

DECISION

**2021 NSUARB 22
M09923**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

BEFORE: David J. Almon, LL.B., Member

APPLICANT: **THE SOVEREIGN GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: January 24, 2021

DECISION DATE: February 19, 2021

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Sovereign General Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for miscellaneous vehicles. Sovereign applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Adopt IAO Rates (Rate Filing Requirements)*.

[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 Sovereign's application meets these requirements and approves the proposed changes to the company's rates and risk-classification system.

[3] The Board also approves the adoption of the most recently approved IAO rates for miscellaneous vehicles; the continued offering of the \$10,000,000 limit and associated differentials for Bodily Injury and SEF#44; the continued use of the extended rate groups and associated differentials for snow vehicles and all-terrain vehicles; the approval of the continued use of the factor applied to the Class 07 private passenger vehicle Direct Compensation Property Damage rates for ambulances; and, the adoption of the 2020 CLEAR rate group table for motorcycles.

II ANALYSIS

[4] Since the filing of this application, Sovereign 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 Sovereign. The company reviewed the report and informed Board staff that it had no further comments.

[5] Sovereign proposes to adopt IAO rates that were previously approved by the Board. IAO provides consulting services to the insurance industry, including recommendations on rates to be used for insurers who subscribe to its services.

[6] Sovereign proposes to adopt the recently approved IAO rates and risk-classification system for miscellaneous vehicles with previously approved modifications. It also proposes to adopt the 2020 CLEAR rate group table for motorcycles.

[7] An insurer wanting to adopt approved IAO rates under the Board's agreement with IAO must make an application that:

- explains why it is appropriate for the company to adopt the rates;
- Adjusts (downward only) the rates to reflect the desire to use a proposed Return on Equity (ROE) that is lower than the ROE approved for IAO (12%);
- Adjusts the rates, if desired, to reflect any differences in the company's expense ratio relative to that included in the approved IAO rates (as modified, if done, by the Board in its decision).

[8] Board staff advises that Sovereign's current rates are generally available to accommodate a client who might require a miscellaneous vehicle to be insured individually. It seems reasonable for Sovereign to adopt rates based upon the IAO approved rates. Sovereign also proposes no adjustments to IAO's 12% ROE, nor does it propose any adjustments to IAO's expense ratio.

[9] Sovereign has supported both its decision to use IAO rates and to make no adjustments for differences in ROE and expenses. It seems reasonable for the company to adopt rates based on the IAO approved rates, with modifications, which are discussed below.

Other Changes

[10] The company also proposes to continue the following modifications that were approved by the Board in its previous filing.

Bodily Injury & SEF#44

[11] IAO only offers up to \$5,000,000 Bodily Injury and SEF#44 limit for miscellaneous vehicles. The Board has approved Sovereign adding a limit of \$10,000,000 to accommodate its commercial clients seeking insurance for a miscellaneous vehicle, using a marginal increase from the approved IAO differentials. Board staff recommends, and the Board approves, the continued use of this limit for Sovereign.

Extended Rate Groups

[12] IAO does not offer List Price New over \$13,000 in its rate group table for snow vehicles and ATVs. Sovereign was approved to add extended rate groups for up to \$25,000 List Price New (with associated differentials) - one rate group increase for every \$500 for snow vehicles and every \$1,500 for ATVs, using advancement methodology from the current IAO rate group table. Board staff recommends, and the Board approves, this modification for Sovereign.

Ambulance Direct Compensation Property Damage Rates

[13] IAO does not have DCPD rates for ambulances. The Board allowed Sovereign to use a factor of 2.0 on Class 07 private passenger vehicle DCPD rates to match ambulance DCPD rates, to reflect the extra exposure ambulances face in comparison to the Class 07 vehicles. Board staff recommends, and the Board approves, the continued use of this method for Sovereign.

Other Observations

Rate Group Tables

[14] Sovereign proposed to maintain the 2013 List Price New table for all miscellaneous vehicles because the company currently has no written exposures in such categories in its books.

[15] With respect to motorcycles, IAO suggests those companies using its rates adopt the 2020 CLEAR table for motorcycles. Sovereign proposed to move from the 2013 List Price New table to the 2020 CLEAR table for this type of vehicle. The rating profiles, with correct rate groups, show reasonable impact (combined between the change of rate group table and adopting IAO rates) for the selected vehicles. Board staff recommends, and the Board approves, the adoption of the 2020 CLEAR table for motorcycles.

[16] With respect to ATVs and snow vehicles, Sovereign adopts the 2019 List Price New for ATVs and snow vehicles included in IAO's 2019 approved filing.

III SUMMARY

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

[18] The Board is satisfied that Sovereign's proposal to adopt the current IAO rates and risk-classification system for miscellaneous vehicles, with adjustments, is just and reasonable and approves the changes effective April 7, 2021, for new business and May 7, 2021, for renewal business.

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

[20] 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 Sovereign, for miscellaneous vehicles, is December 1, 2023.

[21] Board staff reviewed Sovereign'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.

[22] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 19th day of February, 2021.



David J. Almon