Overview of KPMG Report 2003
Nova Scotia Insurance Act Proposals

1. Retainer of KPMG

NS retained KPMG Actuaries to cost the approved Government Insurance Plan "Reducing Rates: A Plan that Works" which was issued on June 25, 2003. After initial discussion, additional items included:

- instituting collateral source rule (eliminating double recovery)
- changing the discount rate used to calculate the cost of future care, future income losses and other future entitlements from 2.5% to 3.5% (selected 3.5% based on a Consumer Price Index of 2% and rate of return of 5.5%, a reasonable rate based on long-term Government of Canada bonds).
- using net income (take home pay) rather than gross income in the determination of loss of future earnings.

2. Ontario comparison

The actuary reviewed these from the perspective of what was in the Ontario legislation in the early 1990's. Ontario introduced a "verbal threshold", which directed that only claimants with serious permanent impairment could sue for pain and suffering damages. The Ontario Motorist Protection Plan (OMPP) provided no access to tort remedies for claimants falling below the verbal threshold. Thus, in some respects OMPP can be considered a more strict and limiting system than that proposed by Nova Scotia.

3. Rates

NS was found to have a current average street premium of $1,049 in the report, which is lower than the average of $1,209 in New Brunswick. The department understands that part of this difference is that NB increased its section B benefits some time ago.

If rates were adequate in Nova Scotia, the full impact of tort reform and all proposed changes would achieve a 28.8 % savings that could be passed on directly to consumers. Since rates are **not** currently adequate, the reductions would be 18.6% assuming a 10% return on equity (ROE) and 23.4 % assuming a 5% ROE.

The department has used a 5% ROE, although many companies suggest that a 5% assumption is not adequate. KPMG has not offered any comment on what a reasonable rate of return on equity would be. The department recognizes that many companies have underachieved this return over the past 5 years, and that the Federal Office of the Superintendent of Financial Institutions uses an 8% ROE for its reviews. Assuming some flexibility in the ROE, the average 20% reduction in rates can be achieved.

Summary of Findings

Change	Impact
Tort Reform $2,500 Limit with Threshold	-26.8 %
From Gross to Net Income	-0.7%
Elimination of Collateral Source Rule	-1.7%
Discount Rate Change-from 2.5% to 3.5%	-0.3%
Subtotal of these changes	-28.8%
Since rates are not currently adequate, the changes are reduced to the following range, assuming a 10% and a 5% ROE	**-18.6% to –23.4%**
Facility Association estimated savings for Risks moving out due to Insurance Act regulations	40%