DECISION **2020 NSUARB 61**
M09637

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **CO-OPERATORS GENERAL INSURANCE COMPANY** for approval to change its rates and risk-classification system for private passenger vehicles

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

APPLICANT: **CO-OPERATORS GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: April 17, 2020

DECISION DATE: **April 24, 2020**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Co-operators General Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposes rate changes that vary by coverage and result in an overall increase of 8.1%. In addition to changes to rates, the company also asks the Board to approve changes to its: territorial differentials; differentials for several of its rating variables; Multi-Product and Snow Tire Discounts; and certain endorsement premiums. The company also proposes to revise its premium dislocation cap and to adopt the 2020 Canadian Loss Experience Automobile Rating (CLEAR) Table. When responding to Information Requests (IRs), the company also asked to make a change to a definition in its Automobile Insurance Manual to clarify eligibility for one of its discounts.

[2] The Board must consider whether the proposed rates and risk-classification system are just and reasonable and in compliance with the *Insurance Act* (*Act*) and its *Regulations*. The Board is satisfied that Co-operators' application meets these requirements and approves the company's proposed rates and risk-classification system. The Board also approves the various changes noted above, including the premium dislocation cap and adoption of the 2020 CLEAR Table, as well as the Manual.

II ANALYSIS

[3] Co-operators applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Co-operators received and responded to IRs from Board staff. Board staff prepared a report to the Board with recommendations on the application (Staff

Report). Before providing the Staff Report to the Board, Board staff shared it with Co-operators. The company reviewed the report and informed Board staff that it had no comments.

[4] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested that the Board further review certain issues. Board staff consider that Co-operators satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

[5] The Board will examine the following issues in this decision:

- Profit provision;
- Proposed rate changes;
- Territorial differentials;
- Rating variable differentials;
- Adoption of 2020 CLEAR Table;
- Multi-Product Discount;
- Snow Tire Discount;
- Endorsement premium changes; and
- Premium dislocation capping.

Profit Provision

[6] Consistent with its last application to the Board, Co-operators used a target return on equity of 12% and a premium to surplus ratio of 2.05:1 in its indications. Together with its assumption for investment return on surplus, these assumptions produce a profit provision of 5.6% of premium.

[7] The Board had grown concerned over the high level of profit observed in the industry, despite the Board approving a return on equity of 12%. The level of profit, as evidenced by the 2012 and 2013 General Insurance Statistical Agency (GISA) Financial Information Reports, led the Board to order some companies to lower the target return on equity to 10%.

[8] The 2014 to 2018 versions of the GISA report each show a negative return on equity for the industry. The Board believes this is due to many companies not taking full indicated rate changes along with deteriorating experience. The Board does not believe this is due to the Board forcing companies to the lower end of its profit range. The Board therefore continues to require a 10% target return on equity unless a company can demonstrate it differs from the industry.

[9] In Co-operators' last number of applications, the Board allowed the company to use a 12% return on equity, based on the information Co-operators provided to demonstrate its experience has been different from the industry. The financial information in this filing continues to support this conclusion.

[10] Board staff have recommended that the Board should continue to allow the use of the 12% return on equity in the indications for Co-operators. The Board accepts this recommendation. Therefore, the Board uses the Co-operators' indications, without any changes, as the target against which the proposed rates are assessed for reasonableness.

Proposed Rate Changes

[11] The Co-operators' indications suggest changes in all-coverages combined rates that are less than half a percent higher than the proposed rate changes. For mandatory coverages, with two exceptions only (i.e., Uninsured Automobile and SEF#44), where the premium changes would otherwise be very small, the proposed changes are very close to the indicated changes. The proposal for an overall all-coverages combined increase produces a return on equity at the target level of 11.4%, which is just below the allowed 12%.

[12] The Board notes that, in past filings before the most recent application, Co-operators had sought smaller increases than indicated. In that application, as in this, the company chose to take the full indicated increase. Co-operators explained this decision in its response to an information request, stating:

> In the past filings, we selected smaller increases to limit impacts on the clients but still moving toward rate adequacy. However, we had profitability issues in Nova Scotia that we could no longer afford. Since trends and indications remain high, we review our rate more often to sustain profitability. We cannot impact the capital of our organization to improve profitability issues in Nova Scotia, just as we would not subsidize other markets with our Nova Scotia clients. We also want to monitor results on a regular basis to be able to react quickly to recent information.
>
> [Response to Question 1 of IR1]

[13] The Board observes that Co-operators has now applied well in advance of its mandatory filing deadline. As the company has concluded that it needs higher rates and proposed changes that are extremely close to its full indications, the Board considers this supports the company's choice to address profitability concerns. The Board considers this important to ensure that insurance remains available to drivers in Nova Scotia.

[14] Board staff advise that Co-operators has supported its proposed changes, and recommend the Board approve them. The Board accepts the recommendation and approves the proposed rates, finding them to be just and reasonable.

Territorial Differentials

[15] In developing its indications, Co-operators undertook a generalized linear model (GLM) analysis which included its territorial differentials. From this analysis, Co-operators determined indicated changes for each of its territory differentials for those coverages where rates vary by territory. Co-operators proposed changes to the territorial

differentials that followed the direction of the indications but limited the impact of each change to +/- 10%.

[16] Board staff recommend the Board approve the proposed territorial differentials, as filed, and the Board accepts this recommendation.

Rating Variable Differentials

[17] Using information from all Atlantic Provinces for additional credibility, rather than just relying on data from Nova Scotia, Co-operators used the GLM analysis to determine the indicated differentials for the following rating variables:

- Use;
- Exposure;
- Years Licensed/Gender Interaction;
- Years Claims Free;
- Years Licensed / Years Claims Free (Diagonal);
- Body Style;
- Vehicle Age;
- Vehicle Age When Purchased; and
- Number of Years as Owner of the Vehicle.

[18] Co-operators addressed any concerns about provincial differences in coverage by including a “Province” control variable.

[19] Co-operators made a business decision to leave many of its discounts unchanged, and fixed their current levels in the GLM model. The company said it is satisfied that the modeling acts to ensure its insureds will pay an adequate premium for the risk they pose.

[20] For some of the listed rating variables, Co-operators chose to make the indicated changes, in some cases with capping at +/- 10% to limit dislocation. For Years Claim Free, Years Licensed/Years Claim Free (Diagonal), Vehicle Age, Vehicle Age When Purchased, and Number of Years as Owner of Vehicle, the company chose not to

adopt the indications fully. Instead it proposed changes that would gradually approach the indications.

[21] The Board accepts the recommendation of Board staff to approve the proposed differential changes.

[22] The Board notes that Co-operators combined the impact of these differential changes, with the impact of the territorial differential changes, and the impact of the adoption of the 2020 CLEAR table (discussed below), and off-balanced, by coverage, to make the combined changes revenue neutral.

Adoption of 2020 CLEAR Table

[23] Co-operators currently uses the 2019 CLEAR table to assign rating groups for Accident Benefits and physical damage coverages. The company uses the CLEAR (AB Alberta & Atlantics) - Collison, DCPD and Comprehensive Separated version. The company proposed the adoption of the 2020 version of this table, which the Board approved for use earlier this year.

[24] As noted above, Co-operators included the impact of this change with the impacts of all changes and off-balanced the combined total to make all changes revenue-neutral.

[25] Board staff recommend the Board approve the proposed adoption of the 2020 CLEAR table and the associated off-balancing and the Board accepts the recommendation.

Multi-Product Discount

[26] Co-operators currently offers a 20% discount on premiums for private passenger vehicles premiums if the client also has at least one of the following: a home

(including tenant's), farm, commercial or life insurance policy with the company. Co-operators also offers a 10% discount on motorcycles in the same circumstances.

[27] Co-operators proposed two changes to the private passenger vehicle discounts: first, to reduce the discount from 20% to 15%; and, second, to reduce the discount to 5% if the other insurance is a tenant's policy. The company provided an analysis that showed the discounts, in both cases, should be even smaller than proposed, but chose not to make further reductions. Co-operators proposed no change to the motorcycle version of the discount.

[28] The Company off-balanced the impact of the changes to this discount, along with the other changes, to make the combined changes revenue-neutral.

[29] Board staff recommended the approval of the proposed changes to the Multi-Product Discount. The Board accepts the recommendation.

Snow Tire Discount

[30] When the client equips the vehicle with four snow tires, Co-operators currently offers a 5% discount. Co-operators proposes to change the eligibility criteria for the discount to add that:

- the tires must be installed from at least December 1 to March 31; and
- the tires must be certified as winter tires by Transport Canada and have the Alpine symbol.

[31] Co-operators also proposes to reduce the discount from 5% to 2%. The company provided an analysis of its experience, which showed, somewhat unexpectedly, that the vehicles equipped with snow tires (measured by those vehicles with the discount) have worse experience than those vehicles without the discount. Surprisingly, the experience suggests cars with snow tires should be surcharged. Instead, Co-operators

chose to reduce the discount rather than remove it, in order to incent what should be a safe behavior of installing proper winter tires for the appropriate time period.

[32] The company combined the impact of this change with all the other impacts, and off-balanced the total to make the changes revenue-neutral, as it had done with other changes.

[33] The Board accepts the recommendation of Board staff and approves the proposed change to the Snow Tire Discount.

Endorsement Premium Changes

NSEF# 6A Permission to Carry Passengers for Compensation

[34] The standard automobile insurance policy excludes coverage while a vehicle is used to carry passengers for compensation. Co-operators uses an endorsement, NSEF# 6A, to provide this coverage for commuter vehicles and private buses.

[35] Commuter vehicles are defined as either:

- a vehicle owned by an individual to transport fellow employees to and from their place of employment for compensation; or
- a vehicle owned by an employer used for one round trip per day to transport commuters. (Van Pooling)

[36] Co-operators currently charges a premium for the endorsement which is 10% of the Bodily Injury premium. The company proposed to lower the percentage to 8% but to apply this new percentage to the sum of Bodily Injury and Accident Benefits premiums. Co-operators expects that Accident Benefits will also be impacted by the

addition of the endorsement rather than Bodily Injury coverage alone. Thus, the company decided to apply the new percentage to both coverages.

[37] Board staff recommended the Board approve the proposed changes to the premium for endorsement NSEF#6A, and the Board agrees.

NSEF# 13C Comprehensive Cover-Deletion of Glass

[38] The NSEF# 13C endorsement removes coverage for loss or damage to glass, except for certain perils, from the coverage normally provided by Comprehensive Coverage. The endorsement may be required when a client has too many glass-damage claims.

[39] When the endorsement is added, Co-operators currently lowers the Comprehensive premium by 40% to reflect the reduced benefits provided. The company proposed to lower the premium reduction to 20%. Co-operators noted that the proportion of Comprehensive losses that arise from glass claims has been declining in recent years. The company found that, in reviewing Comprehensive claims from January 2015 to November 2019, glass claims account for less than one-quarter of all such claims. As a result, the company proposed the reduction in premium to 20%.

[40] The Board notes that, in IRs, Board staff queried if the incurred losses examined were only for policies without this endorsement, as including them would bias the percentage of glass claims. Co-operators responded that it had examined all policies, including those with the endorsement. The company observed that fewer than 1% of the vehicles it insures carry the endorsement. As the impact of removing those policies from the analysis would be negligible, the share of glass claims seems a reasonable measure of the current proportion of glass claims in the true Comprehensive coverage.

[41] Based on its analysis, Co-operators proposed the reduction in Comprehensive premium for clients NSEF#13C. The Board approves the change from a 40% reduction to the proposed 20% reduction in Comprehensive premium for clients with NSEF#13C, based on the recommendation of Board staff.

Premium Dislocation Capping

[42] In previous applications, the Board approved a premium dislocation cap that allowed Co-operators to limit rate increases so that no vehicle would see an increase of more than 20%. To offset the cost of this cap on increases, Co-operators also proposed to cap rate decreases at 10%. In this application, the company proposed changes. The first change is to increase the cap on renewal premium increases to 25% from 20%. The 10% cap on decreases will remain unchanged.

[43] The second change proposed is the introduction of a second tier of capping. The second level of capping would apply, if during the policy year, the client had one or more of a minor or major conviction, at-fault accident, licence suspension or criminal conviction. If one or more of these events occurs, an amount will be added to the 25% cap on increases. Co-operators wants more of the premium impact of these events to apply. The addition to the cap is to be based on the number and type of any occurrences. Where two or more different events occur, the addition to the cap will be based on the event which results in the highest increase to the cap; the additions to the cap are thus not cumulative. The higher cap would only apply at the first renewal after the occurrence of an event. Thereafter, assuming no other events occur, the cap would revert to the 25% level.

[44] With the introduction of this new tier to the cap, Co-operators will no longer remove the cap in its entirety should an at-fault accident occur, as it currently does. Board staff asked Co-operators to explain why it wants to introduce a complicated level of capping instead of its current approach which would let all the impact be felt. The company said that its goal is to collect more premium from riskier drivers. Under its current approach, some clients with new convictions and some surcharges would still benefit from the cap, because the cap would not be removed in these circumstances and would limit the premium increase collected from the higher risk posed. Under the proposed cap, because the cap on increases would be larger if one of these events occur, Co-operators will collect more of the premium associated with the higher risk.

[45] Co-operators said that under the proposed cap, the overall uncapped increase of 8.1% will become an increase of 7.7%. This result demonstrates the cap meets the Board conditions for negative capping (i.e., extra premium collected on a negative cap is less than premium revenue foregone on the cap on increases).

[46] Board staff recommended the Board approve the continued use of the premium dislocation cap at the new level and the introduction of the second capping tier. The Board accepts the recommendation.

Automobile Insurance Manual

[47] In addition to revisions required to implement the changes noted, Co-operators made one other change to its Automobile Insurance Manual. The company revised the wording of the “More Vehicles Than Operators Discount” to include the qualifying vehicle types (i.e., private passenger vehicles and classic/customized vehicles)

in the definition. The change, as amended in the IR process, is to clarify that the discount does not apply to motor homes, motorcycles, mopeds and commercial vehicles.

[48] Board staff reviewed the Manual on file and found no areas where the company appears to be in violation of the *Insurance Act* or its *Regulations*.

III SUMMARY

[49] The Board finds that the application follows the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

[50] The Board finds the proposed rates are just and reasonable, and approves the changes effective June 24, 2020, for new business and August 8, 2020, for renewal business. The Board approves all other changes requested in this application.

[51] The financial information supplied by Co-operators satisfies the Board, under Section 155I(1)(c) of the *Act,* that the proposed changes are unlikely to impair the solvency of the company.

[52] The application qualifies to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The new mandatory filing date for Co-operators for private passenger vehicles is March 1, 2022.

[53] Co-operators must file an electronic version of its revised Manual, updated for the changes approved in this decision, within 30 days of the issuance of the order in this matter.

[54] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 24th day of April, 2020.

Roberta J. Clarke