DECISION **NSUARB-INS-10-29**
2010 NSUARB 151

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **METRO GENERAL INSURANCE CORPORATION LIMITED** for a change in its rates and risk-classification system for private passenger vehicles

BEFORE: Murray E. Doehler, CA, P.Eng

DECISION DATE: **July 15, 2010**

DECISION: **The application for changes in rates and risk-classification system is approved.**

A. INTRODUCTION

[1] Metro General Insurance Corporation Limited ("Metro" or the "Company") filed an application with the Nova Scotia Utility and Review Board (the "Board") for approval to change its rates and risk-classification system for private passenger vehicles. The supporting documents and materials (the "Application") came with a covering letter dated March 29, 2010, received on April 1, 2010. The Application was amended by the Company on April 30, 2010, to address some concerns expressed by Board staff.

[2] On May 11, 2010, the Board issued Information Requests ("IRs") to Metro to which the Company responded on May 17, 2010. Follow-up IRs were sent on May 17, 2010, to which Metro responded on May 18, 2010. A final set of IRs were sent on May 18 and 20, to which Metro responded on May 18, 20, and June 2, 2010.

[3] The Board staff reviewed the Application and prepared a Staff Report, dated June 2, 2010, (the "Staff Report"). The Staff Report was sent to Metro for their review on the same date to which they responded on June 11, 2010, with a disagreement on trends. Board staff reviewed the additional arguments and prepared a reply memo which was sent to the Company. Metro replied on June 14, 2010, that they had nothing further to add.

[4] The Board did not deem it necessary to have an oral hearing for this Application. This Decision is based on the Amended Application, the Staff Report and the Reply Memo.

B. CONFIDENTIALITY

[5] In a letter to the Board dated April 26, 2010, the Company requested that the entire rate filing be kept confidential because:

> … as a Newfoundland and Labrador incorporated company, they are not required to provide financial data to the public. The Company is concerned that, given their small size, the public release of their financial information will be used by their competitors to their detriment. The Company does not release any financial information publicly.

[6] The Board understands from this request that the Company is privately held, in other words, not publicly traded on a stock exchange, and as such, it does not release its financial statements to the public. The location of its incorporation is not a determining factor. The Board has adopted the decision issued by the predecessor board, on confidentiality. In that decision it was determined that sections 5, 6, 8, and 11; section 7 excluding revised manual pages; and section 4 excluding questions 1, 2, 13, 15, and 16 of an application are considered to be confidential. All other sections are considered to be non-confidential, unless decided otherwise by the Board.

[7] The Board is sympathetic with the desire of a small, privately-held, corporation to keep details of its financial statements confidential. This, however, must be balanced against the Board's obligation to be as transparent and open as possible. With the exception of section 12, financial data, the Board finds there are not sufficient reasons why all the sections, with the exclusion of those already identified by the Board to be confidential, should not be made public.

[8] In reviewing rate applications, one of the concerns of the Board is the financial solvency of the Company. A key element used by the Board to address this concern is the financial statements which are filed as section 12. To have a minimal understanding of financial solvency the consolidated balance sheet and income

statement of the insurance operations of the Company must be available. Accordingly, the Board accepts, except for pages 20.10, 20.20, 20.30 and 20.40 of the generic forms labeled "P&C -1" in the lower left hand corner, the request of the Company to keep the remainder of section 12 confidential.

C. ANALYSIS

[9] The Application was made under s. 155G of the *Insurance Act*, R.S., c. 231 (the "*Act*") using the Board's *Rate Filing Requirements for Automobile Insurance - Section 155G Prior Approval*. The Board approved an extension of the original mandatory filing date of February 1, 2010 to March 31, 2010. The Application fulfills Metro's requirement under the mandatory filing schedule produced in compliance with the *Mandatory Filing of Automobile Insurance Rates Regulations*. The Application had requested an effective date of July 1, 2010 for both new and renewal business. On July 12, 2010, Metro requested this date be amended to September 1, 2010.

[10] In the Application, the Company proposes changes to base rate and differentials that result in an overall 9.9% increase. The changes based on rate indications suggest an overall rate increase of 10.9%.

[11] The Board, in reviewing all aspects of the rate making procedure reviewed the loss trends and the effects of reform, loss development, unallocated loss adjustment expense provisions, credibility standards and procedure, expense provisions, experience period and weights, and target Return on Equity ("ROE") and premium to surplus ratio. The Board found the loss development, unallocated loss adjustment expense provisions, credibility standards and procedure, experience period and

weights, and target ROE and premium to surplus ratio to be reasonable and did not perform any further analysis.

1. Loss Trends

[12] The Board uses as its consulting actuary Oliver Wyman ("OW") for most coverages. The derived past and future loss trends from OW are higher than those selected by Metro except for Third Party Liability ("TPL") - Bodily Injury ("BI") past and future and the collision future trend. The ratio of the TPL coverage to the total premium is so significant that any differences in opinion on trends for indicators can have a dramatic affect on the average overall premium indication. In this case, using the OW data indicates that there should only be a 1.8% increase in total premiums (versus Metro generated 10.9% increase).

[13] Metro, in developing its indications, relied upon its own data for the past three years plus a review of the industry experience for the 10 years 1999 to 2008. To ensure the TPL – BI data was comparable, Metro had adjusted the data for the impact of the reform that had happened in 2003. Metro also, in generating its trend selections analyzed them for both frequency and severity. OW only focuses on loss cost as a whole. OW normally selects these loss trends based on the past 10 years of data; however, argue that the most recent data is dramatically different from the years before it and thus focused its selections on an analysis of the last three to five years of data.

[14] When Metro was presented with the TPL-BI assumptions that were made by OW they stated as follows:

> I am very uncomfortable with the short time frame that is being used particularly when it includes a data point that is that is out of line with the historical results (and acknowledged as such in their document). I have lowered the past trend to equal the

> longer time frame trend of -3.84%. An annual future trend of -7.5% produces, in my opinion, unsupportable results. The severity trend continues to be positive (approximately 5%, 2009/2007) and frequency appears to have bottomed out and has begun to increase. Given this, I prefer to use the inflation rate as the future trend. Using a -7.5% for three years, lowers the loss costs by 21% and gives a nonsensical result, particularly for accident year 2008.

[15] With this information the Staff Report was drafted and shared with Metro. The Staff Report had concluded that a future trend for TPL-BI should be negative and not positive as determined by Metro. In response the Company replied on June 11, 2010, as follows:

> … We are very uncomfortable taking a decrease in TPL at this time when the indication is largely a function of a negative future trend. It appears that both frequency and severity are increasing. The frequency of TPL –PD claims is also increasing indicating that the number of accidents is not decreasing. ...
>
> …The Company's portfolio is concentrated in statistical territory 500 (remainder). The five year loss ratio for this territory is well above the other territories (60% for stat terr 500, 53% for all others). ...
>
> The reforms will certainly increase losses for Bodily Injury. Using the staff indication and the OW estimate of a 17% increase in BI loss costs, the overall indication is Metro General is 10.4%. …

[16] In the reply memo Board staff partially supports Metro's position in that the future trend for TPL-BI should be either a zero or small positive.

[17] The Board staff position results in a greater negative TPL indication than calculated by Metro. As Metro is proposing no change to the base rate for TPL, this means this portion of the premium is subsidizing other coverages. It is noted Accident Benefits, which is part of the mandatory coverage, indicates a negative change whereas there is a zero proposed change. This is also helping to subsidize other coverages. The main beneficiary of subsidization is Comprehensive, an optional coverage, which has a very large positive indicated change, but a small proposed change. The Board notes that the vast majority of the policyholders take Comprehensive coverage.

[18] Metro, by not changing the premium for TPL to be in accordance with the revised indications, not only subsidizes other coverages, but also increases the ROE. It is estimated by the Board that the ROE will exceed the Company's target of 12.0%, but not outside a range deemed acceptable to the Board.

[19] Conclusions on the loss indications are considered together with the analysis of the expense provisions.

2. Expense Provisions

[20] In its calculation of indicated rate changes Metro made an adjustment for the HST reductions that occurred in the past (i.e. the recent reduction of the federal portion from 7% to 6% to 5%). In this Application Metro did not reflect the recently passed increase in the HST (from 13% to 15%) scheduled for July 1st of this year. It was determined that if Metro had recognized this change the overall indication would have increased by 1.6%.

[21] The impact of not recognizing the change in HST will directly affect Metro's ROE. As described earlier in this decision regarding trend indications, there is a possibility that Metro may exceed its targeted ROE. The affect of not recognizing the HST change will temper this potential increase. In all likelihood the net result is for Metro to achieve its target ROE.

[22] The Board accepts that the loss indications and expense provisions combined, support the proposed premium changes by coverage as filed in the Application.

3. Territorial Changes

[23] In the Application, Metro opted to make no changes in its territorial rates. This is contrary to the indications that suggest some small changes could be made, however the indications are based on data with limited credibility. The Company, to maintain competitive position, and for simplicity, opted to maintain the rates.

[24] The Board accepts the maintenance of the present territorial differences.

4 Gender Differentials

[25] Metro provided a gender analysis based on limited company data along with data from the Insurance Bureau of Canada. The analysis suggested that some changes are indicated; however, for most classes, the changes are relatively small. The one exception was for class 05, occasional female drivers, where the indications suggested increases for TPL and Collision. The Application proposes to increase the differential to match the indications.

[26] The impact of this change was not off-balanced and, accordingly, results in an overall increase in the TPL coverage because of this differential change. The actual base rate change is still zero.

[27] The Board accepts the change in the female occasional operator differential.

5. Competitive Position

[28] Metro provided comparison of its rates to those of its competitors for a number of profiles. This information shows that even with the increases proposed,

Metro remains competitive. It also confirms an assertion by Metro that if it took the full indicated increase for Comprehensive it would be uncompetitive for this coverage.

6. Premium Dislocation

[28] As a result of the changes, all of Metro customers will experience an increase. As calculated in the dislocation table, it will not exceed 10% as Metro's application does not propose a premium dislocation cap.

7. Rate Manual Review

[30] Metro proposed no rating rule changes in this Application. A review of the manual pages revealed no areas where they are in violation of the *Act*.

D. FINDINGS

[29] The Board finds this Application includes full actuarial indications that meet the requirements of the regulations and hence qualifies to reset the next mandatory filing deadline to be April 1, 2012.

[30] The Board finds that the Application is in compliance with the *Act* and *Regulations*. The Board notes that Metro experienced an increase in loss ratios in 2009, and that this was considered in the determination of the new rates. Based upon the information provided, the Board is satisfied that the proposal to increase rates will maintain the Company's competitive positioning and will not harm the financial solvency of the Company.

[31] The Board accepts these rate changes to be effective as of September 1, 2010, for new and renewal business.

[32] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 15th day of July, 2010.

Murray E. Doehler