



Information Bulletin 08-04

May 2, 2008

This bulletin highlights determinations by the Nova Scotia Insurance Review Board (the Board) that affect industry. This publication is not a legal document. It contains general information and is provided for convenience and guidance in applying the *Insurance Act* (Chapter 231 of the Revised Statutes of Nova Scotia, 1989, as amended) (the *Act*), and Regulations. In all circumstances reference should be made to the legislation.

Applications to Use IAO Actuarial Consulting Services Inc. Advisory Rates and Risk Classification System

IAO Actuarial Consulting Services Inc. (IAO) periodically provides its subscribers with its proposed rates and risk classification system and associated analysis for the Nova Scotia automobile industry. In the past the Board approved these rates and risk classification system by way of an Order prior to IAO releasing them. However, upon further review of the *Act*, the Board determined that IAO is neither a rating bureau nor an insurer as defined in the *Act*. As such, the Board concluded it has no jurisdiction to pre-approve the IAO proposals.

Having reached this determination, the Board acknowledges that, as a private consulting company, IAO provides an important service to its subscribers through its advisory information. In recognition of the role played by IAO, the Board has adopted a process for dealing with the IAO advisory submissions. The following process does not apply where a company approaches the Board to adopt IAO advisory rates and risk classification system (see page 2 for these applications).

Review of IAO Advisory Rates and Risk Classification System

IAO will provide its analysis of the Nova Scotia insurance market for a category/type of vehicle in the form it usually provides to its subscribers. Along with this information and a cover letter explaining the changes, IAO will provide a certificate of the actuary, completed profiles applicable to the type of vehicles, and a completed Appendix A (Summary of Information) that form part of the Section 155G Prior Approval guidelines. IAO will furnish the Board with 7 hard copies and 1 electronic copy of the information noted.

The Board will issue an advisory letter outlining its views on the proposed rates and risk classification system indicating what, if any, likely changes would be required if the application were to be made on behalf of a company, subject to the individual circumstances of the applicant company. The Board will not issue an Order.

Companies Wishing to Adopt IAO Advisory Rates and Risk Classification System

A company wishing to adopt IAO advisory rates and risk classification system would file an application under section 155G or section 155H, where appropriate. If the company's application reflects the required changes from the Board's advisory letter, the company should confirm this fact in the actuarial support section. The company is also required to include a copy of the advisory letter from the Board. It is incumbent on the company to obtain a copy of the Board's advisory letter from IAO to include in its application. If the proposal does not reflect the changes noted in the Board's advisory letter, the company must file complete actuarial information (see below for exception).

In addition, the company must provide a comparison of the expenses expected within the company to those assumed in the IAO submission. Any differences must be reflected in the proposed rates. As well, the appropriateness of the IAO target ROE must be discussed. Where a different ROE is appropriate, the impact of the change must be reflected in the application. Where the only difference in rates between those suggested in the Board's advisory letter and the application reflects differences in ROE and/or expenses, only information showing how the rate adjustments were determined need be included in the actuarial support section (i.e. complete actuarial information from the rate review is not required).

A new entrant company must provide a copy of its proposed rate manual and underwriting rules. An existing company must file any changes to its rate manual and underwriting rules.

A Board panel will review the application from the company under its legislated deadlines and will issue an Order.

Donna Boutilier
Executive Officer