

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 (Genco)** for approval to modify its rates and risk-classification system for private passenger vehicles

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

APPLICANT: **AVIVA GENERAL INSURANCE COMPANY (Genco)**

FINAL SUBMISSIONS: February 26, 2018

DECISION DATE: **March 23, 2018**

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 (PPV). The Application, dated December 1, 2017, was filed electronically on December 1, 2017, and the original documents were received on December 5, 2017.

[2] Information Requests (IRs) were sent to the Company on December 20, 2017 and January 9, February 6, February 12, and February 15, 2018, and responses were received on February 1, February 12 and February 20, 2018.

[3] As a result of a review by Board staff, a staff report dated February 21, 2018 (Staff Report) was prepared. The Staff Report was provided to the Company for review on February 21, 2018. A February 23, 2018, email from Genco indicated that the Company had no comments to add to the report. Because the email was sent at 6:40 p.m., on Friday, February 23, 2018, the Board, effectively, received it on Monday, February 26, 2018.

[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 are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*.

III ANALYSIS

[6] The Company sought approval to change its rates and its 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 Company's mandatory filing date was December 1, 2017.

[7] The proposed effective date is July 1, 2018, for both new and renewal business.

Rate Level Changes

[8] Genco proposes changes to its base rates, which varied by coverage but not territory, as well as to its risk-classification system. The proposed changes represent an overall rate level increase of 15.0%.

[9] To support these changes, Genco provided actuarial indications, which are calculations of the changes to the current premium that the Company should make to achieve its target Return on Equity (ROE), if its actuarial assumptions are correct.

[10] The actuarial indications suggest that the Company should increase its rates by 15.2%.

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

- Loss trends and the effects of reform (used Board consultant's trends);
- Loss development;
- Credibility standards and procedure;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses (ULAE);
- Experience period and weights;

- Premium to surplus leverage ratio; and
- Target and proposed ROE.

[12] Based on the staff review of the filing, the only issue that arose concerning the Genco analysis of its rate level needs was profit provision, specifically, the target ROE. All other issues raised were successfully resolved in the IR process.

Profit Provision

[13] Assuming a 2:1 premium to surplus ratio and a range of 10-12% for ROE and using the Genco selection for investment return on surplus assets, the Board range for profit provision, expressed as a percentage of premium, is 5.9-7.3%.

[14] The Company uses a profit provision that reflects a 12% target for ROE and a premium to surplus ratio of 2:1. These assumptions are consistent with those used by Genco's sister companies, Aviva Insurance Company of Canada (Aviva) and Traders General Insurance Company. For these sister companies, in their last applications, the Board required the use of a 10% ROE assumption in the indications. In concurrent applications (M08421 & M08422) before this Board, Board Staff also recommended the use of 10% ROE assumption in the indications. The Board continues to force companies towards the lower end of the range, by requiring the use of a 10% ROE.

[15] After Aviva acquired Genco, it submitted an application that saw Genco adopt the risk-classification system of Aviva, with some exceptions. The rates for Genco, therefore, reflect some elements of Aviva. Board staff deem the use of the same profit assumption, in particular, the 10% ROE, as appropriate. As well, Board staff is not persuaded that Genco has demonstrated that its mix of business is significantly riskier to warrant the higher ROE profit provision. The financial information, provided in section 12 of the Application, shows that Genco has been able to achieve ROE results higher than

10% for the past five years and closer to 15% in the most recent two years. While a comparison of the Nova Scotia claims ratio to that for all of Canada shows the experience is mixed, Board staff does not believe it warrants allowing the use of a higher ROE than the 10% that was required for Aviva.

[16] Board staff believes that the circumstances of Genco do not warrant a different treatment than the Board has recently employed for other insurance carriers in Nova Scotia, and has imposed on Genco in past applications. While the impact is not that large, Board staff recommends the Board require Genco to use the 10% ROE in its applications, which the Board agrees.

Comparison of Proposed Rates to Indicated Rates

[17] The Staff Indications are those calculated with the target ROE set at 10%, and all other Genco assumptions unchanged.

[18] Board staff recommends that the Board should use the Staff indications, which are the Genco indications using a 10% ROE, as the appropriate target against which to assess the reasonableness of the Genco proposal.

[19] In comparing Staff indications to the proposed rate changes, Board staff advise that the overall proposed rate change is higher than the indicated change; however, the difference is relatively small. The results by coverage are more dramatic. Despite sizeable reductions indicated for Bodily Injury and PD-Tort, Genco proposes no change. For Uninsured Automobiles and SEF#44, despite the indicated increases, Genco also proposed no change. For Accident Benefits, Comprehensive, and DCPD, the Company proposes smaller than indicated increases. Board staff notes that this created a subsidy from some coverages to others.

[20] Board staff produced a table which compared all mandatory and all optional coverages changes combined, which appeared to validate the assertion that any subsidy is really between mandatory coverages and not between mandatory and optional coverages.

[21] Genco estimated that its proposed rates would produce a 15.3% ROE. This result is outside the Genco selected 12%, and the recommended 10%. To generate the recommended 10% ROE, the proposed overall increase would have to decrease from 15.0% to the Staff indicated 13.7%. This 1.3% overall reduction in rates represents a decrease in average premium of about \$9. Given the circumstances of this Application, Board staff recommends the Board approve the proposed rates despite the higher ROE. The Board approves them.

Other Proposed Changes

Territory Definitions and Differentials

[22] With the original adoption of the Aviva risk-classification system with a few changes, as noted earlier, Genco uses the current Aviva territorial definitions. While Aviva proposed changes in the concurrent application, Genco will not adopt these changes nor the revised Aviva differentials.

[23] As required for a mandatory filing, Genco undertook an analysis of its territorial differentials. While the analysis suggested some changes should be made, Genco proposed none.

[24] The indicated changes for those territories where Genco writes most of its business were not that large. Given that observation and the circumstances of this Application, as Genco works towards the ultimate alignment of the indication models,

Board staff believes the proposal for no change seems appropriate. Board staff recommends the Board approve the proposal for no change to territorial differentials and the Board so approves the proposal, as filed.

Canadian Loss Experience Automobile Rating (CLEAR) Table

[25] To assign rate groups for physical damage coverages and for Accident Benefits, Genco currently uses the 2016 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) – Extended Vehicle Code (21 Years) version of the CLEAR tables published by the Insurance Bureau of Canada. Genco proposes to adopt the 2017 version of this table, approved for use by the Board in February 2017.

[26] When implementing the new table, Genco did not off-balance the impact of the change but rather let the impact form part of the proposed changes. Genco made a revision to the Application to correct an error it discovered during the IR process. The impact of the change in table was a small reduction of 0.4%.

[27] Board staff recommends the Board approve the proposed adoption of the 2017 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) – Extended Vehicle Code (21 Years) table, as filed. The Board approves the proposal.

Rate-By-Price Table

[28] For certain vehicles where the CLEAR table does not provide a rating group, Genco uses a vehicle rate group table that assigns a rate group based upon price (Rate-By-Price Table). Genco proposed to extend the table to allow for high vehicle values to be written. Genco will adopt the rate groups used by Aviva for vehicle values between \$729,001 and \$2,000,000, as well as the Aviva differentials. Genco has none of these vehicles written, so there is no impact associated with the change.

[29] Board staff recommends the Board approve the extension of the Rate-By-Price Table and the adoption of the Aviva differentials for the new levels, as filed. The Board so approves the proposal, as filed.

Driving Record for Drivers Coming from USA or Overseas

[30] Before conversion to Aviva rates, a client coming from the USA or overseas could qualify to receive up to a driving record 3 with Genco. With the conversion to Aviva's risk-classification system, no credit is currently provided to such clients.

[31] Genco proposed a new approach which would see such a driver record credit for up to a driving record 3, with evidence of the years licensed in the prior country. Clients coming with evidence of Aviva insurance from one of the identified countries where Aviva operates could receive credit up to driving record 6.

[32] Genco indicates that this is a national initiative and one that will be adopted across all Aviva companies, eventually.

[33] Genco supported the proposed change, and Board staff recommends the Board approve the change to driving record for drivers coming to Canada from the USA or overseas. The Board approves the proposed change, as filed.

Premium Dislocation Capping

[34] Genco, currently, has a premium dislocation cap of 10% on increases and -11% of decreases. Genco proposes to increase the capping percentage to 25% to allow more of the increased premium, both existing and proposed, to be brought in at each renewal. While, initially, Genco proposed a change to the cap on decreases during the IR process, it reverted to the current -11% cap on decreases.

[35] Genco provided a breakdown of risks before and after capping. Because only a few risks will see decreases and none of the decreases are more than 11%, the negative cap has no significant impact. For capped increases, the current 10% cap would result in more than half the risks capped. Under the proposed 25% cap, the number drops to closer to 10%. Most of these risks would be a true premium at the second renewal. Genco further indicates the duration of the cap will be two years.

[36] While the Board is considering changes to its approach for rate capping, given the Genco statement that the duration of the cap is ^{two} 2 years and because most risks would be at true premium by that time anyway, Board staff recommends the Board approve the proposed changes to the premium dislocation cap, as filed. The Board approves them.

Automobile Insurance Manual Review

[37] In addition to those modifications required to implement the changes noted in the Application discussed in the Staff Report, Genco proposed some very minor changes to its Automobile Insurance Manual.

[38] Based on some questions posed in the IR process, Genco intends to remove or revise some rules to avoid any appearance of conflict with the *Regulations*. Board staff have reviewed the revised manual pages and, after the changes made during the IR process, found no areas where the Company appears to be in violation of the *Regulations*. Board staff recommended that Board approve the proposed changes to the Automobile Insurance Manual, as revised. The Board approves them.

IV FINDINGS

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

[40] The Board accepts the Staff Indications, calculated using all the Genco assumptions, except for ROE, where 10% is to be used in place of 12%, as the appropriate target against which to assess the appropriateness to the proposed rate changes.

[41] The Board approves the proposed changes to base rates, as filed, despite the fact that they produce an ROE outside of the Board's range of reasonability.

[42] The Board approves the proposal for no change to territory definitions, as filed.

[43] The Board approves the proposed adoption of the 2017 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) – Extended Vehicle Code (21 Years) table rate groups with no off-balancing of the impact of the table change, as filed.

[44] The Board approves the proposed extension of the Rate-By-Price Tables and proposed differentials for the higher vehicle values, as filed.

[45] The Board approves the proposed changes to the driving record credits available for drivers coming from the USA or from overseas, as filed.

[46] The Board approves the proposed changes to the Automobile Insurance Manual, as revised through the IR process.

[47] 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.

[48] The Board approves the effective date of July 1, 2018, for new business and renewal business, as filed.

[49] The mandatory filing date is reset to December 1, 2019, for PPV for Genco.

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

[51] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 23rd day of March, 2018.



David J. Almon