

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: Peter W. Gurnham Q.C., Chair

APPLICANT: ECHELON INSURANCE

FINAL SUBMISSIONS: November 12, 2020

DECISION DATE: November 20, 2020

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 proposed rate changes that vary by coverage and territory and result in no change overall. In addition, the company also asked the Board to approve Echelon adopting the 2020 CLEAR Table.

[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.

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 comments.

[4] Board staff advised the proposed changes result in no change overall as Echelon off balanced the impact of various differential changes and the new CLEAR Table adoption to make them revenue neutral. The Board will examine the following issues in this decision:

- Canadian Loss Experience Automobile Rating (CLEAR) Table
- Differential Changes
- Premium Dislocation

Canadian Loss Experience Automobile Rating (CLEAR) Table

[5] To assign rate groups for physical damage coverages and for Accident Benefits, Echelon uses the 2019 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) version of the CLEAR Table published by the Insurance Bureau of Canada. Echelon proposed to adopt the 2020 version of this table, which the Board approved earlier this year.

[6] As noted, Echelon off balanced the impact of the table change to make it revenue neutral.

[7] Board staff recommended the Board approve the proposed adoption of the 2020 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) table for physical damage coverages and Accident Benefits. The Board approves the adoption of the 2020 CLEAR Table, as filed.

Differential Changes

[8] In early 2019, Echelon applied to introduce several new rating variables as part of a significant overhaul of its rating algorithm. At that time, Echelon stated it did not have enough of its own data, nor did it have access to industry data, to provide actuarial analyses of the new variables. Echelon relied on differentials inferred from competitors' rates, differentials that Echelon used in other jurisdictions, feedback from underwriting and claims, experience from prior pricing exercises, and judgement from its actuaries.

The Board ultimately approved the new variables in its Decision [2019 NSUARB 72]. Echelon revised some of these differentials later in 2019.

[9] Echelon recently reviewed these new variables, and based on its analysis chose to modify its differentials for several of these variables. In addition, Echelon chose to modify its differentials for one of its territories.

[10] Unlike the previous analysis, Echelon relied more heavily on its own experience. The company explained that since the last application, it had created an experience database that allowed for matching loss details with premium details facilitating the analysis used in this application. That is, the company was able to understand loss ratios at the underlying rating variable level. In addition, two more years of data were now available to the company.

[11] While Echelon examined all variables, it selected the following variables to change: driver gender, surcharge, territory, vehicle age, and years licensed.

[12] In many cases, the differential changes vary by coverage as well.

[13] Echelon noted a significant shift in its mix of business for the years licensed variable. The company experienced rapid growth in the drivers licensed for seven or more years. This growth, coupled with the rise in loss ratios for these drivers, supports the view that Echelon may be underpriced for higher years licensed. The changes Echelon proposed address this concern.

[14] Board staff recommended the Board approve the proposed changes to the differentials for the selected rating variables, including the change to the territory 11 differentials.

[15] The Board approves the proposed changes to the differentials for the existing rating variables and the off balancing of the impact of all changes combined through base rates to make the changes revenue neutral.

Premium Dislocation

[16] Echelon completed the required dislocation tables in the application. The company also completed extended percent dislocation tables and dollar dislocation tables in response to an Information Request. These tables showed that a large number of policies experience some very large dislocations, both positive and negative.

[17] When asked if the company considered capping to limit this dislocation, Echelon noted it did not have a system that allowed the application of a premium dislocation cap. As well, the company explained it needed to get to stable loss ratios and given it did not take full indicated changes in several instances, Echelon felt comfortable with the dislocation its customers would experience.

[18] The Board does not need to impose a premium dislocation cap.

Automobile Insurance Manual Review

[19] Echelon proposed no changes to its automobile insurance manual. Board staff reviewed the manual on file and found no areas where the company appears to be in violation of the *Regulations*.

[20] The application only changes rates (both base rates and differentials) and the CLEAR Table. The automobile insurance manual does not include these items. As a result, the Board does not require Echelon to provide an updated manual.

III SUMMARY

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

[22] The Board finds the proposed rates are just and reasonable, and approves the changes effective February 1, 2021, for both new business and renewal business.

[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 did not include updated actuarial indications, and therefore, does not qualify to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The mandatory filing deadline remains February 1, 2021.

[25] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 20th day of November, 2020.



Peter W. Gurnham