

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

**IN THE MATTER OF AN APPLICATION** by **AVIVA GENERAL INSURANCE COMPANY**  
for approval to modify its rates and risk-classification systems for private passenger  
vehicles

**BEFORE:** Richard J. Melanson, LL.B., Member

**APPLICANT:** **AVIVA GENERAL INSURANCE COMPANY**

**FINAL SUBMISSIONS:** February 27, 2017

**DECISION DATE:** **March 8, 2017**

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

## I INTRODUCTION

[1] Aviva General Insurance Company (“Genco” 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 December 12, 2016, was filed electronically on December 13, 2016, and the original documents were received on December 14, 2016.

[2] Aviva Canada Inc. acquired the business of RBC General Insurance Company (“RBC”) and refers to the business as Genco. In order to streamline the acquisition and to take advantage of some more sophisticated rate methods used by the Aviva Group, which includes Aviva Insurance Company of Canada (“Aviva”), Genco proposes to move the insurance contracts of private passenger vehicles to a hybrid of the current Genco rating system and various Aviva platforms.

[3] Information Requests (“IRs”) were sent to the Company on December 20, 2016. On January 12, 2017, the Company sent an email to the Board indicating it was still working on the responses to the IRs, but also provided amendments to the Application to correct some information contained therein. Responses to the IRs were received on January 19, 2017, which included amendments to sections of the original Application. On January 31, 2017, the Company sent amended pages as well as a complete revised filing containing all the amendments outlined above.

[4] Additional IRs were issued on January 25, 2017, to which the Company responded on February 8, 2017. A final IR was sent to the Company on February 22, 2017, to which the Company responded on the same day.

[5] As a result of a review by Board staff, a staff report dated February 22, 2017, (“Staff Report”) was prepared. The Staff Report was provided to the Company for review on February 22, 2017. The Company responded on February 27, 2017, indicating that it had reviewed the Staff Report and, apart from a minor correction, it had no further comments.

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

## **II ISSUE**

[7] 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**

[8] 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 (including Mandatory Filing)* (“Rate Filing Requirements”).

[9] RBC’s mandatory filing date was April 1, 2016. RBC had requested an extension to move this deadline so it would fall after the acquisition of its business by the Company, in order to allow Aviva to determine any new rates. The Board allowed the request and extended the mandatory filing deadline to January 1, 2017.

[10] The proposed effective dates are July 1, 2017, for new business and September 1, 2017, for renewal business.

[11] The Company approached the Board and requested an exception to avoid producing the actuarial analysis ordinarily required with a mandatory filing, as the Company sought to adopt a slightly modified version of the Aviva rates and risk-classification system for these vehicles. Instead of an actuarial analysis, a comparison of the current and proposed average premiums, to those that would arise if the Company adopted the Aviva rates without variation, would be provided.

[12] The Company indicated it would also agree to a shorter deadline than the standard 24 months for the next mandatory filing; that is, the Company would provide another application by December 1, 2017, and that application would include actuarial analysis.

[13] Given the circumstances of the Application, Board staff indicated the proposed approach seemed reasonable and recommended approval. The Board agrees with the Board staff recommendation and finds the next mandatory filing deadline for the Genco book should be reset to December 1, 2017, for private passenger vehicles.

[14] Genco is proposing to make changes to its current rates and risk-classification systems for private passenger vehicles that vary by coverage. As noted, Genco is looking to transition from its current rating structure into that used by Aviva. Genco will adopt the Aviva risk-classification with some adjustments to reflect some of the current elements of the Genco risk-classification system. The impacts of the proposed changes will be off-balanced to make the transition revenue-neutral.

[15] Genco provided comparisons of the current and proposed average premiums to the average premium that would result if Genco fully adopted the Aviva rates and risk-classification system without variation.

[16] The Board approved the Aviva rates and risk-classification system in its decision, *Aviva Insurance Company of Canada*, 2016 NSUARB 38. Genco proposes to adopt a modified version of these rates and risk-classification system. The Aviva rates were effective for new business on May 1, 2016, and the mandatory filing deadline for Aviva is December 1, 2017, the same time as the new deadline for Genco rates.

[17] The overall result is an average premium that is below that which would be produced if the policies were simply moved to the Aviva platform. The average premium for mandatory coverages is higher under the Genco proposal, but this is more than offset by the average premiums for optional coverages, in particular, Comprehensive. While this could raise potential cross-subsidization issues, in the Genco book, over 80% of risks carry the optional coverages and therefore, any subsidization is reduced.

[18] Given the relative newness of the Aviva rates, the Board finds the rates and risk-classification system are reasonable for Genco to use in its proposal.

### **Territorial Definitions and Base Rates**

[19] Genco proposes to adopt the Aviva rating territory definitions. This results in a move from four territories to 12 territories. Genco provided a table that shows the number of vehicles in the current RBC territories that will move into the new Aviva territories.

[20] Using that chart of exposures and the Genco base premiums, weighted average current premiums for each of the Aviva territories for each coverage were

determined. Board staff indicated this approach to determining the initial territorial base rates, and the resultant base rates, along with the adoption of the Aviva territories, appear reasonable in the circumstances. The Board agrees with this assessment, and approves the proposed rating territory definitions.

### **CLEAR Table**

[21] While Genco uses the Canadian Loss Experience Automobile Rating (“CLEAR”) tables to assign rate groups for physical damage coverages and Accident Benefits, the version in use is not the 2016 table (the most recently approved at the time of the Application). Genco proposes to adopt the new table. Specifically, the Company is using the 2015 CLEAR Canada (AB Alberta and Atlantic) Combined (Coll & DCPD) and wants to now adopt the 2016 version of the same table.

[22] Board staff advised this change appeared reasonable in the circumstances. The Board agrees, and approves the adoption of the 2016 CLEAR Canada (AB Alberta and Atlantic) Combined (Coll & DCPD).

### **Driver Class and Driving Record Definitions**

[23] Genco proposes to adopt the rating rules used by Aviva to assign Driver Class and Driving Record. However, in order to minimize the dislocation that would be encountered by its clients, the Company will retain its current differentials for these variables. Genco provided tables mapping the numbers of exposures under the current definitions to those under the Aviva definition for each of these rating variables.

[24] The change to the Aviva definitions, while leaving the differentials unchanged, appears reasonable in the circumstances, and the Board approves these rating rules as filed.

## Other Differentials

[25] Genco proposes to adopt the Aviva differentials without any changes for the Vehicle Rate Group differential, Liability Limit differentials and Deductible differentials.

[26] Genco will remove its \$300 deductible as Aviva does not offer this deductible.

[27] The proposal for the other differentials is reasonable in the circumstances. The Board approves these other differentials, as filed.

## Discounts and Surcharges

[28] Genco reviewed its current discount and surcharge offerings, as well as those offered by Aviva, with the goal of identifying those which will be added, those which will not be changed, and those that would see the discount/surcharge level changed. The following table, created by Board staff, summarizes the decisions:

### Discounts

Added	Retained	New levels
Autonomous Emergency Braking System	Driving Experience	Anti-Theft
Clean Start	Plan & Affinity	Multi-Line (Car & Home)
Combined Policy	RBC Employee	Multi-Vehicle
Conviction Free		
Hybrid vehicle		
Intermediate Driver		
Loyalty		
Out of Town Student		
Package		
Recovery System		
Short Commute		
Tiered Group		

### Surcharges

Added	Retained	New levels
US Exposure	Major Conviction	Minor Conviction
	Serious Conviction	
	Accident	

[29] For affinity groups, the Genco group definition conforms to the definition of eligible group under the *Regulations*. There are no proposed changes to this definition. Genco proposes to rename this program the "Group/Affinity Program Discount".

[30] The RBC employee discount will continue to be offered to those RBC employees who did not transfer to Aviva (and would qualify for the Aviva employee discount), but would qualify for the current Genco discount for RBC employees.

[31] Board staff advise the proposed discounts and surcharges appear reasonable in the circumstances. The Board agrees, and approves the proposed discounts and surcharges as filed.

### **Endorsements**

[32] Genco proposes to align its wording and pricing, with that of Aviva's, for all endorsements (excluding NSEF#20 – Loss of Use and NSEF#27 – Legal Liability for Damage to Non-owned Vehicles), that both Aviva and Genco offer.

[33] For those endorsements that Genco currently offers but Aviva does not, Genco will stop offering them. Where Aviva offers an existing standard endorsement that Genco does not, Genco proposes to adopt that endorsement wording and pricing.

[34] Genco will offer two revised bundles: (a) NSEF#2 (Drive Other Automobiles Named Person(s)), NSEF#20 and NSEF#27; and (b) NSEF#2 and NSEF#27. Genco will also increase its individual stand-alone pricing for NSEF#20 and NSEF#27, above the approved Aviva rates, in order to make the bundle more attractive. This approach was approved by the Board for S&Y Insurance Company ("S&Y"), a sister company of Genco. In that application, Aviva indicated the change would eventually be made for Aviva.

[35] Genco will also offer Aviva's Conviction Protector Endorsement.

[36] Board staff considers all of the proposed changes to the endorsement offerings to be reasonable in the circumstances. The Board agrees, and approves the changes to the endorsement offerings, as filed.

### **Off Balancing of Impact Changes**

[37] Genco proposes that the impact of all proposed changes to rating variables taken together be revenue-neutral, both by coverage and overall. To accomplish this, the Company determined what the total premiums by coverage would be, after all the changes were made, using an extension of exposures approach.

[38] Genco then determined what adjustment would be required to base rates, to remove the impact so that the change by coverage, and hence overall, would be zero. This adjustment was made to the territorial base rates to obtain the proposed rates.

[39] Board staff advised the use of this approach, and the resultant calculations, appear reasonable in the circumstances, and recommends that the Board approve all of the changes to rating variables, and the associated off-balancing of the impact by coverage, as filed. The Board agrees with this recommendation and approves the changes to the rating variables, as filed.

### **Rating Algorithm**

[40] The rating algorithm used to calculate the premiums is also being changed. Rather than rounding to the nearest dollar at various points in the calculation, all calculations will be completed before the premium is rounded to the nearest dollar. This method is consistent with that used by S&Y and with the new administration system that Genco will eventually be using.

[41] Board staff indicated the change appears reasonable and recommends approval. The Board agrees and approves the proposed change to the rating algorithm, as filed.

### **Premium Dislocation Cap**

[42] Genco proposes to impose a premium dislocation cap, with the goal of reducing the impact of changes for those clients experiencing the largest change in premium. Genco proposes to limit the increases, on a per vehicle basis, to 10%. The Company proposes to offset the cost of this reduction in premium by applying a negative cap to those clients experiencing larger reductions in premiums. In this case, the Company proposes to limit the decrease to 11%.

[43] The Board has allowed such negative capping in the past, subject to the requirement that the extra premium from the negative cap must be less than or equal to that premium that is not collected under the positive cap. Genco confirmed that this was the case.

[44] Board staff recommended that the Board should approve the proposed cap. The Board finds the proposed premium dislocation cap to be reasonable and conforms to the Board requirements regarding the negative cap. The proposed cap is approved, as filed.

### **Other Sections**

[45] Board staff has reviewed the remaining sections of the Application and advised that they comply with the Rate Filing Requirements that have been adopted by the Board.

[46] The financial information provided in Section 12 of the Application provides comfort that the proposed changes, pursuant to Section 155I(1)(c) of the *Act*, are unlikely to impair the solvency or financial well-being of the organization.

### **Effective Dates**

[47] Genco proposes an effective date of July 1, 2017, for new business and September 1, 2017, for renewals for all of these vehicles.

[48] When asked why the effective dates were so far into the future, Genco responded that its new administrative system will go live on that date. The proposed rates are being built into this system, and the Company needs more time for the additional testing required. As well, given the large scale of the RBC acquisition, and the desire to ensure all provinces are released on one specific date, the anniversary of the acquisition date was used.

[49] Board staff recommends that the Board approve the proposed effective dates, as filed. The Board finds the reasons provided by the Company compelling, and approves the proposed effective dates for new business and for renewal business.

### **Rate Manual Review**

[50] 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**

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

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

[53] The Board finds the proposed rates and risk-classification system are just and reasonable and approves them.

[54] The Application did not include full actuarial indications. The Board, therefore, sets December 1, 2017, as the new mandatory filing date for private passenger vehicles for Genco.

[55] The Board approves the effective dates of July 1, 2017, for new business and September 1, 2017, for renewal business.

[56] 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.

[57] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 8th day of March, 2017.

A handwritten signature in black ink, appearing to be 'RM', written over a horizontal line.

Richard J. Melanson