

**DECISION**

**2022 NSUARB 5  
M10350**

**NOVA SCOTIA UTILITY AND REVIEW BOARD**

**IN THE MATTER OF THE INSURANCE ACT**

**- and -**

**IN THE MATTER OF AN APPLICATION** by **ELITE INSURANCE COMPANY** for approval to change its rates and risk-classification system for antique and classic vehicles

**BEFORE:** David J. Almon, LL.B., Member

**APPLICANT:** **ELITE INSURANCE COMPANY**

**FINAL SUBMISSIONS:** January 13, 2022

**DECISION DATE:** **January 17, 2022**

**DECISION:** **Application is approved**

## I INTRODUCTION

[1] Elite Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for antique and classic vehicles. The company proposes changes to base rates and elements of its risk-classification system, including adding new rating variables and changes to differentials for some existing variables. The uncapped impact of these changes is a 2.3% increase, while the capped increase is 1.7%.

[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 Elite's application meets these requirements and approves the company's proposed rates and risk-classification system, and the other proposed changes, in the circumstances of this application.

## II ANALYSIS

[3] Elite applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. Since the filing of this application, Elite 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 Elite. The company reviewed the Report and responded to Board staff on December 22, 2021.

[4] On January 12, 2022, Elite filed some additional documents related to antique vehicles. The Board treated these new documents as an amendment to the

original application. Board staff reviewed the documents, sent information requests, and prepared an Addendum to the Staff Report.

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

- proposed changes to base rates;
- proposed changes to the rating algorithm;
- proposed changes to existing rating variables, Model Year, Name Insured Years Licensed, Vehicle Type, Deductible, and Total Insured Value;
- proposed new rating variables, Annual KM, Vehicle Symbol, Storing/Garaging Type, Vehicle Usage, One Less Regular Use Vehicle than Household Drivers, Inexperienced Occasional Operators, and Replica Year;
- proposed changes to endorsement offerings, including the Cherished Salvage Endorsement, the Value Added Endorsement (both Premium and Ultimate versions), and the Transport and Paddock Collision Coverage Endorsement;
- proposed changes to discount and surcharges, including the Multi-Vehicle Discount, the No Claims at Nth Renewal Discount, the Automatic Braking Discount, the Anti-Theft Discount, and the Mobility Discount;
- proposed renewal premium dislocation cap;
- the mandatory filing deadline of May 1, 2024 unchanged; and
- proposed effective dates for new and renewal business.

[6] Elite proposed changes to base rates and elements of its risk-classification system, including adding new rating variables and changing differentials for some existing variables. The uncapped impact of these changes, as mentioned previously, is a 2.3% increase. As support for the proposed impacts, Elite relied upon indications from a previous filing made earlier in 2021, which suggested an increase of 20.8% was needed.

[7] Elite proposed a premium dislocation cap that lowered the proposed impact to 1.7%.

[8] Elite will also make changes to its endorsement offerings.

### **Indicated Rate Level Changes**

[9] Elite did not produce updated actuarial indications. Instead, the company relied upon indications from a previous filing made earlier in 2021. In that filing, while the indications were for an overall 20.8% increase, Elite proposed no change in rates. As such, the residual indications equal the indications from the previous filing. The Board approved the use of the company's indications in that application. Therefore, the use of the residual indications is acceptable in these circumstances. The impacts of the proposed changes discussed next are well below these residual indications.

### **Base Rate Changes**

[10] Elite's current rating algorithm provides base rates for each different class or type of antique and collector cars. Trailers also have separate base rates for Collision and Comprehensive. Elite proposes to create a single set of base rates and then use differentials to distinguish among the different types of vehicles and trailers.

[11] Elite off balanced the impacts of proposed changes through base rates to make them revenue neutral. Elite then applied a factor to the base rates to get to the desired rate level change by coverage.

[12] Board staff recommends the Board approve the proposed changes to base rates. The Board approves the changes to base rates.

### **Rating Variable and Differential Changes**

[13] Elite conducted a review of its existing rating variables as well as the addition of other variables that the company views as predictive. Elite used a Generalized

Linear Model (GLM) analysis to help establish new differentials and determine if a proposed rating variable is predictive of risk. Elite did not model all variables. For variables excluded from the modeling, Elite used differentials derived from its managing general underwriter's (MGU), Hagerty, US program. For the modeled variables, Elite chose differentials that tended to fall between the current level and the indicated levels.

[14] During this analysis, Elite identified new rating variables to add to its risk-classification system. The company also found areas where an existing variable could be applied to coverages to which it currently does not apply.

### Existing Rating Variables

[15] Board staff provided a table showing proposed changes to existing rating variables:

Rating Variable	Proposed Changes
Model Year	<ul style="list-style-type: none"> <li>Revised model year bands to better segment market</li> <li>Added variable to other coverages (DCPD, BI, PD-Tort, AB) to account for elements that originally were part of base rate</li> </ul>
Named Insured Years Licensed	<ul style="list-style-type: none"> <li>Added '5-9' band and split '34+' band down further into '34=38', '39-43', '44-48', '49-53', '54-58' and '59+'. These new bands were in place in ON, BC, MB, and SK.</li> <li>Inexperienced operators are subject to additional underwriting</li> <li>Added variable to mandatory coverages and SEF#44</li> </ul>
Vehicle Type	<ul style="list-style-type: none"> <li>Added new vehicle types (Auto, Farm tractor and Tuner)</li> <li>Added variable to DCPD</li> </ul>
Deductible	<ul style="list-style-type: none"> <li>Proposed new factors based on loss elimination ratio analysis of previous five years of losses for physical damage coverages</li> <li>Introduced deductible factors based on value band splits to provide policyholders a rate that is more commensurate with their risk.</li> </ul>
Total Insured Value (TIV)	<ul style="list-style-type: none"> <li>Added more TIV bands to better segment business risks</li> <li>Added variable to DCPD</li> </ul>

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|  | <ul style="list-style-type: none"><li>• Used factors found in its Ontario Collector Car program</li></ul> |
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[16] For all variables except Total Insured Value, where Elite will use its Ontario factors, the analysis provided supports the proposed changes.

[17] Board staff recommends approving the proposed changes to the existing rating variables. The Board approves the changes.

### **New Variables**

[18] Elite proposes adding seven new rating variables for these vehicles, as discussed below. Where Elite based its factors on a similar US block of business from its MGU, Elite does not believe the differences in the jurisdictions are large enough to make the factors inappropriate for use in Nova Scotia. Elite stated their use was the company's best option.

[19] Board staff recommends approval of the proposed new rating variables and the selected differentials. The variables, which the Board approves are discussed below.

### **Annual KM**

[20] This variable reflects the kilometres expected to be driven in a year. Elite maps annual kilometres driven to bands of every 500 km until 9,000, along with a '9,000+' category. The variable will apply to all coverages. While the indicated differentials vary by coverage, Elite chose to use the same differentials for all coverages. The indicated levels were derived from the GLM analysis.

Vehicle Symbol

[21] After examining a sample of 17-digit Vehicle Identification Numbers (VIN), Elite found less than 40% of the sample provided usable CLEAR rate group codes. The remaining VINs produced either no result or did not have enough data on the vehicle. To address the deficiency, Elite is introducing its Vehicle Symbol factor. The company adopted the factors used by its MGU for a similar volume of business. The basic symbols consider Make and Body Style and apply to most vehicles with a model year 1980 or newer. Exempt vehicles will use a unique symbol to assign a factor of 1.000. Elite developed indicated factors, and the selected factors are generally lower than indicated. This rating variable applies to physical damage coverages, including Direct Compensation Property Damage (DCPD), and the factors used vary by coverage.

Storage/Garaging Type

[22] This variable applies to physical damage coverages, including DCPD. Elite developed indicated factors for those types where the company collected the data. Data was not collected for Rental Storage or Parking Garage types. Elite used its judgement and selected a factor for Rental Storage between the factors for Home Garage and Driveway and selected a factor for Parking Garage higher than Driveway. Elite notes an insured may not live close to the Parking Garage and is less able to watch over the vehicle. As well, with other vehicles and people going in and out of the garage regularly, the vehicle is at higher risk for scratches, dents, theft, etc., warranting a higher factor. The factors vary by coverage to reflect the different risk posed by the Storage/Garaging Type under each coverage.

Vehicle Usage

[23] This variable reflects whether the vehicle is used for Leisure or for Seasonal Commuting. The latter poses more risk and attracts a higher differential. The proposed factors are based on experience from Elite's MGU for a similar book of business. The same factors apply to physical damage coverages including DCPD and are lower than indicated.

One Less Regular Use Vehicle than Household Drivers

[24] In a situation where there is one less regular use vehicle than the number of drivers, the probability of the Antique/Collector vehicle being driven is higher than if each driver had a regular use vehicle. More driving of the vehicle implies higher risk to the company. Elite based its factor on its MGU experience with a similar book of business. The selected factor is less than indicated. If there are even fewer regular use vehicles than drivers, the risk to Elite may be too great to write.

Inexperienced Occasional Operator

[25] This variable, which applies to all coverages, is designed to reflect the higher risk of an inexperienced occasional operator using the collector car. The proposed factors are based on the MGU's program in a similar jurisdiction. The factor applies to the highest premium vehicle and only if the inexperienced occasional operator is not listed as a driver on another policy and no driver exclusion applies. If there are multiple inexperienced occasional operators, Elite uses the applicable factor for the least

experienced operator. The factor varies by years licensed and declines as experience increases. Elite's proposed factors are generally below the indicated level.

### Replica Year

[26] Elite defines a replica vehicle as a kit or production vehicle that resembles the body of another motor vehicle most typically produced at least 25 years ago. Replica vehicles are categorized, underwritten, and rated as modified vehicles, based on the replica year and not the year it was built. For example, a replica 1932 Roadster built in 2005, is rated as a modified 1932 vehicle, not as a 2005 vehicle. The factors used by Elite's MGU in another jurisdiction, apply a higher factor for replica years in the 1960's. Elite explained the 1960's has a higher proportion of specialty replica vehicles (e.g., Cobra, Lotus, etc.), which often are kit vehicles that can be produced by an individual without requiring professional mechanic certification. These vehicles tend to have higher power, less weight, and smaller frames. This combination of features exposes the individual and Elite to higher severity accidents and larger payouts. This exposure warrants a higher premium. Loss ratios provided confirm this need. The factor will apply to Bodily Injury, PD-Tort, DCPD, Accident Benefits and Collision only. Elite selected a factor in line with the indications.

### **Endorsement Changes**

[27] Elite proposed changes to its endorsement offerings. Elite will extend the coverage provided under its Cherished Salvage Endorsement to DCPD. The endorsement currently applies to Collision and Comprehensive. The policyholder retains

the salvage rights to the insured vehicle in the event of a total loss. Elite waives its right to salvage and will not require the policyholder to purchase the vehicle back. To account for the extension of this coverage to DCPD, Elite is increasing the premium to include a percent of the premium paid for DCPD. The percentage is the same that Elite applies to the Collision and Comprehensive premiums.

[28] Elite currently offers its Value Added Endorsement only to insureds who have high valued collections, including six or more vehicles with a minimum collection value of \$250,000 or have a total policy collection value of \$500,000. These special collectors receive the endorsement at no charge. Elite proposes making the endorsement available to standard policyholders at two levels, Premium and Ultimate. The Ultimate level provides more benefits (e.g., higher limits, and some additional coverage). Special collectors will receive the Ultimate version at no charge. Standard policyholders will pay \$30 and \$50 for the Premium and Ultimate versions, respectively. These proposed versions and premiums match those used by Elite in Ontario.

[29] Elite will introduce the Transport and Paddock Collision Coverage Endorsement designed primarily for raced vehicles which are not driven on public roads, subject to certain restrictions. This endorsement is available to any "Collectible Raced Vehicle" that is eligible only for Comprehensive coverage as per Elite's definition of "Collectible Raced Vehicles" and any other collector car where the insured has requested Comprehensive coverage only. The insured must purchase Comprehensive coverage to be eligible for the endorsement.

[30] The endorsement provides coverage when a covered loss occurs while the collector vehicle is:

- Transported by trailer from one location to another;
- Loaded and unloaded from the trailer;
- Driven to and from the trailer to the Paddock or show display area;
- On display in the race facility's Paddock area or a specified show display area;
- At the primary garaging or storage location; or
- Located on a service or repair facility premises.

[31] Vehicles with this endorsement will pay 50% of the applicable full Collision premium or the Collision portion of the All-Perils coverage. Elite offers this endorsement in British Columbia and Ontario using the same premium formula.

[32] Elite also made some changes to other endorsements where there was either no charge to the customer or the changes were cosmetic (i.e., no significant wording or benefits were changed). The Superintendent of Insurance approved the new non-standard endorsements as well as changes to existing non-standard endorsements.

[33] Board staff recommends the Board approve all the proposed changes to Elite's endorsement offerings. The Board approves the changes.

### **Discount and Surcharge Changes**

[34] Elite proposed changes to its discount and surcharge offerings.

[35] The first change will see the discounts and surcharges displayed to four decimal places to align with the rating algorithm rounding changes.

[36] Elite provides its Multi-Vehicle Discount when a policyholder insures more than one vehicle on the policy. The discount varies by coverage and by the number of vehicles insured. As the number of vehicles increases, generally so does the discount. Elite proposes changes to the discount levels based upon the indications arising from its GLM analysis. For Collision and Comprehensive, the discounts either remained the same

or increased. For SEF#44, Elite will now provide a discount where it did not before, with the levels equal to that proposed for mandatory coverages. For all other coverages, the change either reduced the discount or left it unchanged. Elite also split its discount band for 4-5 vehicles into two separate discount levels.

[37] Elite offers a discount when a client has no claims at the third and subsequent renewals, referred herein as “Nth” renewals. The level of the discount varies by which renewal the client is at (e.g., third, fourth, fifth, etc.). The discount applies to all coverages, including SEF#44. Each coverage uses the same discount levels. Elite suggests that the low claims frequency observed for collector cars results in reduced renewal premium with limited impact on retention. The company’s analysis suggests vehicles with this discount are underpriced, and no discount is warranted. Rather than removing the discount to address this inadequacy, Elite will only offer the discount at the fifth and subsequent renewals and will lower the discount to 5%. Elite took this approach to limit the dislocation for its policyholders.

[38] Elite proposed adding a 5% Automatic Braking Discount to Bodily Injury and Accident Benefits to be consistent with its Ontario offerings. The discount only applies where the automatic braking system was equipped by the original manufacturer, and not where the system was after-market installed. Elite stated that these systems first began being installed on luxury vehicles in the mid-2000’s. As a result, such a system on an antique vehicle would be an after-market upgrade and not subject to the discount.

[39] Elite will offer expanded device options for its Anti-Theft Discount. In addition to the current 30% discount for having an electronic homing device, Elite will add discounts for non-factory installed disabling devices. An active disabling device receives

a 5% discount, while a passive version receives a 10% discount. An active disabling device requires a separate manual step to engage it while the passive version does not. Because the policyholder could forget to engage the active device, the risk is higher than a passive version and warrants a smaller discount. Elite examined competitors' discounts when selecting these new discount levels.

[40] Elite proposed to extend its Mobility Discount to DCPD. Elite provides a discount on the Collision (or the Collision portion of All Perils) that decreases as the number of kilometers driven annually increases. The discount starts at 30% where the vehicle is driven less than 160 km (e.g., 100 miles) and decreases by bands until no discount is available if the vehicle is driven more than 5,600 km (3,500 miles). The risk of claim would increase as the distance driven increases. The declining discount recognizes this change in risk. The discount levels for DCPD will match those used for Collision.

[41] Board staff advise that the company supported the proposed changes to its discount and surcharge offerings and recommends the Board approve them. The Board approves the changes.

### Rating Algorithm

[42] Elite will modify its rating algorithm to remove rounding at various steps in the premium calculation and to round to the nearest dollar only once the final coverage premium is determined. Exceptions to this rule are mandatory coverages, where rounding is involved at one additional step. To accommodate this change, Elite will use factors and base rates with four decimal places.

[43] Elite is also adding any new variables and discounts to the rating algorithm.

[44] Board staff recommends the Board approve the proposed rating algorithm changes. The Board approves the changes.

Premium Dislocation Capping

[45] To mitigate the dislocation that policyholders will experience at renewal, Elite will apply a premium dislocation cap that limits both increases and decreases in policy premium at renewal to 15%. To use negative capping (i.e., limiting the true renewal decrease in premium), the Board requires the extra premium collected under the negative cap to be less than or equal to the premium foregone. Elite demonstrated compliance, as the capped increase is lower than the uncapped increase. Premium from optional endorsements, excluding SEF#44, are not included in the cap. Elite will apply this cap for the first two renewals. If at the third renewal the policy has not reached its true premium, Elite will remove the cap, and the correct uncapped premium will apply.

[46] Board staff recommends the Board approve the renewal premium dislocation cap, and the Board agrees.

Dependent Vehicles: Trailers

[47] Elite identifies Collector Car trailers as dependent vehicles. Elite explains the connection with the following manual definition, from Section C-6 of the application:

A Trailer means any automobile, whether two or four-wheeled, not equipped with its own motive power but hauled by an automobile. We insure trailers only if intended for use with or transportation of a collector vehicle. Transport trailers must not be multi-level or carry more than 2 vehicles.

[48] Elite provides Collision and Comprehensive coverage for these trailers. The company will adopt many of the changes made to antique and classic vehicles (i.e., collector cars), namely:

- Base Rate Adjustments;
- Alteration of Algorithm Rounding Rules;
- Model Year/Modified Rating;
- Introduction of Annual KM Rating;
- Revised Deductible Rating;
- Revised Total Insured Value (TIV) Rating;
- Introduction of Storage/Garaging Type Rating;
- Cherished Salvage Endorsement;
- Multiple-Vehicle Discount Factors;
- No Claims at Nth Renewal Discount Factors; and
- Expanded Device Options for the Anti-Theft Discount.

[49] Elite insures very few trailers. The changes see the small total annual premiums drop by 22% .

[50] Board staff recommends the Board approve the proposed changes for Trailers, and the Board agrees.

### III SUMMARY

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

[52] The Board approves the following:

- a) proposed changes to base rates;
- b) proposed changes to the rating algorithm;
- c) proposed changes to existing rating variables, Model Year, Name Insured Years Licensed, Vehicle Type, Deductible, and Total Insured Value;
- d) proposed new rating variables, Annual Km, Vehicle Symbol, Storing/Garaging Type, Vehicle Usage, One Less Regular Use Vehicle than Household Drivers, Inexperienced Occasional Operators, and Replica Year;

- e) proposed changes to endorsement offerings, including the Cherished Salvage Endorsement, the Value Added Endorsement (both Premium and Ultimate versions), and the Transport and Paddock Collision Coverage Endorsement;
- f) proposed changes to discount and surcharges, including the Multi-Vehicle Discount, the No Claims at Nth Renewal Discount, the Automatic Braking Discount, the Anti-Theft Discount, and the Mobility Discount; and
- g) proposed renewal premium dislocation cap.

[53] The Board finds the proposed rates are just and reasonable, and approves the changes effective May 15, 2022, for new business and June 15, 2022, for renewal business.

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

[55] The mandatory filing date for Elite for antique and classic vehicles was May 1, 2024. The application did not include updated actuarial indications, and therefore, it does not qualify to reset the mandatory filing deadline.

[56] Board staff reviewed Elite's Automobile Insurance Manual and in addition to the modifications required to reflect the changes discussed in the Staff Report, Elite proposed changes to its underwriting, declination and rating rules and some wording in the manual. Once Elite revised the manual to address a compliance issue, the Board Staff review of the proposed manual uncovered no areas where the company appears to be in violation of the Act and Regulations.

[57] The Board requires Elite to provide a complete copy of its Automobile Insurance Manual within thirty (30) days of the issuance of the Board's decision.

[58] An order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 17th day of January, 2022.

  
David J. Almon