge General Insurance Company (NGIC) and Federated Insurance Company of Canada (“the companies”) applied to the Nova Scotia Utility and Review Board to change their rates and risk-classification systems for commercial vehicles and interurban trucks.

[2] The companies applied under the Board’s *Rate Filing Requirements for Automobile Insurance – Section 155G Adopt IAO Rates* to adopt rates based on those approved by the Board in a recent application by IAO Actuarial Consulting Services Inc. (IAO), with adjustments. NGIC proposed rate changes that vary by coverage and result in an overall increase of 15.72%.

[3] NGIC applied on behalf of its sister companies, Verassure Insurance Company and Tokio Marine & Nichido Fire Insurance Company Ltd., requesting the Board’s approval for those companies to adopt the same proposed rates and rating structure as ultimately approved for NGIC. Federated filed separately asking to adopt NGIC’s rates and rating structure, with an overall impact of 6.9%, given differences in Federated’s customer mix. The companies also proposed to adopt the 2024 IAO Commercial Rate Group Tables and other changes to their risk classification systems.

[4] NGIC and Federated are related companies. Beginning in 2020, the Board has approved Federated’s adoption of NGIC’s rates and rating structure and has prompted the companies to consider applying together. In previous filings, the Board already approved NGIC to submit one mandatory filing for itself and its sister companies, neither of which has any commercial vehicle exposure in Nova Scotia.

[5] The Board must consider whether the companies' proposed rates and changes to the risk-classification systems are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*. The Board is satisfied that the applications meet these requirements and approves them.

## II ANALYSIS

[6] On March 28, 2024, the companies applied separately under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Adopt IAO Rates*.

[7] Since filing these applications, the companies received and responded to Information Requests (IR) from Board staff. Board staff prepared a report to the Board with recommendations on the applications (Staff Report). Before providing the Staff Report to the Board, Board staff shared it with the companies. The companies reviewed the report and informed Board staff that they had no comments.

### Justification for IAO Rates

[8] NGIC proposes to adopt the rates and risk-classification systems that the Board most recently approved for IAO for commercial vehicles (2023 NSUARB 113) and interurban trucks (2023 NSUARB 114), with some adjustments. Federated proposed to continue adopting the same rates and rating structure as NGIC. IAO's applications include the required actuarial and territorial analysis required for a mandatory filing. An insurer wanting to adopt approved IAO rates may apply to the Board without filing its own actuarial support if it can justify its use of the IAO rates. The company may seek adjustments to the approved IAO rates but must support any adjustment. The insurer may

also maintain or introduce elements not included in the IAO rates (e.g. discounts, surcharges, liability limits and deductibles).

[9] Both companies and Board staff said it was appropriate to use the Board-approved IAO rates because the companies insure a relatively small number of commercial vehicles and interurban trucks in Nova Scotia. With this small volume of business, an actuarial analysis may not produce credible results. The companies did not propose any adjustments to the IAO rates for return on equity or any expense differences.

[10] The Board has approved the companies' use of IAO rates in past decisions. Board staff recommended that the Board approve the companies' proposal to adopt the IAO base rates and relativities, with the proposed adjustments that will be addressed in the remainder of the decision.

#### Commercial Rate Group Tables

[11] The companies proposed to adopt the 2024 version of the IAO Commercial Rate Group Tables I and II(A). The Board has approved their use of these tables in the past and accepts the companies' proposal and Board staff's recommendation to do so again.

#### Adjustments to IAO Base Rates

[12] NGIC did not propose to adjust the approved 2023 IAO rates for a lower return on equity or a different expense ratio than approved for IAO. However, they wish to adjust the approved IAO base rates to manage rate increases. Adopting IAO's rates without deviations, along with the 2024 rate group tables, would have resulted in a very high overall increase for commercial vehicles. Unadjusted, the impact would be several

times greater than the 15.72% increase proposed for NGIC and 6.9% proposed for Federated.

[13] NGIC examined its loss ratios and found no evidence to support the substantial increase the unaltered IAO base rates would produce. Instead, NGIC selected an adjustment to the IAO base rates to bring the proposed rates closer to a level supported by the company's own loss ratios. The companies each reduced the IAO base rates by a uniform amount. The selected amount differed for commercial vehicles and interurban trucks.

[14] Board staff reviewed the proposal to adopt IAO rates with the proposed base rate adjustment, and recommended the Board approve it. The Board is satisfied that the submissions support the use of the IAO rates with the uniform reductions as proposed, with no adjustments for return on equity and expenses.

*Interurban Truck Class Differentials*

[15] NGIC proposed to continue its practice of modifying class differentials for certain interurban truck classes, using the differentials the Board approved in its previous filing (rather than adopting IAO differentials). The Board previously accepted this deviation in prior filings and finds no reason to deviate from that approach.

*Extended Liability Limits and Deductibles*

[16] The Board approves the companies' proposal to maintain the following deviations from the Board-approved IAO rates, which the Board approved in previous filings:

- a. Extended limits for Bodily Injury & Property Damage-Tort and SEF #44 within and beyond IAO's current limits; and

- b. Deductible offerings using ranges rather than set values.

*Amended Class factors for Class 36N used in Construction and Contracting*

[17] NGIC proposed to reclassify Construction & Contracting (C&C) vehicles from Class 36N “All Commercial automobiles not otherwise classified, no retail & wholesale delivery” to Class 36E. C&C vehicles represent vehicles used by or for “All other Contractor and Service Technicians – excluding transportation of bricks, building blocks, cement, gravel, logs, pulpwood, petroleum products, sand, stone, earth, asphalt, materials or multiple jobsites or vehicle taken to the driver’s home.”

[18] NGIC’s six-year ultimate loss ratio experience showed that the current Class 36N experience for vehicles in the C&C sector of that class was worse than for non-C&C Class 36N risks. NGIC, therefore, proposed to adjust the Class 36E differential to recognize that difference. Non-C&C Class 36N vehicles will use the IAO differential.

[19] The Board approves the proposed classification of C&C vehicles from Class 36N to Class 36E as well as the proposed differential for Class 36E.

*Rating, Base Rates and Differentials for Transportation and Logistics Risks*

[20] NGIC has a Canada-wide initiative to implement a Transportation & Logistics (T&L) rating structure in all provinces, and has done so already in Alberta, Ontario, Quebec and New Brunswick. NGIC defines T&L vehicles as interurban vehicles used to transport materials or products between the manufacturer, warehouses, and customers. Its application establishes the definition of T&L vehicles and proposes to use the base rates for these vehicles from a predecessor entity (Northbridge Commercial Insurance Corporation (NCIC)), adjusted to be closer to its interurban trucks’ rates, with select rating variables, discounts, surcharges, and endorsements.

[21] The companies will include the following rating variables for T&L vehicles only:

- a. Radius of Operations, which considers the maximum distance/radius of operation for any one “haul”;
- b. Rated Zone Category, which accounts for where the vehicle is driven, including whether it is driven into the United States;
- c. Rated Zone and Commodity, which considers where the vehicle is driven and the type of cargo.

NGIC clarified that, because the Rated Zone Category captures US exposure, T&L vehicles will not be subject to the US Exposure surcharge.

[22] For non-T&L vehicles, the companies proposed to adopt the IAO rates, with modifications, while continuing the current discount and surcharges approved by the Board in previous filings.

[23] Board staff recommended approval of these elements of the companies’ risk classification system. The Board agrees.

#### Rating Rule Changes

[24] The companies updated their underwriting manuals for the proposals in the applications and other non-substantial changes to clarify existing language.

[25] Board staff reviewed the proposed updates and the companies’ Automobile Insurance Manuals filed with the Board and did not find any instances where the Manuals or updates contravened the *Act* and *Regulations*.

## SUMMARY

[26] The Board finds that the applications follow the *Act and Regulations*, as well as the *Rate Filing Requirements*.

[27] The Board is satisfied that the companies' proposals to adopt the current IAO rates and risk-classification systems for commercial vehicles and interurban trucks, with indicated adjustments, is just and reasonable. The Board approves the changes effective September 23, 2024, for new business and November 8, 2024, for renewals, for all companies.

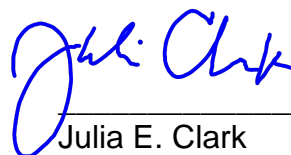
[28] The financial information supplied by the companies satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the companies.

[29] The applications qualify to set a new mandatory filing date under the Mandatory Filing of Automobile Insurance Rates Regulations. The new mandatory filing date for both NGIC, Tokio Marine & Nichido Fire, Verassure, and Federated for commercial vehicles and interurban trucks is April 1, 2027.

[30] The companies must file an electronic version of their Manuals, updated for the changes approved in this decision, within 30 days of the issuance of the Order in this matter.

[31] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 3<sup>rd</sup> day of June, 2024.

  
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Julia E. Clark