NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by ECONOMICAL MUTUAL INSURANCE COMPANY for approval to modify its rates and risk-classification system for miscellaneous vehicles

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

APPLICANT: ECONOMICAL MUTUAL INSURANCE COMPANY

FINAL SUBMISSIONS: February 22, 2018

DECISION DATE: March 7, 2018

DECISION: Application is approved.
I INTRODUCTION

[1] Economical Mutual Insurance Company (Economical or Company) filed supporting documents and materials (Application) with the Nova Scotia Utility and Review Board (Board) for approval to modify its rates and risk-classification system for miscellaneous vehicles (MV). The Application, dated November 17, 2017, was filed electronically on November 20, 2017, and the original documents were received on November 22, 2017.

[2] Information Requests (IRs) were sent to the Company on December 18, 2017, and responses were received on January 9, 2018. The Company noted it would provide a further exhibit to answer one of the IRs. On January 18, 2018, the Company provided the exhibit and further advised that it would not underwrite Antique Vehicles in the future. Additional IRs were issued on January 19 and 22, 2018, to which the Company responded on January 23, 2018. A final IR was issued to the Company on January 23, 2018. The Company responded on January 24, 2018.

[3] As a result of a review by Board staff, a staff report dated January 25, 2018 (Staff Report) was prepared. The Staff Report was provided to the Company for review on January 25, 2018. The Company responded on February 1, 2018, indicating that it had reviewed the Staff Report, and made several amendments to its Application.

[4] On February 5 and 9, 2018, Board staff sent further IRs to the Company regarding short rate cancellation tables. The Company replied on February 9 and 19, 2018, respectively. Board staff had further questions, which were sent to the Company on February 16, 2018, and the Company’s replies were received on February 20, 2018.
Board staff prepared an amended Staff report dated February 20, 2018, which was provided to Economical on that date. The Company responded on the same date, indicating it had reviewed the revised report. It proposed a change in an effective date and made some minor corrections. Board staff then made the corrections and provided the corrected version of the report to the Company on February 20, 2018. The Company responded on February 22, 2018, indicating it had reviewed the corrections and had no further comments.

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

II ISSUE

The issue in this Application is 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.

III ANALYSIS

The Company sought approval to change its rates and its risk-classification system for MV, i.e., Motorcycles, Snow Vehicles, All-Terrain Vehicles, Motorhomes, and Trailers. It proposed to create a common rating structure for itself and its sister company, Waterloo Insurance Company (Waterloo). Waterloo will no longer underwrite automobile policies in Nova Scotia, and all their business here will be rolled into Economical. The Application was made in accordance with the Board’s Rate Filing Requirements for
Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements).

Economical and Waterloo each had a mandatory filing date of December 1, 2017.

[9] The revised proposed effective dates are July 4, 2018, for new business and August 1, 2018, for renewal business.

Rate Level Changes

[10] The Company proposed to change base rates and differentials, as well as the risk-classification system. The proposed changes represent an overall rate level decrease of 0.2%.

[11] In addition, the Company proposed:

- A change to its fixed expense structure;
- Changes to several differentials, rating variables and discounts;
- Introduction of a number of new rating variables; and,
- Introduction of a number of new endorsements and changes to existing endorsements.

[12] Economical did not provide actuarial indications to support its proposed increases as it said that the volume of MV business it underwrites is too small to yield credible results. It said it underwrites these vehicles on an accommodation basis for its private passenger clients. The information provided by the Company satisfies the Board that the MV business is a small share of Economical’s total business in Nova Scotia.

[13] In circumstances like this, the Board allows an insurance company to compare itself to the industry by either analysing industry data, comparing its proposed rates to rating bureau rates, or comparing its rates to other companies’ rates. In this Application, Economical provided a comparison of its average premiums to those of other companies, based on data from the General Insurance Statistical Agency (GISA). The
Board has accepted this approach in other instances and, based on Board staff recommendations, accepts it for this Application.

[14] The Board notes that the GISA information and the Company's information does not cover the same time periods, but is satisfied that the difference of approximately six months does not materially influence the comparison. The Board also notes that GISA does not provide the average premiums for Trailers.

[15] The Board observes that, for Motorcycles, All Terrain Vehicles and Motorhomes, the Economical premiums are lower; however, for Snow Vehicles, the premiums are significantly higher. Since Economical's share of the Snow Vehicle market is relatively small, Board staff cautioned that it should not be inferred that Economical's rates for such vehicles are too high. In the circumstances of this Application, the Board is satisfied that the comparison with the rates of other companies shows that the proposed changes will result in just and reasonable rates.

Expenses

[16] The Company proposed, as it had in its most recent commercial vehicle (CV) and private passenger vehicle (PPV) applications, to recover some of its fixed expenses by a flat charge assigned to its clients per vehicle, added to the premium for Bodily Injury coverage, except where vehicles carry Comprehensive coverage only, where it will be added to the premium for that coverage. The charge varies by type of vehicle and is approximately 5% of the average premium. The charge will not be shown separately, but will appear as part of the premium. It will not apply to Trailers, however.
[17] Board staff have recommended that the Board accept the use of the fixed expense charge to enable the Company to recover some costs on a direct per exposure basis. The Board accepts this recommendation.

**Territorial Changes and Territorial Differentials**

[18] Currently, Economical does not rate MV by territory, except Motorhomes which are dependent on PPV territories. The Company proposed to introduce the use of GISA territories (except for Trailers). This will include Motorhomes which now becomes an independent category.

[19] Economical provided the required map outlining the proposed new territories.

[20] The Company off-balanced the impact of the proposed changes.

[21] The Board accepts the recommendation of Board staff to approve the proposed GISA territories, the territorial differentials, and the change for Motorhomes.

**Rating Variable and Differential Changes**

[22] Unlike its applications for PPV and CV, Economical stated it did not have sufficient information to conduct a Generalized Linear Model analysis for MV. It said that it had relied on the judgement of its underwriters, information about its competitors, its current rating structure and, where appropriate, the PPV application, to examine its rating variables and differentials.

[23] The Company is developing a national MV model and has been consulting with regulators in Ontario, New Brunswick and Prince Edward Island on potential
changes. There has yet to be an approval of the model. The Board observes that in this Application the Company is proposing changes that it believes will be revenue-neutral.

[24] The Company proposed to introduce two changes which will apply to all MV. The first is to introduce liability limits up to $5,000,000 to allow for a uniform limit for vehicles on a policy that includes an individually rated commercial automobile. Limits over $2,000,000 will only be available where an individually rated commercial automobile is also on the policy and the policyholder chose a limit for that automobile which is above $2,000,000. This will not apply to Trailers as Bodily Injury and Property Damage – Tort coverages will be offered on those vehicles free of charge.

[25] The second change is to physical damages deductibles, i.e., for Collision, Comprehensive and Specified Perils coverages, which are to align with those offered by competitors in Ontario. The change in premium associated with a deductible change will be limited to the difference in amount between the selected deductible and the base deductible.

[26] Board staff have recommended the approval of these changes, and the Board accepts the recommendation.

Other Changes

Rating Variables – All Terrain Vehicles and Snow Vehicles

[27] Economical proposed to change two existing rating variables: it revised groupings for the Engine Capacity rating variable to reflect larger engines; and, it interpolated between list prices for its List Price (New) rating variable.

[28] The Company proposed to introduce the following new rating variables:
• Vehicle Age;
• Driving Record;
• Years Licensed (PPV);
• Type of Use;
• Years with Company;
• Chargeable Claims;
• Minor Convictions;
• Major Convictions;
• Serious Convictions;
• License Suspension; and,
• Cancellations for Non-Payment.

[29] In some instances, the changes or new variables result in discounts or surcharges, in recognition of either vehicle characteristics, or those of the driver. Board staff recommend that the proposed changes to the existing rating variables and the new variables and the associated differentials be approved. The Board accepts the recommendation.

Rating Variables – Motorcycles

[30] Economical stated it would no longer insure mopeds, or motorcycles with an engine of less than 150 cc.

[31] The Company proposed changes to the following existing rating variables for Motorcycles:

• Engine Capacity;
• USA Exposure;
• Driving Record; and,
• List Price (New).

[32] Economical also proposed to introduce the following new rating variables for Motorcycles:

• Weight x Engine CC;
• Years Owned;
• Vehicle Age;
• Years Experience (Motorcycle);
• IBC Class;
• Years Experience (Motorcycle) x IBC Class;
• Motorcycle Training x Years Experience (Motorcycle);
• Annual Distance;
• One-Way Commute;
• Years with Company;
• Advanced Driver Training;
• Chargeable Claims;
• Minor Convictions;
• Major Convictions;
• Serious Convictions;
• License Suspension; and,
• Cancellations for Non-Payment.

[33] Again, these changes to existing variables and new variables result in discounts or surcharges in some instances, and are based on characteristics attributable to the driver of the vehicle, or characteristics of the vehicle.

[34] Board staff have recommended that the proposed changes and the introduction of the new variables and the associated differentials be approved by the Board. The Board accepts the recommendation.

Rating Variables – Motorhomes

[35] As noted earlier in this Decision, Economical has decided to remove Motorhomes as a dependent category of PPV, and assign independent rates and a risk-classification system to this category of MV.

[36] The following is a list of the existing rating variables that the Company proposes to change for Motorhomes:

• Purchase Price;
• USA Exposure;
• Driving Record;
• Operator Type – will be removed;
• Vehicle Age;
• Years Licensed (PPV);
• Years with Company;
• Chargeable Claims;
• Minor Convictions;
• Major Convictions;
• Serious Convictions; and,
• Cancellations for Non-Payment.

[37] The Company also proposed to introduce the following new rating variables for Motorhomes:

• Days in Use - replacing Annual Kilometers;
• Years Owned;
• Length of Vehicle;
• Motorhome Class; and,
• License Suspension.

[38] As with the other categories of MV discussed above, the changes to existing rating variables and the new variables will, in some instances, result in either discounts or surcharges, and relate to characteristics either of the vehicle or the driver.

[39] Board staff have recommended that the proposed changes and the introduction of the new variables and the associated differentials be approved by the Board. The Board accepts the recommendation.

Rating Variables – Trailers and Camper Bodies

[40] Economical will only underwrite Trailers and Camper Bodies in conjunction with a new or existing automobile policy, and therefore there is no separate premium for Bodily Injury and Property Damage – Tort coverages applicable to them. These coverages are supplied by the towing vehicle.
The Company proposed to change its Purchase Price rating variable, and proposed to introduce License Suspension and Cancellations for Non-Payment variables for Trailers and Camper Bodies.

The Board accepts the Board staff recommendation for approval of the proposed changes and additions of new variables, and the associated differentials.

**Group Discount Program**

Waterloo has offered a group discount program in all Canadian provinces to eligible Motorcycle and Motorhome owners. Economical proposes to extend the group discount to all eligible MV owners. It provided evidence to show a minimal impact will result.

Board staff concluded the proposed change is supported and recommended the approval of the change to the group discount program. The Board agrees and accepts the recommendation.

**Discount Changes**

The Company proposed several changes to its Discounts, none of which will apply to Trailers and Camper Bodies. The following discounts will apply to All-Terrain Vehicles, Snow Vehicles, Motorcycles, and Motorhomes:

- Multi-Policy Discount – where the insured has a homeowners or condominium policy underwritten by Economical or Waterloo; the percentage will vary by vehicle type;
- Multi-Vehicle Discount – where there is a private passenger vehicle or motorhome on the policy in addition to another vehicle in the MV category; the percentage will vary by vehicle type;
• Conviction-Free Discount – where there are no convictions of any type among any drivers of the vehicle in the immediately preceding three years. The percentage is the same for all vehicle types; and,
• Smart Move Discount – where the principal operator qualified for driving record 5 or 6 and there is a PPV policy with the same company for the past five years. The discount rate does not vary by vehicle type and is applicable to the first three policy terms, after which the Years with Company differentials will apply to reward loyalty.

[46] The Company also proposes to offer an Anti-Theft Discount for Motorcycles and Motorhomes only where the vehicle has a non-factory installed immobilization device and/or audible horn equipment. The discount for the immobilization device is twice that where there is the audible horn only, and applies only to the Comprehensive and Specified Perils coverages premiums.

[47] Board staff have recommended that all the proposed discounts be approved as requested. The Board accepts that recommendation.

Off-Balancing

[48] The Board understands that the Company proposed to off-balance the impacts all of the proposed changes to rating variables, territories, and discounts combined, through base rates. The Board approves the proposed off-balancing.

Deductible Capping Methodology

[49] Economical proposed to introduce a deductible capping methodology which aligns with that included in its recent PPV application. It is intended to eliminate the possibility that a policyholder might receive a discount larger than the difference between the base deductible and the selected deductible. The Company provided several examples to illustrate how the capping would be applied, which confirm that it would be
triggered where a relatively large premium is required. As the premiums for MV are generally lower, Board staff said that the adoption of the capping is unlikely to impact a significant number of policies.

The Board accepts the recommendation to approve the deductible capping methodology.

**Endorsement Changes**

In this Application, Economical proposed several changes to its endorsement offerings, some of which involve changes in standard wording to create new, non-standard endorsements. Those changes require the approval of the Superintendent of Insurance (SOI), which has not yet been granted. The Board is unable to approve those changes unless they are approved by the SOI and proposes that the Company may use an expedited approval process with the Board, once the SOI approval is received. Board staff have recommended the approval of them, if the SOI approves the non-standard endorsements. Those endorsements are:

- For Motorcycles, introduction of a new non-standard endorsement, NPCF-HRD – Hit and Run Deductible Waiver as part of the Company’s Protection Plus Bundle of Endorsements;
- For Motorcycles, the introduction of a new endorsement, NPCF TR – Transportation Replacement in place of the NSEF#20 - Loss of Use Endorsement;
- For all MV, except Motorhomes and Trailers, the replacement of NSEF 43R/43R(L) – Limited Waiver of Depreciation/Limited Waiver of Depreciation (Specified Lessee) with NPCF DW/NPCF DW(L) which would expand the coverage terms;
- For all MV, except Motorhomes and Trailers, the introduction of NPCF EDW/EDW(L) – Extended Depreciation Waiver/Extended Depreciation Waiver
for Specified Lessees to purchasers of a used vehicle that is within one model year old, or a demonstrator vehicle;

- For all MV, except Trailers, the introduction of NPCF CRP – Conviction Rating Protector which would be like an accident forgiveness waiver;
- For Motorhomes, combining NSEF#16 – Agreement for Suspension of Coverage and NSEF#17 – Reinstatement of Coverage into a single non-standard endorsement NPCF CS-Coverage Suspension. The client will be allowed to select the time for suspension rather than the 60-consecutive day suspension clause;
- For Motorcycles and Motorhomes, replacement of NSEF#27 – Legal Liability for Damage to Non-Owned Vehicles with NPCF DN. The dollar cap on the coverage will be removed and the premium will vary by List Price New band for Motorcycles and Purchase Price Band for Motorhomes of the vehicle with the highest value;
- For All-Terrain Vehicles, Snow Vehicles and Motorcycles, a new endorsement NPCF-RG – Riding Gear to replace up to $2,000 in riding gear where there is concurrent loss or damage to the covered vehicle, with a deductible for theft only; and,
- For Motorhomes only, the introduction of new endorsements:
  - NPCF-RS – Roadside Service for emergency expenses where the motorhome is disabled;
  - NPCF-HH – Helping you Home to reimburse costs up to a specified limit if travelling outside the city of residence to cover certain expenses;
  - NPCF-MC – Motorhome Contents to provide all risk coverage of contents based on a percentage of the insured value of the motorhome with a specified deductible; and,
  - NPCF-LK – Lock Rekeying to cover the costs of rekeying locks if the keys are stolen.

For Motorhomes, the Company also proposed to introduce a Motorhome Plus Bundle which combines the four new proposed endorsements for a discounted premium.

For Motorcycles, Economical proposes to introduce a Protection Plus endorsement bundle which would include the NPCF-TR – Transportation Replacement; NPCF-DN – Damage to Non-Owned Vehicles (30 day version); NSEF#35 – Emergency Service Expense; and NPCF-HRD – Hit & Run Deductible Waiver. The price for the
bundle will be a discounted amount from the total if the endorsements (excluding the NPCF-HRD) were purchased individually. It will be based on the List Price New band of the Motorcycles with the highest price. Any additional vehicles on the policy pay a lower premium for the bundle to recognize that the protection from NPCF-DN applies on a policy level and not on a vehicle level, unlike the other endorsements in the bundle.

Should approval be granted by the SOI, the Board will address these proposed endorsement changes in its decision on the proposed expedited filing.

The Company has also proposed the following changes to its endorsements:

- Removal of NSEF#19 – Limitation of Amount which is typically applied to Antique vehicles which the Company no longer underwrites;
- Removal of NSEF#28 – Reduction of Coverage as Respects Operation by Named Person(s) and NSEF#28a – Excluded Driver as future underwriting will require the client to advise which drivers in the household should be added to the policy;
- Removal of NSEF#37 – Limitation to Automobile Sound and Electronic Communications Equipment as the Company no longer wishes to have this endorsement which restricted coverage;
- Removal of NSEF#38 – Increased Limit, Automobile Sound and Electronic Communications Equipment as the Company has had no demand for the endorsement;
- Removal of NSEF#40 – Fire & Theft Deductible as the Company no longer wishes to have this endorsement which restricted coverage;
- Removal of NSEF#32 – Recreational Vehicles for Motorcycles and Motorhomes as it covers off-road use which the Company does not consider appropriate for these categories of MV;
- The pricing for NSEF#13c – Comprehensive Cover – Deletion of Glass changes to a percentage of the Comprehensive premium which was previously based on a grossed-up percentage of the Specified Perils premium; and,
- Addition of NSEF#35 – Emergency Service Expense for Motorcycles for a $10 premium to provide up to $50 per occurrence for towing and emergency service expenses if the insured vehicle is disabled, for up to four occurrences per year.
Board staff have recommended the approval of these endorsement changes, and the Board accepts the recommendation.

Other Charges

Economical proposed to reduce its charge for a payment returned due to Not Sufficient Funds by half, and to remove the current service charge of 3% applied to monthly payment plans. The Company said that this was intended to improve customer experience.

The Company also proposed to change the short rate tables it uses when a customer cancels coverage. The tables are used to determine the appropriate amount of refund of premium and premium retention. The changes proposed will better align the amounts retained with the expected usage of the vehicle, considering that in some cases, the use is seasonal.

Board staff recommend the approval of these changes, and the Board accepts the recommendation.

Manual Review

As Economical and Waterloo will become one insurer, the Company provided a proposed Automobile Insurance Manual. Board staff found no issues with the proposed changes.
IV    FINDINGS

[61] The Board finds that the Application complies with the Act and Regulations, as well as the Rate Filing Requirements.

[62] The financial information submitted by the Company satisfies the Board, pursuant to Section 1551(1)(c) of the Act, that the proposed changes are unlikely to impair the solvency of the Company.

[63] The Board finds the proposed rates are just and reasonable, and approves the Application, with the exception of the endorsement changes which first require SOI approval.

[64] The Application included full actuarial indications and the required territorial analysis; therefore, it qualifies to set the new mandatory filing date for MV for the Company to November 1, 2020.

[65] The Board approves the effective dates of July 4, 2018, for new business and August 1, 2018, for renewal business.

[66] The Company is required to file an electronic version of its updated Automobile Insurance Manual within 30 days of the issuance of the Order in this matter.

[67] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 7th day of March, 2018.

[Signature]

Roberta J. Clarke