

NOVA SCOTIA REGULATORY AND APPEALS BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by IAO ACTUARIAL CONSULTING SERVICES INC., AON CANADA INC. for approval to change its rates and risk-classification system for interurban trucks

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

APPLICANT: IAO ACTUARIAL CONSULTING SERVICES INC., AON CANADA INC.

FINAL SUBMISSIONS: March 31, 2025

DECISION DATE: May 28, 2025

DECISION: Application is approved.

I INTRODUCTION

[1] IAO Actuarial Consulting Services Inc., Aon Canada Inc. (IAO) applied to the Nova Scotia Regulatory and Appeals Board to change its rates and risk-classification system for interurban trucks. IAO applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. The company proposes rate changes that vary by coverage and result in an overall increase of 3.4%.

[2] In addition to changes to rates, IAO proposed changes to its classification, driving record, and deductible differentials.

[3] The Board must consider whether the proposed rates and changes to the risk-classification system are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*. The Board is satisfied that IAO's application meets these requirements and approves the proposed changes to the company's rates and risk classification system.

II ANALYSIS

[4] IAO applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. 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 IAO. The company reviewed the Report and informed Board staff that it had no comments.

[5] IAO provides a series of recommended rates and differentials to its subscribers. Companies wishing to use the IAO rates still must apply and prove to the Board that the IAO rates are appropriate to be used by that company, but they do not

have to re-file the actuarial support for the rates. IAO was expected to file on a set schedule, annually for interurban trucks, by March 1.

[6] The application qualifies to advance the mandatory filing deadline. Board staff recommend the Board work with IAO to develop a reasonable schedule to provide these annual filings that works with IAO's resource constraints and other commitments. The Board agrees.

[7] 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 IAO satisfactorily addressed all other aspects of the ratemaking procedure in its application and Information Request responses except for loss trends.

Loss Trends

[8] IAO adopted the loss trends selected by the Board's consulting actuaries, Oliver Wyman, as outlined in Oliver Wyman's report based on data through December 2023. The company did so without conducting its own actuarial analysis. IAO chose to use the Oliver Wyman trends to simplify the approval process and assumed the trends from its own analysis would be similar.

[9] In developing its selections, Oliver Wyman noted the recent increase in inflation occurring in Nova Scotia as well as the rest of Canada. Rather than allowing the heightened inflation to increase loss trends, Oliver Wyman included a scalar or level change parameter that would increase severity for Direct Compensation Property Damage, Collision, Comprehensive and Specified Perils. Oliver Wyman then developed

trends after this shock. The trends selected by Oliver Wyman would then apply to the “shocked” claims. IAO included this severity shock.

[10] Oliver Wyman also noted that while the future loss trends reflect higher inflation, companies may consider reducing the trends on the assumption the higher inflation will not persist. IAO selected the future rates to be the same as the past in coverages where the past rates are low. It chose 50% of the past trend rates for coverages where the past trend rate is high (i.e., Bodily Injury and Comprehensive). These adjustments seem reasonable.

[11] Board staff recommend the Board accept the IAO selected loss trends, which are based on the Oliver Wyman loss trends. The Board agrees.

Comparison of Proposed Rates to Indications

[12] IAO proposed rates that match the indications for all coverages except the Family Protection Endorsement (SEF#44). The indications for this coverage recommend a decrease whereas the proposal increases the average premium slightly. The IAO value for this coverage is about half of the industry average premium. While the experience suggested a decrease, even with industry data there is limited credibility in the results. Given the IAO rates will be used with small portfolios of vehicles, lowering the SEF#44 premium would further expose a company to greater loss in the event of claims under this coverage. In this light, a reduction would not be prudent, while a gradual increase towards the industry average seems reasonable.

[13] Companies that use the IAO rates generally have a small amount of business, which presents a greater risk to the company due to the increased volatility of the experience. The use of a 12% return on equity instead of 10% that the Board has

required larger companies to use, seems reasonable. The proposal for SEF#44 would result in a slightly higher ROE (12.06%). Given the rationale for accepting the SEF#44 proposal, this overage does not warrant the Board requiring a change to reduce the ROE. Board staff recommend the Board approve the proposed rate changes. The Board agrees.

Issues Regarding Other Proposed Changes

Differentials or Relativities

[14] IAO proposed changes to many of its differentials or relativities, namely classification, driving record, and deductible differentials. No other changes were proposed. IAO does not rate these vehicles by territory.

[15] IAO provided the analysis of indicated values for each of these differentials/relativities and the company's selected values. These selections followed the indications but, in some cases, IAO applied a cap so that the change did not exceed $\pm 10\%$ of the current differential. IAO applied actuarial judgment in cases where the indicated differentials produced anomalous results.

[16] The analysis provided, and the selected changes seem reasonable. IAO adequately supported its proposed differentials/relativities. Board staff recommend the Board approve the proposed differentials. The Board agrees.

Rate Group Tables

[17] IAO updated its suggested rate group tables (Table I, Table II and Table IIA) for use as its recommended tables as of January 2025. This approach is consistent with IAO's previous applications and is reasonable. Board staff recommend the Board approves the use of the new rate group tables. The Board agrees.

III SUMMARY

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

[19] IAO provides an effective date of July 1, 2025. Because the company does not issue policies, there is no new business and no renewals. IAO wishes to recommend to its subscribers that the proposed rates be effective on that date. Board staff recommend the Board approve this effective date. The Board agrees.


[20] The application qualifies to advance the mandatory filing deadline. Board staff recommend the Board work with IAO to develop a reasonable schedule to provide these annual filings to avoid having IAO request extensions for future filings.

[21] Because IAO is not an insurer, there is no financial information provided, nor is any required. The impact of these rates will be assessed when a company applies to use them.

[22] The company proposed no changes to the recommended automobile insurance manual. Board staff found no areas of concern with the IAO manual on file. Because the changes are to base rates, differentials, and rate group tables, which are not included in the automobile insurance manual, the Board does not require an updated automobile insurance manual for interurban trucks.

[23] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 28th day of May 2025.



Bruce H. Fisher