DECISION **2017 NSUARB 12**
M07781

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY** for approval to modify its rates and risk-classification system for private passenger vehicles

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

APPLICANT: **THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY**

FINAL SUBMISSIONS: January 16, 2017

DECISION DATE: **February 3, 2017**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Portage la Prairie Mutual Insurance Company ("Portage" or "Company") filed supporting documents and materials ("Application") with the Nova Scotia Utility and Review Board ("Board") for approval to modify its rates and risk-classification system for private passenger vehicles. The Application, dated November 20, 2016, was filed electronically on December 2, 2016, and the original documents were received on December 5, 2016.

[2] Prior applications had been prepared by an actuary who has since left the Company. This Application was prepared by an external actuary, Eckler Consultants & Actuaries ("Eckler").

[3] Information Requests ("IRs") were sent to the Company on December 13, 2016, and January 4, 2017, and responses were received on December 22, 2016 and January 9, 2017.

[4] As a result of a review by Board staff, an initial staff report dated January 13, 2017, was prepared and provided to the Company for review on the same date. The Company responded indicating that it had reviewed it and had several comments. These comments were incorporated in a second staff report dated January 16, 2017, ("Staff Report"). The Staff Report was provided to the Company on January 16, 2017, to which it responded it had no further comments.

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

II ISSUE

[6] The issue in this Application is whether the proposed rates and changes to the risk-classification system are just and reasonable and in compliance with the *Insurance Act* ("*Act*") and its *Regulations*.

III ANALYSIS

[7] The Company sought approval to change its rates and its risk-classification system for private passenger vehicles. The Application was made in accordance with the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* ("*Rate Filing Requirements*"). The Company's mandatory filing date was December 1, 2016.

[8] The proposed effective dates are April 1, 2017, for new business and May 1, 2017, for renewal business.

Rate Level Changes

[9] The Company proposed to change its rates and risk-classification system. The proposed change represents an overall rate level increase of 12.3%. The changes are based upon an indication for an overall increase of 18.6%.

[10] Portage received approval, effective April 1, 2013, to split its current Third Party Liability ("TPL") into three sub-categories: Bodily Injury, Property Damage and Direct Compensation Property Damage. Due to lack of data, the indications were developed for TPL as a whole and thus the indicated rate level change is the same for all

of the TPL components. This Application proposes to apply the same change to all three components to be consistent with that determined in the past.

[11] In considering the Company's Application, Board staff reviewed all aspects of the ratemaking procedure, including the following:

- Loss trends;
- Effects of Reform (Minor injury cap reform in 2010 and AB reform in 2012);
- Loss development;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Experience period and weights;
- Credibility standards, procedures, and the complement of credibility;
- Premium to surplus leverage ratio; and
- Target and proposed Return on Equity ("ROE")

[12] Based on Board staff's review of the Application, there were four areas where issues arose surrounding the Portage analysis of its rate level needs where the Board might consider alternate assumptions or approaches or where additional discourse was warranted. They were (a) loss trend selections, (b) credibility methodology, (c) the treatment of the Health Service Levy and (d) the treatment of large loss loading. Any other issues raised, including profit commission, were successfully resolved in the IR exchange.

Loss Trends

[13] With the release of the industry claims experience data through to December 2015, Oliver Wyman ("OW"), the Board's consulting actuaries, developed assumptions for loss trends for private passenger vehicles.

[14] In developing its selections, OW examined trends for the industry loss costs, frequency and severity before making its selections. OW considered a number of

observations periods including both 5 and 10 years of data when making its decisions. After selecting past loss cost trends, OW selected future trends to match the selections for past trends.

[15] In its last filing Portage used the OW assumptions; however, in this filing, the Company developed its own. The rationale for the change was presented as a mitigation of the potential swings in indications in successive analyses that may result from the volatility in the trend selections that can arise in the analysis of half-yearly data, as performed by OW.

[16] Portage reviewed the industry data in Nova Scotia from 1996 through to 2015 and fit an exponential curve to it. The model included indicator variables to reflect the various reforms (e.g. 2003 and 2010 minor injury cap reform). If the variable is significant the model provides an estimate of the reforms. There are only a few years of data that reflect the results of the April 2012 Accident Benefits reforms. As such an indicator was not included for these reforms but rather the post-reform values were restated to the pre-reform levels to analyze the trend.

[17] Although 20 years of data was included in the model for most coverages 5-12 years of data were used. Some outliers were removed, where deemed appropriate, to find a better fit for the model.

[18] As expected there are differences between the Company's trends (past and future) and those of OW. Except for Accident Benefits and Comprehensive, the differences are significant. When asked for comments on its selections, versus those of OW, Portage responded:

> When selecting trend assumptions, the object is to discern underlying patterns by giving consideration to many models based on different data sets, combinations of variables and/or indicators, length of historical experience, exclusion of outliers, etc. Our selected

> models are those found to produce the best statistically significant fits which produce reasonable and intuitive annual fitted trends. In some cases, judgmental adjustments are made to future trends to reflect consideration of the sustainability of these fitted trends going forward after consideration of any early evidence of possible new patterns in the latest experience.
>
> For each coverage, an initial run is done on frequency/severity and loss cost using all available accident years and applicable independent variables to determine whether the selected model will be based on loss cost or a combination of frequency/severity. Once this decision is made, from visual inspection of the graphs consideration is given to inflection points not otherwise explained by a regression variable, and various models are run with different combinations of independent variables and number of accident years, successively dropping variables that are not statistically significant and eliminating outliers typically based on the test described above. In the selection process, consideration is given to the selected models from the prior analysis as well as the various regression statistics produced by the analysis.
>
> There are differences between the processes used by Eckler and by Oliver Wyman to determine the annual trends: use of one preferred model by Eckler for either loss cost or for each of frequency/severity versus Oliver Wyman's averaging of results of several models, use of accident half-year data as opposed to accident year data, using a coverage's own data or relying on the experience of another coverage, to name a few. Although some of the resulting trends are similar (e.g., for Accident Benefits, Comprehensive and Specified Perils) the selected trends for Collision are quite different between the two analyses.
>
> [Response to question 3 of IR-1]

[19] A comparison of indications using the OW and the Company trends shows differences. The two major differences arise in the TPL components and Collision. For most other coverages, the changes are fairly small or apply to relatively small premiums (e.g. Uninsured Automobile). The differences appear to arise from a combination of data modelled (half yearly for OW versus annual for Portage) and actuarial judgement.

[20] In its response to the second IR, Portage provided some additional trend graphs for Collision. The graphs show the actual values and fitted values from the Portage model for loss cost, severity and frequency. While Portage does not view the 2015 results as an outlier, a review of the loss cost graph appears to indicate otherwise. If that data point was removed, the trend over the last few years would be more flat, perhaps slightly negative, which is more consistent with the OW selections

[21] Given both actuaries are examining industry data over essentially the same period, it is difficult, in this case, to deviate from the advice that has been provided by the Board's consulting actuaries. The Board could "cherry pick" the trend selections by coverage that result in lower indications. However, this would not adhere to a consistent application of the actuarial judgement that had been applied in the overall selection of a coherent and complete set of trends.

[22] Board staff recommend, and the Board agrees, that Portage use the OW loss trend selections, for all coverages, when producing indications that will be the target to judge the reasonableness of the proposed rate changes.

Credibility Methodology

[23] While Portage developed projected loss costs and premiums (using the years 2014 and 2015) for the three sub-coverages of TPL separately, these loss costs and premiums were combined to develop the TPL combined loss ratio. This was then weighted using the claims for all of the sub-coverages combined to determine how credible the Portage data was against a single standard. This approach was used because split premiums were not available before the introduction of Direct Compensation Property Damage in 2013 and therefore the indications for the sub-coverages could not be independently derived.

[24] OW suggests that the sub-coverages should be analyzed separately and have the application of separate credibility standards. The standard for Property Damage -Tort and Direct Compensation Property Damage would be much lower than the standard

for Bodily Injury. The use of the combined claims and a single standard has the result of increasing, somewhat artificially, the credibility of the Portage data.

[25] Portage calculated several versions of indications to test the sensitivity of undue reliance on a possible artificial credibility. These indications included several approaches for split analysis (one using only 2014 and 2015 data, as these are the only years with premiums split, and another using five years of data with the pre-Direct Compensation Property Damage premium split based on the proportions of the 2014 and 2015 premiums). Portage also provided two approaches where the credibility assigned was based upon a weighting of the separate standards.

[26] Portage expressed some reservations about the use of the two split versions and it chose the approach used in the Application to address those concerns.

[27] With the ability to provide some split data indications, the need for the blended credibility approach is reduced. As well, the results from the two split versions are not that different from the Portage approach. Taking into account Portage's expressed misgivings about the split approach, and the above observations, Board staff recommend that the Board should allow the Company's approach to credibility in the development of the indications that will be used to assess the reasonableness of the proposed rates.

[28] The Board approves the use of Portage's approach to credibility to be used in the development of Staff Indications in the circumstances of this Application.

[29] The Board expects that in the next mandatory filing, in two years, there should be sufficient years of data to allow for a split analysis without the reservations noted in this Application.

Treatment of Health Service Levy

[30] In past applications, Portage would prepare separate indications for the Health Services Levy and would make an explicit proposed change that might differ from that for other TPL components. This practice differs from the way most companies in Nova Scotia handle the levy. These companies tend to include the levy as a fixed expense component for Bodily Injury or Accident Benefits.

[31] In this Application, which was produced by Eckler, the Company is adopting the more traditional approach, and use of a Health Service Levy loading factor for TPL. The proposed rate change for TPL, selected after consideration of the indications including the Health Services Loading, would then be applied to the TPL premiums and the Health Services Levy charge, which Portage will continue to show as a separate premium. This change does not affect the overall rates in any material way.

[32] The Board approves the use of the new approach for recognizing the Health Service Levy.

Large Loss Loading

[33] In the last filing, the Board had ordered Portage to reflect large loss loading in its analysis. Eckler, in preparing this Application, had reviewed the prior filing which did not include the large loss loading, and hence was unaware of this requirement. As a result, no large loss loading was included in this Application.

[34] During the IR process, Eckler was made aware that the Board had ordered the use of large loss loading. Eckler explained that it would require more years of data than was used in an analysis that had been made in a Portage filing in New Brunswick.

Eckler further explained that the large loss data that would be required to do such an analysis had not been made available to it.

[35] Under these circumstances, Board staff recommends, and the Board approves, the exclusion of a large loss loading, in this Application.

Comparison of Proposed Rates to Indications

[36] The Staff indications, which are the target against which the Portage proposal is to be assessed for reasonableness, are calculated using all Portage assumptions except that the OW loss trends are to be used. The Staff indications, compared to the Portage indications, show that the overall increase should be 13.3%.

[37] The comparison of the proposed changes, by coverage, to Staff indications shows that they are in the same direction, with the exception of Collision. In this coverage, Portage selected a higher change than the Staff indications suggest. In all the other coverages the proposed increases were less than indicated. The overall change is also smaller than that indicated and results in an ROE that is lower than 10%.

[38] Board staff recommended, and the Board approves, the proposed changes to base rates, including the treatment of the Health Service Levy, as filed.

Other Changes

Territorial Relativities

[39] As part of its indications, Portage undertook an analysis of its territorial relativities and determined credibility weighted indicated changes as required in a mandatory filing. While these indications suggest some changes could be made, Portage

stated it is not looking to change these relativities at this time as its focus is on changes to the base rates. That is, Portage wants to address the rate adequacy issues before addressing any territorial concerns. The Company wanted to mitigate individual rate changes by not factoring in territorial changes on top of the larger base rate changes proposed. This continues an approach that had been taken in the last application.

[40] Board staff agree that Portage has provided sufficient evidence to support its decision to leave the territorial relativities unchanged as this time, and recommends approval, as filed.

[41] The Board approves the retention of the present territorial relativities but cautions that should a similar situation occur at the next application, the Board expects Portage to make some attempt to address the issue.

Territory Changes

[42] Portage is adding Postal Codes and/or Forward Sortation Area (the first three digits of the postal code) to its territorial definitions to make it easier for brokers to assign the correct territory.

[43] Portage also proposes to move Enfield, which is currently placed in Territory 1, to Territory 5, to be consistent with a number of competitors and to make the rates more competitive. The few risks that Portage has written will see lower rates as a result of the change.

[44] Board staff recommend, and the Board so approves, the addition of postal code/forward sortation areas to the territory definitions and the move of Enfield to territory 5.

Farmers Discount

[45] Portage proposes to change the eligibility requirements for the Farmers/Fisherman discount so that it will no longer apply to classes 18 and 19 (female inexperienced principal operators) hence making it gender neutral. The change is being made to make the discount in Nova Scotia consistent with that offered in New Brunswick and Prince Edward Island. Portage explains there are very few risks that will be effected by the change and the impact is negligible so it will not be off-balanced.

[46] The Board approves the change, as proposed.

Class Definition Change

[47] Portage proposes to remove the allowance for a short commute (up to 8 km each way) from the Class 01 definition. Risks with such a commute that are currently Class 01 will now be rated as Class 02. The change by itself would increase the premiums collected but Portage proposes to off-balance the impact to make the change revenue neutral. The change aligns the Portage Class 01 definition with that used by the Insurance Bureau of Canada.

[48] Board staff recommend, and the Board so approves, the change to Class 01 definitions and the associated off-balance, as filed.

Endorsement Changes

[49] Portage proposes some changes to its endorsement offerings. Some of the changes are to clarify what information is required, or how the endorsement is applied.

[50] Two other changes are a little more substantial. For SEF#2, the $15 premium is being removed. The Company explains that the coverage is already listed in the standard form for all drivers listed on the policy and as such the charge was confusing to brokers.

[51] Secondly, Portage will also offer a stand-alone SEF#43 Limited Waiver of Depreciation endorsement. Currently, it is only available in a package (Physical Damage Extension Endorsement). The premium for private passenger vehicles is $30 while for light commercial vehicles the premium is $45. This pricing structure is similar to that for the SEF#20 Loss of Use endorsement.

[52] Board staff recommend, and the Board so approves, all of the proposed changes to the endorsements.

Rating Rules

[53] Portage is making a number of modifications to its rating rules. Many are being made to clarify the current practices (e.g. the multi-line discount is always applied if there is a commercial policy – the Rate Manual is being changed to explicitly state this).

[54] Some rules are changing how risks will be treated. New residents in Canada, who are currently treated as new drivers unless they can provide satisfactory proof of previous driving experience, will now all be treated as new drivers regardless of whether previous driving experience can be proven. Clients who are currently rated better than they would be under the new rule will be grandfathered so that they continue to receive the better rating.

[55] Portage also proposes to amend the eligibility criteria for the driver training credit to limit its application to 36 months in order to make sure the course is relevant to current driving standards. Those risks currently eligible for the driver training credit, who would be adversely affected by the change, will be grandfathered.

[56] Board staff state that none of the proposed changes violate the *Regulations* and recommend approval.

[57] The Board approves the proposed changes to the rating rules, as filed.

Rate Manual Review

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

IV FINDINGS

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

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

[61] The Board finds the proposed rates are just and reasonable.

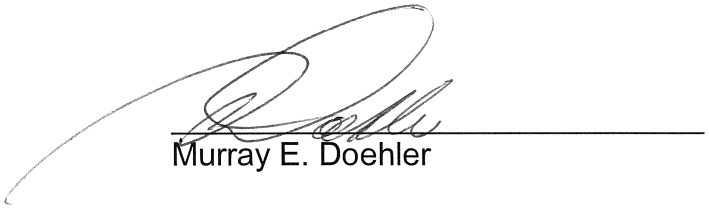
[62] The Application included full actuarial indications and the required territorial analysis; therefore, it qualifies to set the new mandatory filing date for private passenger vehicles for the Company to December 1, 2018.

[63] The Board approves the effective dates of April 1, 2017, for new business and May 1, 2017, for renewal business.

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

[65] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 3rd day of February, 2017.



Murray E. Doehler