

DECISION

**2019 NSUARB 49
M09118**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

IN THE MATTER OF AN APPLICATION by CAA INSURANCE COMPANY for approval to modify its rates and risk-classification system for private passenger vehicles

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

APPLICANT: CAA INSURANCE COMPANY

FINAL SUBMISSIONS: April 3, 2019

DECISION DATE: April 10, 2019

DECISION: Application is approved

I INTRODUCTION

[1] CAA Insurance Company (CAA) applied to the Nova Scotia Utility and Review Board under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)* for approval of its rates and risk-classification system for private passenger vehicles.

[2] CAA proposed changes to its base rates which, when a proposed discount and endorsement changes are applied, would result in an overall all-coverages increase of 4.2%. CAA's mandatory filing date was March 1, 2019. The proposed effective dates in the application were May 15, 2019, for new business and July 1, 2019, for renewal business. CAA subsequently asked to change these to July 1, 2019 and August 15, 2019 respectively.

[3] After reviewing the application, Board staff asked for, and obtained, responses to Information Requests (IRs) from CAA. Board staff then prepared a report (Staff Report) which was provided to CAA for review. CAA had no comments in response.

[4] The Board did not deem it necessary to hold an oral hearing on the application. The Board finds that the proposed rates and risk-classification system are just and reasonable and approves the application. The Board also gives direction to CAA on the proposed non-standard endorsements.

II ISSUE

The issue in this application is whether the proposed rates and changes to the risk-classification system are just and reasonable and comply with the *Insurance Act (Act)* and its *Regulations*.

III ANALYSIS

Rate Level Changes

[5] CAA proposed to change its rates and risk-classification system. The proposed change represents an overall rate level increase of 4.2%. CAA based its proposal on its review of its rate level needs which suggested a much higher increase was required.

[6] Board staff reviewed all aspects of the ratemaking procedure, including the following:

- Loss trends and the effects of reform;
- Loss development;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Premium (rate group drift) trends;
- Credibility standards and complement of credibility;
- Experience period and weights;
- Premium to surplus ratio; and
- Profit provision and proposed and target return on equity (ROE).

[7] Board staff concluded that all issues identified in the review were addressed.

Proposed Rate Changes

[8] CAA calculated its rate level needs, and proposed changes to its base rates, which vary by both coverage and territory. The proposed changes were much lower than the calculations indicated. In some cases, where either large decreases or increases were indicated, CAA proposed no change.

[9] CAA also proposed to adopt the 2019 Canadian Loss Experience Automobile Rating (CLEAR) tables.

[10] Because there were no unresolved issues in the review, Board staff recommended the use of CAA's calculations to judge whether the proposed rates are just and reasonable. Board staff compared the territorial base rate changes to the CAA calculations and concluded that these changes represent almost two-thirds of the

calculations. Board staff also said that the base rate changes, except for Uninsured Automobile coverage, are directionally the same, although less than the CAA calculations. The proposed discounts and the adoption of the 2019 CLEAR tables are factors which result in the lower proposed overall rate changes.

[11] Except for Comprehensive coverage, the proposed changes follow the direction of the indicated needs, but are generally smaller. CAA proposed no changes for Uninsured Automobile and SEF #44 (Family Protection Endorsement) coverages. Board staff said that CAA's current premium for SEF #44 is well below industry average, and the indicated reduction would not be prudent.

[12] The proposed rates produce a negative ROE because they are so far below the indicated levels. CAA advised it wants to align its practices in Nova Scotia with the rest of Canada and to reward families and drivers for good driving habits. CAA also explained that it hopes to improve its competitive position, especially as it has had good loss experience in Nova Scotia in recent years.

[13] The Board observes that the proposed overall changes are significantly lower than CAA's calculations of its rate level needs. Board staff have recommended approval of the proposed changes to base rates. In the circumstances, the Board accepts that recommendation. However, the Board wishes to be clear that, in future applications, the Board will look closely at any large proposed increases that result from CAA's choice in this application to seek lower rates for competitive reasons.

Territorial Differentials

[14] CAA analysed its territorial differentials and determined what changes should be made. The changes proposed are less than the results of the analysis and are capped

to limit premium dislocation. The cap varies by coverage. CAA varied the capped indicated change in some territories to address market concerns. The proposed changes result in reasonable differences among territories.

Discount Changes

[15] CAA proposed changes to some of its current discounts to attract better risks, reward families and good drivers, and to enhance its competitive position. In some cases, CAA wanted to harmonize discounts with those in other provinces. The changes are to:

- Increase the current 5% Conviction Free Discount to 11%;
- Increase the Multi-Line Discount for clients who have both automobile and property insurance with CAA from 10% to 15%;
- Apply the 10% Multi-Vehicle Discount to Uninsured Automobile and Accident Benefits coverages, and to premiums for occasional operators (Class 05 and 06);
- Make the Multi-Vehicle discount available to the named insured and relatives who permanently reside in the same household as the insured, if they own or lease, and principally operate the vehicles;
- Remove the requirement for all vehicles to be on the same policy, allowing the Multi-Vehicle Discount to apply if there are eligible persons insuring multiple vehicles concurrently on different policies;
- Increase the level of the Family Discount from 5% to 10% and extend the definition to include a broader class of relatives to the named insured;
- Apply the Family Discount to Uninsured Automobile and Accident Benefits coverages and to premiums for occasional operators;
- Remove the requirement for the relative's vehicle to be garaged at the same address as the named insured for the Family Discount (vehicles garaged together could be eligible for the Multi-Vehicle Discount which cannot be combined with the Family Discount);
- Replace the Occasional Operator Away at University Discount with the Post-Secondary School Discount. The former reduced premiums by 50% if the occasional operator is a full-time university or college student and lives more than 100 km from home. The new discount is tiered – one tier is the same as the current discount; the other tier is a 20% discount which applies to the same type of student who lives at home, is claims free and is either an inexperienced principal operator

or an occasional operator. The discount will also now apply to Uninsured Automobile premiums.

[16] Board staff concluded that CAA had provided support for the proposed changes and recommended approval. The Board accepts the recommendation.

Endorsement Changes

[17] CAA proposed to introduce non-standard endorsements for suspension and reinstatement of coverage to harmonize with other jurisdictions where it operates. Standard endorsements (NSEF# 16 and NSEF# 17) exist for both situations. The standard versions include a requirement that the suspension be for at least 60 days before any reimbursement would occur. CAA wanted to change this to 45 days, which improves the benefits available under the endorsements. CAA sought the approval of the non-standard versions to make this change.

[18] The Superintendent of Insurance informed CAA that it does not approve non-standard endorsements when a standard version exists. The Superintendent stated no issues or problems are associated with CAA modifying the standard endorsements to make the proposed change to 45 days. CAA may, therefore, use the standard endorsements with that change.

[19] CAA proposed the same rates for these endorsements as it uses in New Brunswick.

[20] The Board accepts the Board staff recommendation to approve the proposed introduction of these endorsements and the associated rates.

[21] CAA also proposed to add two coverage levels (\$50,000 and \$75,000) to the coverage under NSEF # 27 – Liability for Damage to Non-Owned Vehicles. This endorsement is currently available for certain types of vehicles, with certain required

coverages, up to \$40,000. The endorsement applies the same deductible limits for the Collision and Comprehensive coverages selected for the insured vehicle. CAA wants to harmonize the endorsements with other jurisdictions. The premiums for the new coverage levels are the same as those for CAA in New Brunswick.

[22] The Board accepts the Board staff recommendation to approve the changes to NSEF # 27.

Adoption of the 2019 CLEAR Table

[23] CAA currently uses the 2018 CLEAR (Canada, Collision and DCPD Combined, with extended vehicle code (21 years) for Alberta and Atlantic Canada) table. CAA proposed to adopt the 2019 version of the table. In its last application for approval of private passenger vehicle rates, the Board approved differentials for CAA that were different from the CLEAR differentials. CAA did not propose any changes to these differentials.

[24] The Board accepts the Board staff recommendation to approve the adoption of the 2019 CLEAR table, as filed.

Automobile Insurance Manual

[25] Board staff reviewed the Automobile Insurance Manual on file, and found no instances where CAA appears to be in violation of the *Regulations*. The only changes proposed to the CAA Manual are to reflect the discount and endorsement changes approved in this application.

IV FINDINGS

[26] The Board finds that the application complies with the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

[27] The financial information submitted by CAA satisfies the Board, under Section 155(1)(c) of the *Act*, that the proposed changes are unlikely to impair its solvency.

[28] The Board finds the proposed rates are just and reasonable. The Board approves the discount and endorsement changes, as well as the adoption of the 2019 CLEAR table as requested.

[29] The application included full actuarial indications; therefore, it qualifies to set the new mandatory filing date for private passenger vehicles for CAA to March 1, 2021.

[30] The Board approves the effective dates of July 1, 2019, for new business and August 15, 2019, for renewal business.

[31] The Board requires CAA to file an electronic version of its updated Automobile Insurance Manual within 30 days of the date when the Board issues its Order in this matter.

[32] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 10th day of April, 2019.


Roberta J. Clarke, Q.C.