

**NOVA SCOTIA UTILITY AND REVIEW BOARD**

**IN THE MATTER OF THE INSURANCE ACT**

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- and -

**IN THE MATTER OF AN APPLICATION by THE WAWANESA MUTUAL INSURANCE COMPANY** for approval to modify its rates for private passenger vehicles

**BEFORE:** Stephen T. McGrath, LL.B., Member

**APPLICANT:** THE WAWANESA MUTUAL INSURANCE COMPANY

**FINAL SUBMISSIONS:** November 3, 2018

**DECISION DATE:** November 19, 2018

**DECISION:** Application is approved.

## **I INTRODUCTION**

[1] The Wawanesa Mutual Insurance Company (Wawanesa or Company) filed supporting documents and materials (Application) with the Nova Scotia Utility and Review Board (Board) for approval to modify its rates for private passenger vehicles. The Application was filed electronically on November 1, 2018.

[2] As a result of a review by Board staff, a staff report dated November 2, 2018 (Staff Report), was prepared. The Staff Report was provided to the Company for review on the same date. The Company responded on November 3, 2018, indicating that it had reviewed the Staff Report and had no comments.

[3] The Board did not deem it necessary to hold an oral hearing on the Application.

## **II ISSUE**

[4] The issue in this Application is whether the proposed rates are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*.

## **III ANALYSIS**

[5] The Company sought approval to change its rates for private passenger vehicles. The Application was made under s. 155H of the *Insurance Act*, R.S.N.S. 1989, c. 231, and the Board's *Rate Filing Requirements for Automobile Insurance – Section 155H Expedited Approval (Rate Filing Requirements)*.

[6] Section 155H of the *Insurance Act* permits an insurer to apply for rates to be approved on an expedited basis if the average of the proposed rates for each coverage

and category of automobile insurance does not exceed an amount that is prescribed by the Board. The Board currently permits expedited approval applications for changes to rates for private passenger vehicles that are less than or equal to 4% on an all coverage combined basis. Changes to risk-classification systems cannot be made with an expedited approval application.

[7] An application for expedited approval does not qualify to reset the mandatory filing date.

[8] The proposed effective date is April 1, 2019, for new and renewal business.

### **Rate Level Changes**

[9] The Company proposed an overall rate level increase of 3.9% to its rates. The Board notes, however, that the Application only proposes increases to coverages for Bodily Injury and Accident Benefits. The proposed increases to each of these coverages is more than 4%, but the Application still qualifies for expedited approval because the all coverage combined increase is less than the 4% change permitted by the Board.

[10] An application for expedited approval under the *Rate Filing Requirements* does not require the production of updated actuarial indications. An insurer is still required to provide support for its proposed changes to base rates, but in doing so may compare its proposed rates to the indications and approved rate changes from its most recent mandatory filing or a more recent set of indications, if available. In some circumstances, other forms of justification for the proposed rates may also be permitted.

[11] In this case, Wawanesa compared its proposed rates to the indications it provided in its recently approved application for changes to its rates and risk-classification

system for private passenger vehicles (2018 NSUARB 129). That application resulted in an approved overall, uncapped, rate level increase of 15.9%, although the Board noted that the indicated overall rate level change was much higher.

[12] In Wawanesa's prior application, the Board permitted the Company to use a target return on equity (ROE) of 12%. Although this is higher than the target ROE that the Board has required companies to use in recent decisions, the financial information the Company presented to the Board at that time suggested that Wawanesa's circumstances may be different from the industry.

[13] The proposed rate increase in this Application will not cause Wawanesa to exceed the target ROE that the Board approved in the Company's last application. Wawanesa's actual ROE is expected to be much lower because the overall rate increase requested by Wawanesa in this Application, combined with its previously approved increase, is still well below the indications in Wawanesa's recently approved application.

[14] Board staff has recommended the approval of the rates proposed by Wawanesa in this Application, and the Board agrees.

### **Capping of Changes to Premiums**

[15] Wawanesa is proposing to continue capping changes to its premiums based upon the procedure approved by the Board in the Company's past application. The Company's existing procedure for capping changes to premiums uses a two-tiered approach. At the first tier, increases to premiums are capped at the greater of 25% and \$100. Decreases are limited to the greater of 2% and \$50. The second tier is triggered if certain events cause premium changes. These events were discussed in the Board's

Decision for the Company's last application. If such events occur, the cap on premium increases is the greater of 30% and \$100, while the cap on premium decreases is the greater of 25% and \$100.

[16] Although the proposed increases to rates in this Application will likely increase the number of times that the cap on changes to premiums is applied by the Company from what was anticipated in its last application, the fundamental nature of its capping procedure is unchanged, and Board staff have recommended the continued use of the premium dislocation cap as approved in the last application. The Board agrees.

#### **Automobile Insurance Manual**

[17] Board staff reviewed the Automobile Insurance Manual on file during the Company's past application and found no instances where the Company was in violation of the *Regulations*. Because the only changes requested in the Application are to rates, the Board does not require a new copy of the Automobile Insurance Manual.

#### **IV FINDINGS**

[18] The Board finds that the Application complies with the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

[19] The financial information submitted by the Company satisfies the Board, pursuant to Section 155l(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the Company.

[20] The Board finds the proposed rates are just and reasonable.

[21] The mandatory filing date for private passenger vehicles for the Company is maintained at April 1, 2020.

[22] The Board approves the effective date of April 1, 2019, for new and renewal business.

[23] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 19<sup>th</sup> day of November, 2018.



Stephen T. McGrath