

# Mandatory Filing of Automobile Insurance Rates Regulations

## Fact Sheet

### Background

The Province of Nova Scotia enacted automobile insurance reforms in 2003 to enhance stability, fairness and protection for consumers. These reforms require that insurance companies seek approval of proposed rate changes and risk classification systems with provincial regulators. Government wants to ensure that this regulatory regime continues to deliver substantive benefits to consumers.

About 62 percent of insurance companies active in Nova Scotia – representing just over 35 percent of the market – have not filed a full, actuarially justified rate application for private passenger vehicle insurance since 2005, and almost 38 percent – representing 18 percent of the market – have not done so since 2004. The appropriateness of automobile insurance rates requires re-evaluation when full, actuarially supported rate applications have not been filed for an extended period of time.

Government is introducing regulations requiring mandatory filing of rates and risk classification system.

### Purpose of Mandatory Filing

The regulations, which come into effect October 1, 2008, require automobile insurance companies to apply for approval of rates and risk classification systems on a pre-determined, periodic basis with the Utility and Review Board (UARB), which will assume the responsibilities of the Insurance Review Board (IRB). Periodic filings will provide assurance to consumers that approved rates and risk classification systems continue to be appropriate with the passage of time.

In addition, periodic reviews will enhance rate stability by reducing the risk of large, infrequent changes in automobile insurance rates.

### Filing Frequency

The regulations provide that an insurer offering automobile insurance in Nova Scotia must file an application:

- for private passenger vehicle (PPV) insurance within 24 months of filing its most recently approved application with the UARB
- for all other vehicle insurance within 36 months of filing its most recently approved application with the UARB.

“Application” means an application for approval of an insurer’s rates and risk classification system, in accordance with Section 155G of the *Insurance Act* and any guidelines issued by the Board.

### Filing Deadlines

The Board must publish a schedule of initial filing dates. In establishing the schedule, the Board will generally require that insurers with the oldest date of last approval file first.

The earliest that any insurer must file an application under these regulations is January 1, 2009.

Insurers may file earlier than their deadline should they wish to do so. For example, if an insurer is required to file an application for PPV insurance by June 30, 2010, but decides to file on September 30, 2009, the company would next be required to file again by September 30, 2011.



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## Consultation Summary

### Background

Government announced plans to implement Mandatory Filing of automobile insurance rates earlier in 2008.

Industry was consulted about the proposed regulations and a discussion paper was released publicly with an invitation to comment.

Input was sought on two key implementation issues:

- frequency of filing (annually, every 18 months or every two years); and,
- timing of initial filing (requiring all companies to file at same time or developing a schedule of filing deadlines).

13 responses were received – 11 insurance companies (with total market share of about 36 percent) and two industry organizations (Insurance Bureau of Canada (IBC) and the Canadian Association of Direct Response Insurers (CADRI)).

New regulations will come into effect on October 1, 2008. Mandatory Filing requires automobile insurance companies to apply for approval of rates and risk classification systems on a pre-determined, periodic basis with the Utility and Review Board (UARB).

Periodic filings will provide assurance to consumers that approved rates and risk classification systems continue to be appropriate with the passage of time.

### Frequency of Filing - Private Passenger Vehicles

#### What we heard

Seven responses indicated that they do not support mandatory filing, expressed concern regarding the costs of preparing full filings and questioned what benefits will be realized.

Nine responses indicated that if mandatory filing is going to be implemented, Option Three in the Discussion Paper, which called for filing applications for private passenger vehicle (PPV) insurance every two years, would be the most preferable of the options presented. Two responses suggested less frequent PPV filings of every three years.

#### Decision

Government is proceeding with Option Three, and will require applications for PPV insurance to be filed and approved every two years. This balances concerns of insurers regarding the costs of filing with the need to assure consumers that rates are kept up to date.





## Timing of Initial Filing

### What we heard

Some responses expressed concern that the Nova Scotia Insurance Review Board (IRB) would have difficulty processing in a timely manner an increased volume of applications.

Ten responses supported either Option Two or Option Three in the Discussion Paper, which proposed a schedule of fixed dates instead of a single, fixed date by which insurers must file. Some responses suggested that insurers be required to file by a certain date, with the option of filing earlier. Several commenters suggested that PPV and non-PPV applications not be required to be filed in the same year.

### Decision

Government will assign IRB responsibilities to the Utility and Review Board (UARB). Combining the resources of the IRB and UARB will result in economies of scale that will help ensure the timely and efficient review of an increased number and frequency of automobile insurance rate applications for the benefit of consumers and industry. The UARB is well suited to absorb the responsibilities of the IRB and will be able to effectively administer the new mandatory filing regulations.

The new regulations require the Board to publish a schedule of filing dates. In establishing the schedule, the Board must, if reasonably practical, ensure that insurers with the oldest date of last approval be given earlier filing deadlines than insurers with more recent dates of last approval of a full filing. The earliest that an insurer will be required to file an application under the regulation is January 1, 2009. Insurers will be able to file earlier than their deadline should they wish to do so. The Board will have discretion in deciding whether to require insurers to file PPV applications at the same time as non-PPV applications.

## Frequency of Filing - Non-Private Passenger Vehicles

### What we heard

Responses almost unanimously agreed that applications for non-PPV insurance should be required to be filed less frequently than those for PPV insurance.

Most suggested that a filing frequency for commercial vehicle insurance of every three years or four years would be reasonable. Some responses suggested that insurers writing a small volume of non-PPV business should be exempt from mandatory filing requirements, in particular for miscellaneous lines of business (ie. not PPV and not commercial). Several responses were concerned that the cost of filing full applications for miscellaneous lines is proportionately more costly than PPV applications.

### Decision

Government will require applications for non-PPV insurance to be filed and approved every three years. This balances concerns of insurers regarding the costs of filing with the need to assure consumers that rates are kept up to date. All insurers, regardless of size or volume of business, have the same requirement to file every three years, ensuring a level playing field.

### Other Issues

Several responses raised concerns regarding current content requirements for applications, particularly for non-PPV applications. Some commenters also raised concerns regarding the manner in which applications are evaluated by the Board. Government will ensure that the Board is aware of these concerns.

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## Questions and Answers

**Q. What do the Mandatory Filing of Automobile Insurance Rates regulations mean?**

**A.** The new regulations, which come into effect October 1, 2008, require automobile insurance companies to apply for approval of rates and risk classification systems every two years for private passenger vehicles and every three years for all other vehicles.

**Q. Why is Government introducing mandatory filing of automobile insurance rates?**

**A.** The purpose of the regulations is to provide assurance to consumers that approved rates and risk classification systems continue to be fair and reasonable with the passage of time. Therefore, the appropriateness of automobile insurance rates requires re-evaluation when full, actuarially supported rate applications have not been filed for an extended period of time. Overall, Government believes that rate and risk classification system filings have not been as frequent as they should be.

**Q. What are the benefits of mandatory filing of automobile insurance rates?**

**A.** The benefits of mandatory filing include: ensuring that auto insurance rates are kept up to date and consistent with current market conditions; ensuring rates are independently reviewed for fairness and reasonableness on a regular basis; and helping to prevent large, infrequent changes in rates.

**Q. Will my insurance premiums go down as a result of mandatory filing of automobile insurance rates?**

**A.** Mandatory filing will not necessarily mean that rates or premiums will go down. It will ensure that rates remain just and reasonable.

**Q. How often does my company have to file rates?**

**A.** The new regulations require automobile insurance companies to apply for approval of rates and risk classification systems within 24 months of filing their previous application for private passenger vehicles (PPVs) and within 36 months of filing their previous application for all other vehicles (non-PPVs). The Board will publish a schedule of initial filing dates for each company.

**Q. What happens if a company files earlier than required? Is the "clock" reset?**

**A.** A company may file earlier than required. The company will next be required to file within 24 months of the last application filing date for private passenger vehicles (PPVs) or within 36 months of the last application filing date for any other vehicle.

For example, if a company is required to file an application for PPV insurance by June 30, 2010, but decides to file an application on September 30, 2009, the company would no longer be required to file by June 30, 2010, but would instead be required to file again by September 30, 2011.



**Q. When does the “clock” start ticking – from date of filing or date of approval?**

**A.** The regulations require that an application for PPV insurance be filed within 24 months of its date of last filing with respect to PPV insurance.

However, for the initial filing schedule, the Board will use the date of last approval as the primary criteria for establishing filing dates – those companies with the oldest date of last approval will generally be given earlier filing dates.

**Q. When will the schedule for initial filings be released?**

**A.** The Board will develop the schedule for initial filings by early October 2008. The primary criterion used to determine the schedule will be the date of last approval – those companies with the oldest date of last approval will generally be given earlier filing dates than insurers with more recent approval dates of last approval. No company will be required to file until at least January 1, 2009.

**Q. What information are companies required to file?**

**A.** Insurance companies are required to file full, actuarially supported applications under section 155G of the *Insurance Act*. Specific filing requirements are determined by the Nova Scotia Insurance Review Board (IRB) and effective October 1, 2008 it will be determined by the Utility and Review Board (UARB). Further information regarding filing requirements can be found at [www.gov.ns.ca/nsirb](http://www.gov.ns.ca/nsirb).

**Q. Must a company file for approval of both rates and risk classification systems, even if there are no changes to the risk classification system?**

**A.** Yes. Insurance companies are required to file full, actuarially supported applications under section 155G of the *Insurance Act*. The purpose of the regulations is to provide assurance to consumers that approved rates and risk classification systems continue to be fair and reasonable with the passage of time.

**Q. Would filing a rate application under one of the expedited processes available qualify as a filing under this regulation?**

**A.** No. To qualify as a filing under these regulations, insurance companies are required to file full, actuarially supported applications under section 155G of the *Insurance Act*.

**Q. My company writes a very small volume of business for several non-PPV lines. Must the company file rate applications for each non-PPV line, or can we be exempt due to the small volume of business that we write?**

**A.** Filing requirements under these regulations are the same for all companies writing automobile insurance in Nova Scotia, whether large or small, and regardless of volume of business written.

**Q. What would be an “exceptional circumstance” that may result in an extension to the deadline for my company to file an application?**

**A.** The intent of this provision is to acknowledge that, from time to time, events may occur that are beyond the control of a company that may make it impossible or unduly difficult to meet a filing deadline. Should such an event occur, a company may apply to the UARB for an extension. The UARB may grant an extension based on the merits of the circumstances. The UARB may provide further guidance concerning the information required from a company seeking an extension.