

DECISION

**NSUARB-INS-09-73
2010 NSUARB 31**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **LOMBARD GENERAL INSURANCE COMPANY** for approval to modify its current rates and risk-classification system for public miscellaneous vehicles

BEFORE: Roberta J. Clarke, Q.C., Member

APPLICANT: **LOMBARD GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: **January 26, 2010**

DECISION DATE: **February 8, 2010**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Lombard General Insurance Company (“LGIC” or the “Company”) filed an application with the Nova Scotia Utility and Review Board (the “Board”) for approval to make changes to its current rates and risk-classification system for public miscellaneous vehicles. The supporting documents and materials (the “Application”) dated December 30, 2009, were received by the Board on December 31, 2009.

[2] As a result of a review by Board staff, a staff report dated January 20, 2010 (the “Staff Report”), was prepared.

[3] The Staff Report was provided to the Company for its review on January 22, 2010. The Company responded on January 26, 2010, indicating it had no further comments.

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

II ISSUE

[5] The issue in this Application is whether the proposed rates and changes to risk-classification system are just and reasonable and in compliance with the *Insurance Act* (the “Act”) and *Regulations*.

III ANALYSIS

[6] LGIC sought approval to change its rates and its risk-classification system for public miscellaneous vehicles (ambulances, buses, and taxis). The Application was made in accordance with the Board's *Rate Filing Requirements for Automobile Insurance - Section 155G Prior Approval*. The proposed effective date is May 1, 2010, for both new business and renewal business.

Background

[7] LGIC is one of the Lombard Canada group of companies. Although it is the largest of that group writing coverage for public miscellaneous vehicles, it is the only one currently doing so in Nova Scotia. The Company's book of such vehicles is small.

Rate Level Changes

[8] The Company proposed changes to its rates and risk-classification system. Because its small book of business would not produce meaningful or credible actuarial analysis, LGIC chose to compare its rates to the Insurers' Advisory Organization ("IAO") rates. The Board notes that the most recent IAO analysis for use in Nova Scotia was approved by the Board in 2007. The Board finds this to be an acceptable approach, and is satisfied that this meets the mandatory filing requirements for this class of vehicles. Therefore, the deadline for the mandatory filing for this class of vehicles only is reset to December 1, 2012.

[9] The Company chose to use the IAO rates as a basis for the Application. LGIC illustrated that its expenses and return on equity (“ROE”) were higher than those assumed by IAO; however, the Company decided to accept the level of expenses and the ROE chosen by IAO.

Risk Classification Changes

[10] LGIC proposed to adopt as a new discount the IAO recommended 10% Exclusively Owner Driven Taxis Discount. The Company also proposed to retain its Conviction Surcharge, and to offer higher deductibles than IAO included. The surcharge and the higher deductible were the only differences to the IAO risk-classification system proposed by the Company.

[11] The Conviction Surcharge increases with the number of convictions. The Company’s position is that drivers with previous convictions are more likely to experience more or larger claims, and therefore it seeks higher premiums to compensate for this risk. The Company has added its current schedule for this surcharge to the IAO risk-classification system.

[12] The Company currently offers deductibles ranging up to \$25,000, which is higher than those included by IAO. LGIC wishes to retain those deductibles. The Company advised the Board that where differentials for deductibles were not available from IAO, LGIC had interpolated from IAO differentials.

[13] The proposal to adopt IAO rates will result in slightly more than 88% of vehicles currently written by the Company experiencing a decrease in rates. Only a very

small percentage would see an increase in excess of 10%. As a result, the Company did not propose to introduce a premium dislocation cap.

[14] The Board notes that currently, the Company does not have any non-fleet taxis or ambulances in its book of business. The Board understands that LGIC wants to have these rates available in the event the Company decides to cover such a vehicle.

[15] Given the relatively small book of business, and the information provided by the Company, the Board finds that the adoption of the IAO rates and the proposed modifications to the IAO risk-classification system are just and reasonable.

Rate Manual Review

[16] LGIC did not file revised manual pages with this Application. In 2009, the Company had filed its Rate Manual with its private passenger application (NSUARB-INS-09-21) and commercial vehicle application (NSUARB-INS-09-50). A review by Board staff in that Application noted some issues which have been resolved, and there are now no concerns about the Rate Manual.

IV FINDINGS

[17] The Board finds that the Application complies with the *Act* and *Regulations*. Based upon the information provided, the Board is satisfied that the proposal to maintain the rates will not jeopardize the financial solvency of the Company or the Lombard Group. The proposal for changes to the Company's rates and risk-classification system for its

public miscellaneous vehicles is just and reasonable in the circumstances of this filing. The Board therefore approves the proposal of LGIC as described in its Application. The Board approves the effective date of May 1, 2010, for new business and for renewals.

[18] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 8th day of February 2010.

Roberta J. Clarke