DECISION

2020 NSUARB 51
M09584

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

BEFORE: Jennifer L. Nicholson, CPA, CA, Member

APPLICANT: **THE WAWANESA MUTUAL INSURANCE COMPANY**

FINAL SUBMISSIONS: March 13, 2020

DECISION DATE: **April 1, 2020**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Wawanesa Mutual 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 territory and result in an overall increase of 10.4%. In addition to changes to rates, the company also asks the Board to approve changes to various differentials and endorsements.

[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.

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.

[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.

Issues Regarding Indicated Rate Level Changes

Profit Provision

[5] In its model, Wawanesa uses a 12% target return on equity and a premium to surplus ratio that varies by coverage but averages to 2:1 overall.

[6] The Wawanesa 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., 6.0%-7.5%).

[7] In recent decisions, the Board, concerned about the level of profit observed for the industry, as measured by return on equity, forced some companies to use a 10% ROE.

[8] The financial information provided by Wawanesa shows that the company earned an overall return on equity below 10% in each of the last five years. Loss ratios for Nova Scotia were worse than those for all provinces combined for each of the last five years, suggesting the Nova Scotia returns on equity may have been even lower than the national level.

[9] The Wawanesa experience appears different from the industry and the Board accepts the profit provision included in the Wawanesa indications.

[10] Based on this recommendation, the Staff Indications, which represent the target against which the Wawanesa proposal should be assessed for reasonableness, would equal the Wawanesa indications, as revised through the IR process.

[11] The proposed rates produce a return on equity of 2.98%. This result is well below the Wawanesa target of 12% as well as the lower end of the Board's range (i.e., 10%).

[12] Wawanesa expressed a commitment to reviewing its rate level needs frequently and to taking steps to address profitability gradually, as evidenced by this application being made two years before the mandatory filing deadline.

[13] Board staff recommend the Board approve the Wawanesa proposal. The Board agrees.

Territorial Rate Changes

[14] Wawanesa conducted an analysis of its territorial differentials. Based upon this analysis, Wawanesa proposed changes for several territories. The company generally proposed partial increases in those territories with indicated increases and chose to make no changes where the indications were for decreases. Wawanesa explained the company was being cautious when making larger differential changes because the small book of business results in considerable data volatility. The partial increases reflect this concern about the data credibility.

[15] In making its selected changes, Wawanesa considered competitive information. Where Wawanesa sensed a competitive concern, it tailored its proposed changes accordingly.

[16] Wawanesa off-balanced the impact of the proposed differential changes to make them revenue-neutral.

[17] Wawanesa supported its proposed changes to territorial rates. Board staff recommend the Board approve the proposed territorial base rates. The Board agrees.

Class Differential Changes

[18] Wawanesa also conducted an analysis of its differentials for its class rating variable. Based on this analysis, Wawanesa proposed changes to some classes for Bodily Injury, Accident Benefits and Direct Compensation Property Damage.

[19] To address concerns with deteriorating loss ratios (or worsening experience) and some competitive concerns, Wawanesa proposed partial increases in those classes where indications were for an increase in the differential. Wawanesa ignored those classes where indications suggested decreases could be taken. This approach is consistent with trying to address profitability concerns.

[20] As with the territorial differentials, Wawanesa explained the company was being cautious when making larger differentials changes because the small book of business results in considerable data volatility. Wawanesa taking smaller than indicated increases reflects these concerns about the data credibility.

[21] In making its selected changes, Wawanesa also considered competitive information, tailoring its proposed changes where it sensed a competitive concern.

[22] Wawanesa off-balanced the impact of the proposed differential changes to make them revenue-neutral.

[23] Wawanesa supported its proposed changes to class differentials. Board staff recommend the Board approve the proposed class differential changes. The Board agrees.

Liability Limits

[24] For Bodily Injury and Property Damage-Tort, Wawanesa proposed changes to its available liability limits and to the differentials associated with those limits. The first

change made was to re-base its differentials to a standard $500,000 from the current $200,000. Because the minimum liability in Nova Scotia is $500,000, Wawanesa removed its $200,000 and $300,000 options and reset the differentials to start at 1.000 for the $500,000 option. The remaining differentials were divided by the current $500,000 limit differential to do the rebasing.

[25] Wawanesa currently offers liability limits of $6,000,000, $7,000,000, $8,000,000, and $9,000,000. However, without having launched a planned commercial umbrella product, the company wants to deter clients from selecting these higher liability levels. As a deterrent, Wawanesa proposed increases to the differentials for these higher limits.

[26] The current differentials do not increase significantly as the liability limit increases. The proposed differentials, however, are significantly higher and grow as the limit increases, for the higher limits.

[27] Wawanesa noted it considered IAO Actuarial Consulting Services Aon Reed Stenhouse Inc. (IAO) liability differentials when forming its proposal. While the IAO limit for $5,000,000 is higher than the proposed differential, the IAO differential for $10,000,000 is only slightly higher than the $5,000,000 differential. This result reflects the fact that despite the increase in limit, not all the additional limit will be used in every claim. As a result, one would expect the marginal increases to decrease as the limit increases. The proposed differentials do not meet this expectation. The proposed differentials, therefore, are not actuarially justified.

[28] Wawanesa based its proposed differentials on its desire to deter clients from selecting these higher limits. The differentials were not based on actuarial need.

The proposed differentials will make the premiums for lower limits more attractive and may successfully direct clients to those lower limits before Wawanesa launches its desired umbrella policy, when the company may have a greater appetite for the higher limits.

[29] Wawanesa could have chosen not to offer these higher limits. Such an action may see the company rejected outright on quotes for prospective business. Offering the limits at the proposed high differentials may at least provide Wawanesa a chance to compete with the business at its properly priced lower limits.

[30] While Wawanesa did not support the differentials actuarially, the Board believes the approach to limit access to these higher limits before the umbrella policy is available, seems prudent. Higher premiums may force clients to the appropriately priced lower limits, should they choose to write the policy with Wawanesa. The Board does not believe any client would be disadvantaged in these circumstances.

[31] Board staff recommend approval of the proposed liability limits and the associated differentials. The Board agrees.

Removal of NSEF#35 – Emergency Service Expense Endorsement

[32] Wawanesa currently offers endorsement NSEF#35-Emergency Expense, which provides coverages for towing and emergency service expenses that result from the disablement of the insured vehicle. Wawanesa only offers this endorsement for its light commercial vehicle classes.

[33] Wawanesa noted that only four vehicles carry the endorsement. Given the extremely limited usage, the company proposes to remove the endorsement from its offerings. The removal of the endorsement seems reasonable.

[34] Board staff recommend approval of the removal of the NSEF#35 endorsement. The Board agrees.

Automobile Insurance Manual Review

[35] Wawanesa proposed a few changes to its automobile insurance manual. The company made most of the changes to provide its brokers with more clarity in certain situations.

[36] Board staff reviewed the proposed changes and the manual on file with the Board. Staff did not find any areas where the company appears to be in violation of the Regulations.

[37] Board staff recommend the Board approve the proposed changes to the automobile insurance manual. The Board agrees.

III SUMMARY

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

[39] The Board finds the proposed rates are just and reasonable, and approves the changes effective June 1, 2020, for new and renewal business.

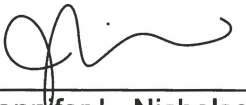
[40] The financial information supplied by Wawanesa satisfies the Board, under Section 155I(1)(c) of the *Act,* that the proposed changes are unlikely to impair the solvency of the company.

[41] 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 February 1, 2023.

[42] Board staff reviewed Wawanesa'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.

[43] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 1st day of April, 2020.



Jennifer L. Nicholson