

**DECISION**

**2024 NSUARB 153  
M11821**

**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 individually rated commercial vehicles

**BEFORE:** M. Kathleen McManus, K.C., Ph.D., Member

**APPLICANT:** **SECURITY NATIONAL INSURANCE COMPANY**

**FINAL SUBMISSIONS:** August 20, 2024

**DECISION DATE:** **September 9, 2024**

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

## I INTRODUCTION

[1] On July 31, 2024, Security National Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for individually rated commercial vehicles. The company proposes rate changes that vary by coverage, but not by territory. Security National's proposed rate changes resulted in an overall increase of 6.1%. The company relied on an update of its previous indications that reflected changes in the loss trend since that time that suggested rates should increase by 6.1% overall.

[2] In addition to changes to rates, Security National proposes a change to its rating rule used to determine the surcharge based upon the radius of operation within Canada over 160 km. The application of the rule change results in a further overall increase in rates bringing the impact to 11.5%.

[3] Security National also proposes adoption of the January 2024 IAO Rate Group Table I used to determine premium for physical damage coverages, modifications to the Minor Conviction Surcharge and the introduction of the Most Stolen Vehicle Surcharge. Security National off-balanced the impact of these changes to make them revenue-neutral.

[4] 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 application meets these requirements and approves the company's proposed rates and risk-classification system.

## II ANALYSIS

[5] 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. The company reviewed the report and informed Board staff that it had no further comments.

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

- Proposed rate changes;
- Adoption of January 2024 IAO Rate Group Table I;
- Minor Conviction Surcharge;
- New Rating Variable: Most Stolen Vehicle Surcharge;
- Canadian Radius of Operation Surcharge; and,
- Renewal Premium Dislocation Capping Mechanism.

### **Proposed Rate Changes**

[7] The annual premium volume for commercial vehicles for Security National falls well below the Board threshold of \$1,000,000 which makes the company eligible to use the Section 155G Prior Approval – Minor filing requirements.

[8] In its previous filing where Security National developed its initial rates and risk-classification system for these vehicles, the company relied on IAO Actuarial Consulting Services, Aon Canada Inc. (IAO) to produce the indicated rates using its usual methodology and recent assumptions with some assumption changes that better reflected the nature of Security National. The Board agreed to rely on the IAO

assumptions and methodologies and ultimately approved Security National rates, as revised in the Board's Decision 2022 NSUARB 175.

[9] In this application, Security National has not used IAO indicated rates. Instead, the company updated the original IAO analysis to reflect the passage of time and the changes in loss trends since the prior application. For all other assumptions, the company left the assumption, as modified by the Board Decision, in place (e.g., investment return on surplus and cash flows, return on equity, expenses, etc.). The company then proposed rate changes that matched the indicated rate changes.

[10] An application submitted under the Section 155G – Prior Approval – Minor filing requirements does not provide as much information as the Section 155G Prior Approval filing requirements compel. Board staff reviewed all aspects of the company's ratemaking procedures with a focus on the information the company provided in its application and its responses to the Board's IRs. Board staff found no issues with the company's development of its indicated rate level need that required further comment or change. Board staff indications equal the Security National updated indications used to establish the initial rates and risk-classification system.

[11] For all coverages, the proposed rates would equal the indicated rates except for Family Protection Endorsement (SEF#44) and Specified Perils, where the company proposed no changes despite indications for increases. The return on equity from the proposed rates, therefore, would be just below the 10% target return on equity, which the Board required in the previous application.

[12] Board staff recommends the Board approve the proposed changes to base rates. The Board agrees.

### **Adoption of January 2024 IAO Rate Group Table I**

[13] Security National uses the 2022 version of the IAO Rate Group Table I to assign rate groups to determine premium for physical damage coverage. When Security National introduced its initial rates and risk-classification system, the 2022 table was the most recent IAO table at that time. The company proposed the adoption of the January 2024 version of IAO Rate Group Table I. This table was the most recent available to the company when assembling the rate application.

[14] Security National identified the impact of the adoption of the 2024 table and off-balanced that impact through base rates to make the change revenue-neutral.

[15] Board staff recommends the Board approve the proposed adoption of the January 2024 IAO Rate Group Table I. The Board agrees.

### **Minor Conviction Surcharge**

[16] The company applies a surcharge when a risk has four or more minor convictions in the last three years. While the surcharge begins at four convictions, the amount of the surcharge increases as the number of convictions increases beyond that level.

[17] Security National expressed concerns that its closing ratio (i.e., the percentage of quotes that result in a policy being written) for clients with minor convictions was too high. The company believes that it may be underpriced for these risks because it allows up to four minor convictions before a surcharge applies. To avoid attracting too much of this business that is outside of Security National risk tolerance, the company proposed changes that would see the new surcharge table match the one used for its private passenger vehicles, except for one conviction where a small surcharge would

apply for commercial vehicles where one does not apply for private passenger vehicles. All other surcharges match.

[18] This Board approved the private passenger vehicles surcharge table in 2022 NSUARB 181. That table sees a surcharge applied for the second minor conviction and the surcharge increases by the same multiple for each subsequent conviction. The private passenger vehicle algorithm has another variable (i.e., Average Time of Minor Vehicle Convictions in past three years) that can generate a higher premium for one minor conviction. The commercial vehicle algorithm does not include this variable, which captures the additional risk associated with a recent single minor conviction. The company proposed a small surcharge for the first conviction for commercial vehicles to differentiate between zero and one minor conviction, as a proxy for the missing variable in the commercial vehicle algorithm.

[19] The company, in the private passenger vehicle application, included an analysis that supported the proposed surcharge schedule. The adoption of that schedule seems reasonable in the circumstances.

[20] Security National may consider adding or changing existing declination rules to limit the number of minor convictions allowed on a vehicle before the company declines the risk. Such a change would be in a future filing. This approach may address concerns about attracting vehicles that are too risky to write.

[21] Security National off-balanced the small impact of the surcharge change to make the change revenue-neutral.

[22] Board staff recommends the Board approve the proposed changes to the Minor Conviction Surcharge and the associated off-balancing of the estimated impact. The Board agrees.

**New Rating Variable: Most Stolen Vehicle Surcharge**

[23] In 2024 NSUARB 2, the Board approved the request of the TD group of companies, which includes Security National, to add a Most Stolen Vehicle Surcharge. At that time, TD proposed adding a rating variable that applies a surcharge if the vehicle is one of the top 15 most stolen vehicles and is aged five years or less. TD observed a significant increasing trend in vehicle thefts. While the observations were primarily in Quebec and Ontario, the evidence suggested Nova Scotia was also impacted. Given the easy access to ships through the port of Halifax allowing for quicker movement of the stolen vehicles overseas, a larger shift of theft activity from Ontario and Quebec to Nova Scotia may occur. The increased frequency and severity of theft claims warranted higher premiums for Comprehensive.

[24] TD used its theft claim experience across the country for accident year 2022, after cross-validating it with Nova Scotia experience, to identify the top 15 makes and models of stolen vehicles. Given the preference for newer vehicles being stolen, the company chose to apply the proposed surcharge to these makes and models only where the vehicle is aged five years or less.

[25] The experience for these vehicles for November 1, 2021, through October 31, 2022, suggested the Comprehensive claims were significantly larger than average. A further breakdown of the most stolen vehicles by age showed that the loss ratios for vehicles aged five years or less was markedly higher than that observed for older

vehicles. In fact, the older vehicle loss ratios mirrored that for all vehicles other than the top fifteen most stolen.

[26] Based on this analysis, TD proposed a surcharge for the top 15 most stolen makes and models of vehicles aged five years or less. This level of surcharge was below the indicated level to recognize the theft trend observed in other jurisdictions had not fully been observed in Nova Scotia. TD intends to monitor the emerging experience and adjust the surcharge levels in future filings, if needed.

[27] Security National proposed to add the same surcharge to its commercial vehicles. The company will use the same vehicle list and surcharges as those used for private passenger vehicles and the surcharge will apply only to vehicles that are up to five years old. Security National stated it already has insured vehicles that are on its most stolen vehicles list. Because the vehicle being used and insured as a commercial vehicle would not make it any less attractive to thieves, applying the approved private passenger vehicle surcharge to these vehicles seems reasonable.

[28] Security National off-balanced the impact of the introduction of this surcharge to make the inclusion revenue neutral.

[29] The evidence presented in the private passenger vehicle application supported the use of the surcharge. Given the risks posed for commercial vehicles should be no different from private passenger vehicles regarding theft, Board staff therefore recommended the Board approve the proposed Most Stolen Vehicle Surcharge and the associated off-balancing. The Board agrees.



### **Canadian Radius of Operation Surcharge**

[30] Security National applies a surcharge when the insured operates the commercial vehicle outside of a radius of 160 km in Canada. Security National's current Automobile Insurance Manual (Manual) definition, and the associated application of the surcharge, determine the average radius of operation to see if it exceeds 160 km, before applying a surcharge.

[31] The company noted its intent was for the surcharge to apply if the vehicle ever operates outside of the 160 km radius. For example, if the vehicle normally operates within a 100 km radius in Canada but does a single annual trip with a radius of 400 km, the company intended to apply the surcharge. Extra risk accompanies trips with a longer radius, whether that happens once or more times. To be compensated fairly for the risk, the company suggests that the maximum radius should be the base for the surcharge not the average. Using the average could see the applicable value used for the surcharge calculation brought below 160 km so that no surcharge would apply. The company would be exposed to the risk with no compensation for taking on that risk.

[32] Security National noted that its original systems specifications did not specify that the company intended to use the maximum radius. As a result, the system was programmed using the average radius. Security National uncovered the problem after the company launched the product.

[33] In this application, Security National proposed a change from the use of average radius to the use of the maximum radius to correct the problem. The company noted the number of insured risks that would be impacted by the change. The result is an increase, which the company did not off-balance, but instead allowed the impact to flow through to the overall change.

[34] Security National noted that it received approval for this change in Alberta, Ontario, and New Brunswick. The change here in Nova Scotia would harmonize the approach across jurisdictions.

[35] Board staff recommends the Board approve the proposed change to the Canadian Radius of Operation Surcharge rating rule to use maximum radius instead of average radius. The Board agrees.

### **Renewal Premium Dislocation Capping Mechanism**

[36] Security National proposed a renewal premium dislocation capping mechanism that limits renewal premium increases to 15% and renewal premium decreases to -5%. If an at-fault accident occurred during the policy term, the upper bound increases from 15% to 40% to allow more of the impact of the accident to be observed in premium. Security National applies the cap on a per vehicle basis.

[37] Security National notes the capping mechanism will remain in place and apply if renewal premium increases exceed 15% in future renewals. The company removes the cap if there are additions or substitutions of vehicles. Security National expects the cap to be in place for one year on average.

[38] To use negative capping (i.e., limiting the premium reductions a policy should receive at renewals), the Board requires that the impact of the negative capping on premium must be less than or equal to the impact on premium of the positive capping. Security National provided information that showed compliance with the Board requirement.

[39] Board staff recommends the Board approve the proposed introduction of a renewal premium dislocation capping mechanism. The Board agrees.

### III SUMMARY

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

[41] The Board finds the proposed rates are just and reasonable, and approves the changes effective November 8, 2024, for new business and December 24, 2024, for renewal business.

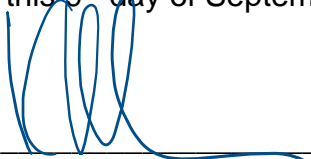
[42] The financial information supplied by Security National satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the company.

[43] 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 Security National for commercial vehicles is August 1, 2027.

[44] Board staff reviewed Security National's Automobile Insurance Manual filed with the Board 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.

[45] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 9<sup>th</sup> day of September, 2024.

  
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M. Kathleen McManus