DECISION **2024 NSUARB 163**
M11807

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

BEFORE: Bruce H. Fisher, MPA, CPA, CMA, Member

APPLICANT: **THE WAWANESA INSURANCE COMPANY**

FINAL SUBMISSIONS: September 6, 2024

DECISION DATE: **September 25, 2024**

DECISION: **Application is approved**

I INTRODUCTION

[1] The Wawanesa Insurance Company 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 9.7% increase. In addition to changes to rates, the company asks the Board to approve a change to rating rules for the Minimum Years Licensed and the renewal premium dislocation capping mechanism.

[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 Wawanesa's application meets these requirements and approves the company's proposed rates and risk-classification system, and the rating rule changes requested by the company.

II ANALYSIS

[3] Wawanesa applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Wawanesa 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 Wawanesa. The company reviewed the report and informed Board staff that it had no further comments other than noting it would establish an effective date closer to when the Board releases its Decision so that the date is feasible.

[4] 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 Wawanesa satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

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

- Profit Provision;
- Proposed changes to base rates;
- Rating Rule Change - Experienced Operator (Minimum Years Licensed);
- Renewal Premium Dislocation Capping Mechanism.

Profit Provision

[6] Wawanesa uses a 12% target return on equity and listed a premium to surplus ratio of 2:1 overall. While the overall ratio is shown to be 2:1, it appears Wawanesa changed from varying the ratio by coverage to using a single ratio across all coverages. Wawanesa changed the methodology used to determine the equity required from using premium to surplus ratio to using the present value of unpaid losses. With this change in methodology, Wawanesa instead uses a Present Value Loss to Surplus ratio assumption of 150% to align with its prior assumption of a 200% premium to surplus ratio by also assuming an overall Present Value Loss to Premium ratio of 75%. The company notes, therefore, that the premium to surplus ratio of 2:1 stated in the application is not relevant due to not using a premium to surplus ratio.

[7] Wawanesa made the change as part of its goal to continuously improve its actuarial best practices. Wawanesa believes this methodology better reflects the reality of capital needed to support insurance contracts by basing this need on the underlying risk of the policy and releasing capital as this risk diminishes.

[8] The Wawanesa assumptions produce a profit provision of about 6.2%. The selection of a 12% return on equity puts Wawanesa at the top of the Board's range of reasonable return on equity (i.e., 10%-12%) and for profit provision (i.e., 4.8%-6.2%). In recent decisions, the Board, concerned about the level of profit observed for the industry, as measured by return on equity (ROE), forced some companies to use a 10% ROE. When asked why Wawanesa should not be required to make a similar adjustment, the company responded that their return on equity was "within the range that the Board expressed as being reasonable," that it was "a target ROE for the purpose of our indications, but our proposed impacts do not realize 12% or 10% ROE."

[9] The financial information shows that Wawanesa earned an overall return on equity well below 10% in all five years. Loss ratios for Nova Scotia were better in three of the four years that Wawanesa was able to provide comparable loss ratios, than observed for the company in all of Canada, although the amount of data is small, and the results are volatile. Despite this observation, even if Nova Scotia results are better, the returns on equity observed are still very small and fall below the target.

[10] Board Staff advised that as in previous applications, the Wawanesa experience appears different from the industry. Staff recommended the Board accept the profit provision included in the Wawanesa indications. The Board agrees.

[11] The Staff Indications, which represent the target against which the company proposal should be assessed for reasonableness, equal the Wawanesa indications.

Proposed Changes to Base Rates

[12] Wawanesa proposed changes for all coverages except Uninsured Automobile and Family Protection Endorsement (SEF#44). The changes in all cases

followed the indications but the magnitude was lower than indicated. For all coverages except Property Damage-Tort, it produced lower than indicated rates. Taking a lower than indicated decrease for Property Damage-Tort results in a higher premium. However, the change for all mandatory coverages combined is well below the indicated level.

[13] The proposed rates produce a negative return on equity well below the Wawanesa target of 12% and the lower end of the Board's range (i.e., 10%). The company explained that it "decided to take less than indicated rate increase considering the financial impact that large rate changes will have on our members." It said further, it would monitor performance and that it did not believe its proposal would jeopardize its "ability to meet our financial responsibilities as an insurer."

[14] The Board has concerns about companies taking much smaller increases than indicated and the possibility for large future increases. This application again sees Wawanesa taking much less than indicated rates. The company is already observing a decline in vehicles written and taking a much larger increase would further expose the company to even greater declines. Wawanesa also wants to limit the impact of the increases on its clients.

[15] The Board takes comfort that Wawanesa took more than twice the percentage of the indicated increase than it did in the last application. Taking the larger step towards indicated rates mitigates the Board concerns somewhat.

[16] Board Staff recommend the Board approve the Wawanesa proposed rate changes. The Board agrees.

Rating Rule Change - Experienced Operator (Minimum Years Licensed)

[17] Currently, the company calculates the years licensed for each driver as the shortest time for which that driver has held any class of license. That is, Wawanesa uses the time elapsed since the driver acquired the most recent class of licence. Having calculated this value for each driver, the company then uses the minimum value for all drivers as its Minimum Years Licensed rating variable.

[18] Wawanesa proposed to change the definition of years licensed for each driver. Instead of the time since the driver received the most recent class of license, Wawanesa will now use the time elapsed since the driver received the first class of license. For those drivers with a single class of license, the change makes no difference. For those with more than one class of license, the expectation is the change will increase the years licensed for that driver.

[19] Wawanesa noted that the change will align the calculation in Nova Scotia with that used in other jurisdictions. Wawanesa noted the proposed approach has been used in Ontario and Alberta for some time.

[20] Wawanesa noted that the impact of the change varied by coverage and averaged to a small overall decrease.

[21] Wawanesa stated that this rating rule changes did not require any change to its Automobile Insurance Manual.

[22] Board Staff recommend the Board approve the proposed change to this rating rule. The Board agrees.

Renewal Premium Dislocation Capping Mechanism

[23] In its last application, the Board approved the company's proposed introduction of a renewal premium dislocation capping mechanism. The mechanism limits both renewal premium increases and decreases. The level of the cap on premium increases varies with the size of the uncapped increase on the policy. As the renewal increase gets larger, the level of the cap increases to allow more of that increase to be reflected. Wawanesa also caps renewal premium decreases at 0%. The Cap Level by increase is:

Uncapped Increase	Cap Level
Up to 5%	no cap
More than 5% up to 10%	3.5%
More than 10%	5.5%

[24] To have the capping apply, the vehicle must carry Bodily Injury coverage. This requirement eliminates those vehicles insured, for example, with only Comprehensive coverage.

[25] The cap applies if there is no material change in the risk posed to Wawanesa during the previous policy term. The company provided the following list of material changes:

- Vehicles changing from private passenger automobile to commercial vehicle, or vice versa;
- Any increase in the count of ratable convictions; and
- Any increase in the count of chargeable accidents that have not been waived the Accident Waiver Endorsement.

[26] In this application, Wawanesa will change the capping limits on renewal premium increases. Renewal premium increases will be capped at 10% while renewal premium decreases will remain capped at 0%. The change will let more of the proposed rate increase flow through at renewal.

[27] Wawanesa provided evidence that the extra premium collected under the negative cap will be lower than the premium foregone on the upper cap. With the cap on decreases allowing no decreases to occur, however, this situation may not be true in future years. Wawanesa noted that it intends to manage the premium dislocation capping and will make changes to ensure the Board requirement continues to be met.

[28] Board Staff recommend the Board approve the proposed changes to the renewal premium dislocation capping mechanism. The Board agrees.

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 rates are just and reasonable and approves the changes effective December 15, 2024, for both new business and for renewal business.

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

[32] 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 Wawanesa for commercial vehicles is July 1, 2027.

[33] Because Wawanesa noted the rating rule change did not require revisions to the Automobile Insurance Manual, the Board does not require Wawanesa to file a revised Automobile Insurance Manual.

[34] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 25th day of September, 2024.

Bruce H. Fisher