DECISION **2016 NSUARB 6**
M06982

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

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- and -

IN THE MATTER OF AN APPLICATION by **SECURITY NATIONAL INSURANCE COMPANY, PRIMMUM INSURANCE COMPANY** and **TD HOME and AUTO INSURANCE COMPANY** for approval to modify their rates and risk-classification system for private passenger vehicles

BEFORE: Murray E. Doehler, CPA, CA, P.Eng., Member

APPLICANT: **SECURITY NATIONAL INSURANCE COMPANY**
PRIMMUM INSURANCE COMPANY
TD HOME and AUTO INSURANCE COMPANY

FINAL SUBMISSIONS: December 23, 2015

DECISION DATE: **January 21, 2016**

DECISION: **Application is approved**

I INTRODUCTION

[1] Security National Insurance Company, Primmum Insurance Company, and TD Home and Auto Insurance Company, collectively the TD Insurance Group ("TD" or "Group"), filed supporting documents and materials ("Application") with the Nova Scotia Utility and Review Board ("Board") for approval to modify their rates and risk-classification system for private passenger vehicles. The Application, dated July 1, 2015, was filed electronically on July 2, 2015, and the original documents were received on July 3, 2015.

[2] Information Requests ("IRs") were sent to the Group on July 30, 2015. The response elicited an amended application received on September 24, 2015. A further response to an IR issued on September 9, 2015, was received on November 10, 2015, with revisions to the amended application dated November 24, 2015, to reflect some of the issues raised in the IRs and to include recent data that the Group felt better supported their position. A final IR issued on December 9, 2015, was responded to on December 14, 2015.

[3] As a result of a review by Board staff, a staff report dated December 22, 2015 ("Staff Report"), was prepared. The Staff Report was provided to the Group for review on the same day. The Group responded on December 23, 2015, indicating that they were "comfortable" with the Staff Report and had a few comments about confidentiality.

[4] The Board did not deem it necessary to hold an oral hearing on the Application.

II ISSUE

[5] The issue in this Application is whether the proposed rates and changes to the risk-classification system, which are the same for each company, are just and reasonable and in compliance with the *Insurance Act* (“*Act*”) and its *Regulations*.

III ANALYSIS

[6] The Group sought approval to change their rates and risk-classification system for PPV. The Application was made in accordance with the Board’s *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (“*Rate Filing Requirements*”). The Group’s mandatory filing date was July 1, 2015, which, being a holiday, was extended to July 2, 2015.

[7] The proposed revised effective date is April 1, 2016, for new and renewal business.

Rate Level Changes

[8] The Group proposed to change its base rates that are not uniform by territory or coverage. The proposed change represents an overall rate level increase of 11.3%. TD proposed to apply a premium dislocation cap, which reduces the overall increase to 7.1%.

[9] In considering the Group’s Application, Board staff reviewed all aspects of the ratemaking procedure, including the following:

- Loss trends and the effects of reform;
- Loss development factors;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;

- Number of years for which loss trend is projected;
- Experience period and weights;
- Credibility standards, procedure and complement of credibility;
- Premium to surplus leverage ratio; and
- Target and proposed Return on Equity ("ROE").

[10] Based on the Staff review of the filing, two issues arose concerning the TD analysis of its rate level needs: (a) the selected loss trends, and (b) the profit provision, specifically the target ROE. All other issues raised were successfully resolved in the IR exchange process or through the amended Applications.

Loss Trends

[11] With the release of the industry claims experience data through to December 2014 earlier last year, Oliver Wyman ("OW"), the Board's consulting actuaries, developed assumptions for loss trends for private passenger vehicles.

[12] In developing its selections, OW tended to focus on the trends for the industry loss costs while still reviewing and commenting on frequency and severity trends. OW selected trends after examining both 5 and 10 years of data. For Bodily Injury, the past trend was split into two time periods to reflect observed changes in trend patterns.

[13] After selecting past loss cost trends, OW selected future trends to match the selections for past trends. For Bodily Injury, the selection for the more recent time period was used for the future trend.

[14] TD, in selecting its loss trend assumptions, reviewed industry data in Nova Scotia through to December 31, 2013, as well as its own internal data through to October 31, 2014. The Company also considered an earlier version of the OW report that had used the experience data through to June 30, 2014.

[15] The Company used a regression analysis to separately review frequency, severity and loss costs using a number of different sets of 10 year and 5 year data. TD found better regression fits for all coverages using various periods of data ranging from 3 to 10 years. The Company generally relied on the 3 to 6 years of exponential results for physical damage coverages; for Bodily Injury, 4 to 6 years of data were used; while for Accident Benefit, 5 years were used.

[16] TD argues that its experience has been significantly different from the industry, warranting the use of its own data, in whole or in part, for the development of loss trends. The Group has about 59,000 exposures. The loss trend rates used by TD are higher than those selected by OW for all coverages except for the Collision future trend selection and the Comprehensive past and future trend selections. As would be expected, when the indications are recalculated using the OW loss trends, a smaller increase is suggested.

[17] To help explain the trend differences, TD provided detailed information with the following introduction:

> We have observed that loss trends based on our Nova Scotia book of business do not necessarily mirror that observed in the industry. As our business and marketing strategy generally targets … groups, we believe that the observed difference in historical trends is likely due to the fact that our book of business is not representative of the entire Nova Scotia insurance industry. Furthermore, this difference is also driven by shift in our book of business towards young/inexperienced drivers. Therefore, a difference exists between the overall insurance industry and TD Insurance's loss trends, meaning OW's loss trend selections are not necessarily adequate for our company's book of business.
>
> [IR-1, Question 3]

[18] Board staff analyzed the loss cost and relative loss cost, as well as frequency for Bodily Injury and Accident Benefits. This analysis was presented to TD for comment. In response TD used updated information from what it provided in the initial Application, which supported the Group's use of higher trends. In particular, TD

compared loss costs for territory 501 (Halifax/Dartmouth area) to that for the province as a whole. TD did this for both its own data and the industry. In both cases, the loss costs and trends were higher for Territory 501 than for the rest of the province. This analysis supports TD's assertions that trends for the urban area are higher, and thus a heavier weighting for TD contracts in this area could result in the higher trend.

[19] Accordingly, Board staff believe that TD has provided sufficient support for the fact that its experience has been different from that of the industry. The Group's trends are more appropriate for use in the circumstances of this Application, without creating a precedent for the future, especially if the TD experience eventually moves closer to that of the industry.

[20] Board staff recommended, and the Board finds, that it is appropriate to use the TD trend selections when developing Staff Indications, against which the proposed rate changes should be assessed.

Profit Provision

[21] TD used a target ROE of 12% in the calculation of its indicated rate level changes. This level of ROE is at the top end of the range of 10-12% that the Board views as a reasonable ROE for companies in Nova Scotia.

[22] In recent decisions, the Board has required companies to lower the target ROE to 10%. This was a result of Board concerns that, as evidenced in part by the release of the 2012 and 2013 General Insurance Statistical Agency ("GISA") Financial Information report, the industry appears to be earning ROEs well in excess of the 12% the Board believed it was approving.

[23] Factoring in the other TD assumptions, the TD target ROE produces an overall profit provision of about 7.4%. The Board generally views a range of 5-9% as a reasonable provision. The GISA report also showed that the profits as a percentage of premium have been, within the industry, much higher than this level. A move to a 10% ROE would result in a profit provision in the lower end of the range (i.e., about 6%).

[24] When asked whether the Board should view TD differently from those companies that have been forced to use 10% or a profit provision in the lower end of the Board range, the Company responded:

> The ROE used in a rate level indication analysis should give consideration to the level of risk supported by the insurance company. As such, a higher rate of return on equity would be reasonable when a higher level of risk is present.
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> [IR-1, Question 18]

[25] The information provided in section 12 shows that the NS loss ratios have been better than the Canada-wide automobile loss ratios for 2010-2013, with the reverse being true in 2014. Over 2010-2013, the NS loss ratio, when combined with the industry average expense ratio, produced a profit provision for the Group of about 13.1%. When the 2014 year is included this drops to 3%. It is clear that the loss trends have been trending up in NS, but 2014 represents a very large negative change. It, therefore, is not clear if the events of 2014 will reoccur or if the results are anomalous.

[26] Board staff do not consider that TD have provided sufficient reasons why they are different from the industry in this regard and recommends the use of a 10% target ROE when developing the Staff Indications.

[27] The Board finds that a 10% ROE is to be used when developing the Staff Indications for this Application.

Comparison to Staff Indications

[28] The Staff Indications, for all coverages, are lower than TD's indications. However, the proposed overall rate increase is significantly less than either TD or Staff Indications.

[29] With the exception of Collision, where no change is proposed, the proposed changes follow the direction of the indicated change: only the magnitude is different. For all coverages, except SEF#44 and Collision, the proposed changes result in lower than indicated rates. The opposite is true for SEF#44 and Collision.

[30] The change, overall, is for a much smaller increase than indicated, resulting in a projected ROE of 1.8%, which falls well below the Board's range. Despite this low value, Board staff do not believe the solvency of TD is an issue.

[31] According to Board staff the lower than expected increase provides customers with a more stable rate environment and is a prudent step towards the overall indications. By moving partway, there is time to see if the loss trend differences continue into the future. Board staff recommend, and the Board approves, the TD proposal, as included in the final version of the Application.

Other Changes

[32] TD proposed changes to the territorial differentials and the discounts.

Territorial Differentials

[33] While in prior applications TD used a generalized linear model to analyze its territorial differentials, in this Application, for efficiency purposes, TD chose to conduct

loss ratio analysis by territory. The Group explained they had used this approach in other provinces and wishes to standardize the approach.

[34] As a first step, the Group looked at the indicated differentials for all-coverages combined and determined Territory 7 needed to be changed, arguing the deviations for the other territories were relatively minor.

[35] After a more refined look at the differentials by coverage in Territory 7, the differentials for Property Damage, Accident Benefits and Collision were modified. About half of the indications were taken to minimize dislocation and to maintain price stability.

[36] Board staff commented that TD has supported the proposed changes to its territorial differentials and recommended approval.

[37] The Board approves the changes to the territorial differentials.

Multi-Line Discount

[38] TD proposes to increase its Multi-Line discount to 10% from the current 5%. The Group conducted an analysis, by coverage, to determine what the indicated discount would be. In some cases the indications were for larger discounts, by coverage, than 10%. Regardless, the Group chose to only go to 10%, arguing that, for ease of understanding, it was better to not vary the discount by coverage.

[39] TD has supported its proposed change to the Multi-Line discount and Board staff recommended Board approval.

[40] The Board approves the changes to the Multi-Line discount.

First Chance Discount

[41] When an inexperienced driver (licensed less than 6 years) is at-fault accident and conviction free, that driver may qualify for the first chance discount, whereby the driver receives credit for additional driving experience than his years licensed would usually attract. For such drivers, licensed less than 6 years, who have taken driver training, the premium is calculated as if the driver had 6 years of experience. For such drivers without driver training, who are licensed less than 3 years, the premium is calculated as if the driver had 3 years of experience. Should the driver have an at-fault accident or a conviction, the discount will be lost at renewal and the actual years licensed would be used.

[42] TD provided evidence that showed its loss ratios for inexperienced drivers have been much worse than that of its experienced drivers. These drivers are also forming a larger portion of the TD insurance contracts in Nova Scotia. To address what appears to be premiums that are too low for these drivers, TD proposes to reduce the current discount by half for all coverages. Differentials were determined for each of the years licensed (separately for with driver training and without driver training) and these were tailored to better recognize the higher loss costs associated with fewer years licensed.

[43] Board staff conclude that TD has provided sufficient support for the changes to the first chance discount.

[44] The Board approves the changes to the first chance discount, as included in the revised Application.

Rate Manual Review

[45] Board staff have reviewed the Rate Manual on file and found no instances where the Group is in violation of the *Regulations*. The Group proposed no changes to their Rate Manuals, other than those necessary to effect the changes noted in this Decision.

IV FINDINGS

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

[47] The financial information submitted by the Group satisfies the Board, pursuant to Section 155I(1)(c) of the *Act,* that the proposed changes are unlikely to impair the solvency of the Group.

[48] The Board finds the proposed rates and changes to the risk-classification system are just and reasonable.

[49] The Application included full actuarial indications and the required territorial analysis; therefore, it qualifies to set the new mandatory filing date for private passenger vehicles for the Company to July 1, 2017.

[50] The Board approves the effective date of April 1, 2016, for new and renewal business.

[51] The Group is required to file an electronic version of its updated Rate Manual within 30 days of the issuance of the Order in this matter.

[52] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 21st day of January, 2016.

Murray E. Doehler