DECISION **2021 NSUARB 67**
M10040

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **ECHELON INSURANCE**

FINAL SUBMISSIONS: May 6, 2021

DECISION DATE: **May 12, 2021**

DECISION: **Application is approved**

I INTRODUCTION

[1] Echelon Insurance 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 7.5%. In addition to changes to rates, the company also asks the Board to approve the adoption of the 2021 Canadian Loss Experience Automobile Rating (CLEAR) table, and the discontinuance of its three-month policy term offering.

[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 Echelon's application meets these requirements and approves the company's proposed rates and risk-classification system. The Board also approves the adoption of the 2021 CLEAR table. Due to the minimal usage of the three-month policy term, and the very small impact on premium which would result, the Board also approves the discontinuance of this offering.

II ANALYSIS

[3] Echelon applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Echelon received and responded to Information Requests (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 Echelon. The company reviewed the report and informed Board staff that it had no further 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 Echelon 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:

- Health Services Levy
- Profit Provision
- Rate Change Proposal
- Adoption of 2021 CLEAR table
- Discontinuance of three-month policy term offering

Health Services Levy

[6] Echelon used a value for the Health Service Levy from the 2019 value reported in the General Insurance Statistical Agency (GISA) reports. Echelon chose this value to be consistent with the previous filing. The 2020 amount is higher and not yet shown in the GISA exhibits. At the request of Board staff, Echelon provided indications using the more recent value. The change increases the overall indication by less than half a percent.

[7] Board staff recommended that Echelon should be required to use the more recent higher Health Services Levy when developing its indicated rate level needs. The Board accepts this recommendation.

Profit Provision

[8] Echelon uses a 12% return on equity. The company said that, as a non-standard insurer, Echelon insures drivers that standard carriers do not want due to inexperience or a poor driving record. Echelon, therefore, believes it should attract a higher return than standard carriers because it accepts these higher risks.

[9] Echelon indications include a profit provision which falls below the Board range despite using the 12% return on equity. This result is primarily driven by the higher premium to surplus ratio that is the output of the capital model. In these circumstances, Board staff suggest the Board need not intervene to adjust the profit provision or its elements. Board staff recommend that the Board accept the profit provision that Echelon used to produce its indications. The Board accepts this recommendation.

Rate Change Proposal

[10] Echelon proposed a 7.5% overall all coverages combined increase in the face of indications which suggested a significantly larger increase should be sought. Using the higher Health Services Levy increased those indications only slightly. The revised indications formed the basis of staff indications against which the Board assesses the reasonableness of the proposed rate changes.

[11] The proposed changes follow the direction of the indicated changes for all coverages where changes are proposed. The proposed changes are lower than indicated, in some cases significantly so. Thus, the proposal results in lower than indicated rates for these coverages.

[12] For SEF#44 (Family Protection Endorsement), Echelon proposed no change despite an indication suggesting a large percentage decrease should be made. The indicated change would lower the current average premium below the current industry average premium. Therefore, requiring the indicated change does not appear prudent. Because SEF#44 is a mandatory coverage, the proposed increases for other mandatory coverages which are well below the indications removes any concerns about not lowering the SEF#44 premiums.

[13] Echelon stated the proposed rates would produce a negative return on equity. To explain why the company chose to only take a portion of the indicated increase, Echelon said it had recently implemented a segmentation change effective February 1, 2021. Taking a large increase now would result in many customers experiencing the effects of both changes at renewals. Echelon wanted to avoid significant dislocation for these customers because the company does not have a renewal capping mechanism. The company also believes its loss experience appears to be on track to return to pre-pandemic levels. As the COVID-19 pandemic is not yet over, however, Echelon wants to provide some relief to its customers by limiting the increase.

[14] Board staff note that Echelon proposed no changes to its territorial differentials. The Board does not require a territorial analysis to be completed in these circumstances, nor did Echelon provide one.

[15] Despite the negative return on equity, Board staff recommend approval of the proposed rate changes. The Board accepts this recommendation in the circumstances of this application but cautions Echelon that any future applications may need to address issues of rate adequacy.

Adoption of 2021 CLEAR table

[16] Echelon currently uses the 2019 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) version of the CLEAR tables published by the Insurance Bureau of Canada to assign rate groups for physical damage coverages and Accident Benefits coverage. The company proposed to adopt the 2021 version of this table which the Board approved for use earlier this year. Echelon off-balanced the impact of the table change through base rates to make the adoption of the new table revenue-neutral.

[17] Board staff recommend the approval of the adoption of the 2021 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) table as proposed. The Board accepts this recommendation.

Discontinuance of Three-Month Policy Term Offering

[18] Currently, Echelon offers a three-month policy term option. The company noted that very few of its clients use this option. Given the limited usage, Echelon proposed removing this policy term option.

[19] Board staff recommend approval of the three-month policy term option as proposed. The Board accepts this recommendation as reasonable. The removal will result in a change to Echelon's manual.

III SUMMARY

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

[21] The Board finds the proposed rates are just and reasonable, and approves the changes effective August 1, 2021, as revised by the company, for both new business and renewal business.

[22] The Board approves the adoption of the 2021 CLEAR table, as well as the discontinuance of the three-month policy term offering.

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

[24] 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 Echelon for private passenger vehicles is March 1, 2023.

[25] Board staff reviewed Echelon's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. The company must file an electronic version of its Manual, updated for the changes approved in this decision, within 30 days of the issuance of the order in this matter.

[26] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 12th day of May, 2021.

Roberta J. Clarke