

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -



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

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

**APPLICANT:** **THE WAWANESA MUTUAL INSURANCE COMPANY**

**FINAL SUBMISSIONS:** June 5, 2018

**DECISION DATE:** **June 19, 2018**

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

## I INTRODUCTION

[1] The Wawanesa Mutual Insurance Company (Wawanesa 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 April 17, 2018, was filed electronically on the same date.

[2] A series of Information Requests (IRs) were sent to the Company on April 26, May 10, May 18 and June 1, 2018. The Company responded on May 7, May 15, May 16, May 18, May 29 and June 1, 2018. The Application received several amendments during the IR process.

[3] As a result of a review by Board staff, a staff report dated June 4, 2018 (Staff Report) was prepared and provided to the Company for review on the same date. The Company responded in an exchange covering June 4-5, 2018, with comments on the original version of the report. After receiving Board staff's reply and the revised version of the memo, Wawanesa indicated they had no further comments.

[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 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)*. While the Company had a mandatory filing deadline of April 1, 2019, the Application included full actuarial indications and the required analysis of its territorial indications that a mandatory filing must include. It qualifies, therefore, to reset the mandatory filing deadline for these vehicles to April 1, 2020.

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

#### **Rate Level Changes**

[8] Wawanesa proposed changes to its base rates, differentials, and discounts and surcharges that are not uniform by territory. The combined effect is an overall, uncapped, rate level increase of 15.9%. To support these changes, Wawanesa provided actuarial indications, which are calculations of the changes to the current premium that the Company should make in order to achieve its target Return on Equity (ROE), assuming that its actuarial assumptions actually prove correct. These actuarial indications suggest that Wawanesa should increase its rate, overall, by a much larger amount.

[9] Where change is proposed, the selected change is in the direction of the indicated change; only the magnitude of the change is different. Generally, where the

indication exceeds 10%, the proposed change is about half of the indication. The exception is Specified Perils.

[10] The Company also proposes a revision to its premium dislocation that results in a capped increase to 12.1%.

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

- Loss trends and the effects of reform;
- Loss development;
- Credibility standards and procedure;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Experience period and weights;
- Premium to surplus leverage ratio; and
- Target return on equity.

[12] Based on the staff review of the Application, there are issues surrounding Wawanesa's analysis of its rate-level needs in three areas that required further analysis: (a) loss trends, (b) profit provision, and (c) complement of credibility, where some further discussion is warranted. All other issues regarding the indications were resolved through the IR process.

#### Loss Trends

[13] The Company based its selected loss trends primarily on a review of Wawanesa's experience in Nova Scotia through to December 31, 2017. Arguing that the industry data is not granular enough to conduct the type of analysis of trend that the Company is able to do with its own data, Wawanesa believes the trends based upon its own experience are more appropriate. Wawanesa uses a generalized linear model to fit any combination of monthly, quarterly, semi-annual and annual data from 2004-2015. The

model considers seasonality of the data and the Company analyzed trends for frequency, severity and loss cost over a variety of time periods within the 12-year period.

[14] For the components of Third Party Liability, Wawanesa focused on the data post introduction of Direct Compensation Property Damage, when making its loss trend selections.

[15] Wawanesa believes it will retain more of its existing volume of business making the trends based solely on its own data appropriate for use in developing trends.

[16] Wawanesa selects future trends factors that are the same as the selected past trends.

[17] Wawanesa produced separate trends for the components of Third Party Liability (i.e., Bodily Injury, Property Damage-Tort and Direct Compensation Property Damage). This represents a departure from the past when a single trend was used. The Wawanesa data is now available for a long enough period of time to allow for the determination of separate trends.

[18] With the release of the industry claims experience data through June 2017, Board staff requested Oliver Wyman (OW), the Board's consulting actuaries, to develop assumptions for loss trends for private passenger vehicles.

[19] OW selected trends after examining both five and ten years of data. OW examined trends for frequency, severity and for loss cost separately. OW also selected separate trends for the Bodily Injury, and for Property Damage-Tort and Direct Compensation Property Damage combined.

[20] OW generally selected future trends to match past trends. The exceptions are Collision and Property Damage-Tort & Direct Compensation Property Damage. In

both cases, the trends increase on April 1, 2013, the date Direct Compensation Property Damage was introduced. The future trend uses the post-April 1, 2013 trend for these coverages.

[21] In a table, Board staff showed a comparison of the loss trend selection made by Wawanesa and those selected by OW, for the major coverages, which identifies where the difference between the selections is more than 1%.

[22] Board staff showed another table comparing the Wawanesa indications to those if the OW selections were used, and while the overall differences are not that large, the Bodily Injury and Direct Compensation Property Damage difference, while offsetting, are fairly large. Board staff advises that because both are mandatory coverages, the concerns are somewhat lessened.

[23] In examining the differences in the Bodily Injury selections, Board staff asked Wawanesa to comment on the differences. Wawanesa's response is that the selected trend, while larger than the OW industry trend, is smaller than the other generated measures that Wawanesa considered if only the post- Direct Compensation Property Damage data or even if the pre-reform data were used.

[24] The Board, in past filings, has expressed concerns regarding companies being of sufficient size to warrant the use of trends based on its own data. That is, the Board is not necessarily convinced that any company operating in Nova Scotia is large enough to warrant the use of its own data.

[25] In the circumstances of this case, however, because the overall differences are not that large, Board staff support the use of Wawanesa's loss trends in developing

the indications against which to assess the appropriateness of the proposed changes. The Board agrees.

*Profit Provision*

[26] In its model, Wawanesa uses a 12% target ROE, and its model produces a premium-to-surplus-ratio that varies by coverage but averages to about 2:1. In conjunction with the other assumptions, this produces a profit provision of about 7.2%.

[27] Assuming the investment income on surplus provided by Wawanesa, the Board range for reasonable ROE (10-12%) produces a range for profit provision of 5.8% to 7.2% of premium (assuming a 2:1 ratio).

[28] In the last filing, Wawanesa initially used a 1.59:1 premium-to-surplus-ratio and a 12% ROE, producing a profit provision well outside the Board range. The Board required Wawanesa to use either a 10% ROE with the 1.59:1 premium-to-surplus-ratio or equivalently, a 12% ROE with a 2:1 ratio as used in this Application.

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

[30] The 2014 through 2016 versions of these reports show negative ROE for the industry for private passenger vehicles. This outcome is likely more a result of many companies not taking full indicated rates, coupled with some deteriorating experience that is possibly related to inclement weather at the start of 2015, as opposed to the result of

the Board forcing companies to the lower end of its profit range. As such, the Board has continued to require the 10% ROE for most companies.

[31] Because Wawanesa opted to use a value for ROE different from 10%, the revised filing guidelines require the production of indications using the 10% level. Wawanesa provided these in the IR process.

[32] The financial information provided shows that Wawanesa earned an overall ROE below 10%. Recent data shows that the loss ratios for Nova Scotia were worse than those for all provinces combined for the last two years, suggesting that, at least recently, the returns may have been below the 10% level. As such, it appears that Wawanesa may be different from the industry.

[33] Board staff suggest, and the Board agrees, that the Board allow Wawanesa to use its selected 12% ROE, along with its 2:1 premium-to-surplus-ratio, in its indications.

#### Complement of Credibility

[34] The complement of credibility used by Wawanesa is the average earned premium adjusted to bring it on-level (i.e., to current rates) and also adjusted to reflect a rate inadequacy that existed when the Board approved the rates. That rate inadequacy is the difference between the indicated rates and the approved rates.

[35] The Board allows such adjustments for rate inadequacy. However, it requires the adjustment be made based upon the indications it approved for use where those indications differ from the Company indications. Wawanesa stated it used the weighted average of the indications, using the Wawanesa trends and the OW trends in the last application, to measure the inadequacy. However, the Board allowed Wawanesa to use its own trends fully, not a 50/50 weighting of the indications, using the Wawanesa

and OW trends. Board staff advises that, technically, the Company is not using the Board indications.

[36] Board staff further notes that Wawanesa acknowledged the error in the IR process. The Company pointed out, however, that most coverages are fully credible (or almost fully credible) so the change to the correct indication for the complement would have little difference.

[37] Board staff suggests, and the Board agrees, that the Board note the incorrect indications were used in the complement, but due to the small impact, does not require Wawanesa to correct the error, in the circumstances of this Application only.

#### **Comparison of Proposed Rates to Indicated Rates**

[38] Board staff notes that based on the recommendations, the staff indications would be the Wawanesa indications unchanged. Board staff recommends that the Board require the use of these indications as the target against which the Wawanesa proposal should be assessed for reasonableness.

[39] In referencing the table, Board staff noted that for all coverages where a change is proposed, the selected change is in the direction of the indicated change, and only the magnitude of the change is different (i.e., less than indicated generally). Where the indication exceeds 10%, the proposed change is about half of the indication. The exception is Specified Perils, which only a small portion of risks carry.

[40] Board staff notes that the Wawanesa proposal addresses concerns about the level of profitability while also dealing with shrinking market share, as competition and sophistication of rating programs increases. Wawanesa proposed a prudent step towards

profitability while not being so harsh as to cause further shrinkage of its competitive position.

[41] The proposed rates produce an ROE of -3.28% well below both the Wawanesa target and the low end of the Board range. While the Board has concerns about companies not taking full indications and the impact that may have, Wawanesa has made an aggressive step towards addressing the indicated increases.

[42] Board staff believes that Wawanesa provided sufficient support for its proposed changes to its base rates. Board staff recommends and the Board approves, the proposed base rate changes, as filed.

### **Other Proposed Changes**

#### *Territorial Base Rates*

[43] When Wawanesa developed its indications, it did so by developing territorial base rate indications. The Company then proposed changes that were halfway towards the targeted rate change. For instance, if the base rate in a territory was \$100 and the indication was for the 30% increase, Wawanesa proposed a 15% increase (i.e., 50% of the 30% indication) with the territorial rate increasing from \$100 to \$115. Wawanesa suggests this allows for the different loss experience in each territory and coverage to be reflected in the proposed rate changes.

[44] Board staff supports the Company's proposed territorial base rates and the territorial differentials/relativities, as filed. The Board approves the changes as filed in the Application.

*Adoption of the 2018 Canadian Loss Experience Automobile Rating (CLEAR) Tables*

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[45] The Company currently uses the 2017 CLEAR with Collision, Direct Compensation Property Damage and Comprehensive table separated to assign rate groups to physical damage coverages and Accident Benefits. The Company proposes to adopt the 2018 version of this table that was approved for use by the Board earlier this year.

[46] Wawanesa provided the impact of the change in the table but did not directly off-balance the impact of the table. Instead, the Company considered these impacts as it made its rate-change selections. In essence, the off-balancing was implicit in this approach.

[47] Board staff stated that Wawanesa has provided sufficient support for the proposed changes. The Board approves the adoption of the 2018 version of the CLEAR table, as filed.

*Deductible Factor Changes*

[48] Wawanesa proposes changes to the factors or differentials, used for different deductible levels for Collision, Comprehensive, and Specified Perils.

[49] To obtain more data, Wawanesa combined Nova Scotia and New Brunswick data. The Company explained that both provinces would have similar types of Collision and Comprehensive claims and merging the data would not unduly impact the analysis which Board staff deemed reasonable.

[50] Wawanesa first rebased the factors to a \$250 deductible (up from \$100) for both Collision and Comprehensive. Indicated differentials were then determined. Based

on a judgmental assignment of credibility, Wawanesa determined the proposed differentials.

[51] Wawanesa provided sufficient support for the proposed differentials. Board staff recommends, and the Board approves, the proposed rebasing of the differentials from \$100 to \$250 as well as the proposed differentials, as filed.

*NSEF#20 Loss of Use Endorsement Changes*

[52] Wawanesa proposed changes to the pricing of this endorsement, which provides for reimbursement of reasonable costs, incurred for renting an automobile when the insured vehicle is inoperable due to a loss insured under a physical damage coverage (e.g., Collision, Comprehensive, All Perils or Specified Perils).

[53] Wawanesa analyzed the Loss of Use endorsement as a separate coverage and produced an indicated rate change. That analysis suggested the rate should increase significantly. Based on that indication, Wawanesa proposed an increase in the premium that was close to the indicated change.

[54] In making that premium change, Wawanesa made two changes to how it priced the endorsement. First, Wawanesa observed that loss cost for the endorsement correlates highly with the age of the vehicles. Newer vehicles have higher loss costs because, Wawanesa speculates, owners of new vehicles are more likely to repair vehicles than owners of older vehicles. An example is for a scratch in a parking lot. A new vehicle owner would likely have this repaired resulting in the greater likelihood of renting a vehicle, than the owner of an older vehicle, who may forego the repair.

[55] Based upon these observations, Wawanesa proposes a premium structure that varies by vehicle age with the premium reducing as the vehicle ages. Premiums drop

when the vehicle is five years old and again when ten years old. The starting level for the standard \$1,500 limit level (\$35) is higher than the current premium (\$20) and drops by \$10 at each of the five-year and ten-year old points.

[56] To address concerns with the inconsistent relationship between the premiums at the different available limits, Wawanesa revised the higher limit premiums relative to the base limit.

[57] For the \$2,500 limit, the new premium begins at \$50 rather than the current \$60. The premium will reduce by \$15 at each of the five-year and ten-year old points. For the \$3,500 limit, the new premium begins at \$60 rather than the current \$120 with the premium decreasing by \$20 at each of the five-year and ten-year old points.

[58] With these changes, the relationships between change in premium and change in coverage provided better reflects the risk posed to Wawanesa.

[59] Board staff recommends, and the Board approves the proposed premiums for SEF#20 endorsement, as filed.

*NSEF#27 Legal Liability for Physical Damage to a Non-Owned Automobile Endorsement*

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[60] This endorsement provides coverage for physical damage claims against a rental vehicle, or other non-owned vehicle. Wawanesa currently offers the protection of this endorsement up to \$40,000, for free. For higher limits, a premium is charged (e.g. \$30 for \$50,000, \$50 for \$75,000).

[61] Wawanesa explained that the goal of the Application is, in large part, to address the lack of overall profitability. Experience under the NSEF#27 endorsement is poor, warranting a change. Wawanesa will no longer provide the coverage up to \$40,000

for free but rather will charge \$20. The premiums for the higher limits will not change. As support, Wawanesa indicated the level is half the \$40 it currently charges in Quebec for the same coverage. The Company views the smaller premium as a reasonable level to judge if policyholders will purchase the endorsement, as well as to see if, and how, the losses under the endorsement changes.

[62] Board staff questioned the marginal increase in premiums for the changes in limits. While the Company agreed with Board staff's logic, it is not able to alter the premiums to address the issue because it would have to coordinate the change with the Commercial Pricing area. The Company will review the pricing of the higher limits in future filings when the coordination could occur.

[63] Board staff recommends and the Board approves the proposed change to the pricing for the NSEF#27 endorsement for both personal and commercial vehicles written by Wawanesa, not just private passenger vehicles, as revised in the last amendment.

*Changes to Accident Waiver Endorsement Pricing*

[64] Wawanesa introduced its current Accident Waiver endorsement in May 2014. The premium, for this difficult-to-price endorsement, was set at that time to \$35. Since the initial introduction, overall loss costs increased and, as a result, premiums increased. The higher average premium increased the benefit provided under the endorsement. That is, more premium is foregone when the impact of an accident is waived.

[65] To address this, Wawanesa proposed an increase of \$5 to the Accident Waiver endorsement. The Company chose this level in order to keep the premium

change relatively small because a large percentage of the book take the endorsement and a large premium shock could impact retention. Wawanesa suggested the new premium is reasonable when compared to competitors.

[66] Board staff recommends, and the Board approves, the proposed premium increase for the Accident Waiver endorsement, as filed.

*New Suspension of Coverage Endorsement*

[67] Board staff notes that when a client wants to suspend coverage for 60 days or more, the client usually completes a NSEF#16 Suspension of Coverage endorsement. When coverage is to begin again, the client would complete NSEF#17 Reinstatement of Coverage.

[68] Due to systems constraints, Wawanesa proposed the addition of a tentatively named non-standard endorsement 16W Suspension of Coverage. Rather than requiring an NSEF#17 endorsement to reinstate coverage, the 16W endorsement would be switched on and off. Premium would be refunded, based on the length of the suspension and the reduced exposure that results.

[69] With a non-standard endorsement, Wawanesa must seek approval of the Superintendent of Insurance for the wording, which is pending. The Company is aware that the endorsement name cannot include a number, so the name will change from 16W.

[70] Board staff recommends, and the Board approves, the proposed endorsement, only if the wording is approved prior to release of the Board decision. If the approval is not provided by that point in time, the Company will have to file a separate simplified version of the Section 155G Endorsement filing to seek approval, once the wording approval is obtained.

Discount Changes

[71] Wawanesa proposes changes to three of its existing discounts.

*Autonomous Emergency Braking Discount*

[72] Wawanesa offers a 15% discount for vehicles with a model year 2010 or higher that have a factory installed system that applies the brakes, independently of the driver, to avoid or mitigate accidents (i.e., autonomous emergency braking systems). When introduced, the discount did not apply to Class 06 (occasional male operator licensed for less than eight years) due to a systems constraint that has now been lifted. Wawanesa proposed to extend the discount to Class 06 premiums.

[73] Board staff recommends and the Board approves the change to this discount, as filed.

*Years of Loyalty Factor*

[74] While not titled a discount, this factor acts as a discount reducing premiums currently by 2% per year to a maximum discount of 10% for each year the policy has been in-force with Wawanesa, since the inception date of the policy. Each renewal adds one to the years of loyalty.

[75] Wawanesa proposed a reduction in this discount. The proposed factors will halve the discount. The new discount will reduce premiums by 1% per year the policy is insured with Wawanesa to a maximum discount of 5%.

[76] Wawanesa argues that the current discount provides the best rate (10% lower) for people who are with Wawanesa for five or more years. Viewed another way,

new business is paying a 10% higher rate than these clients. Wawanesa suggests this makes it difficult to write new business.

[77] The change will reduce this from 10% to 5%, and in conjunction with changes described next, will make new business more attractive.

[78] Wawanesa will not grandfather clients who are receiving a higher discount now.

[79] The impact of this change would be an increase overall of about 4%. If off-balanced, all base rates would decline by a similar amount. The change, however, was not explicitly off-balanced but was considered as part of the overall change. If the change to the years of loyalty factors was not made, the proposed increases would likely be higher.

[80] Board staff recommends and the Board approves the proposed reduction of the years of loyalty factors, as filed.

#### *New Business Discount*

[81] The Company offers this discount to customers who are moving to Wawanesa subject to meeting some eligibility criteria. The current eligibility requirements are:

- The business is new business for Wawanesa;
- All drivers are licensed for nine or more years;
- All drivers have no convictions in last three years;
- There have been no chargeable accidents in last six years; and
- Client must have been continuously insured with prior insurer for five years or more.

[82] Wawanesa proposed two changes to these criteria to make it easier to qualify. The first changes the number of years continuously insured with prior insurer from five to two years. The second change removes the requirement that all drivers are

licensed for nine or more years and replaces it with a requirement that the principal driver is licensed for six or more years.

[83] Wawanesa states, in the Application, that when these changes are combined with the changes to the Years of Loyalty factors, a new insured will receive a slightly better rate than renewal business.

[84] Board staff notes that it is clear that Wawanesa wants to target the new business that its more sophisticated rating approach views as better risks. In order to do so, the Company believes the proposed changes will make it easier to attract these risks. Board staff recommends and the Board approves the proposed changes to the New Business Discount, as filed.

Definition of Chargeable Accident

[85] Wawanesa proposed a change to its definition of Chargeable Accident. Currently, an accident is chargeable if the driver is at least 50% at-fault (per at-fault chart rules) and the loss reserve or payment must exceed \$1,000, for any of the listed coverage.

[86] Wawanesa proposed to change the \$1,000 limit to \$1. Essentially, any accident meeting the first criterion where a claim is paid or a reserve established would now be chargeable.

[87] Wawanesa explains that the Company, historically, chose not to charge for the accidents below the \$1,000 limit. However, Wawanesa believes it may be writing more of the risks with such accidents than other companies, because of the \$1,000 limit. The Company believes it is underpricing drivers with small claims, who may be riskier, and those drivers are taking advantage of that pricing. That change will halt this behavior.

[88] Board staff advises that the change does not appear to violate any Regulations.

[89] Wawanesa also proposed to remove, from the definition, a note that states:

Where the Principal Operator is a Driving Record 6 with 7 or more years driving experience and there is one Chargeable Accident, the system shall maintain the Driving Record at 6 and apply the appropriate Accident Surcharge.

[90] Board staff advises that the removal will now result in such a principal operator receiving a driving record 5 instead of 6. Wawanesa explained that when the Company introduced Accident Forgiveness, it should have removed the note at that time. The proposed removal will bring the definition to the proper place.

[91] Board staff recommends, and the Board approves, both of the changes to the definition of Chargeable Accident, as filed.

#### *Distracted Driving Conviction*

[92] Wawanesa, in the last amendment, proposed the move of a conviction for Distracted Driving from the minor conviction category to the major conviction category. This change will increase premiums for a driver with such a conviction as the surcharge for the major category exceeds that for the minor category.

[93] Wawanesa indicated that the loss experience for drivers who have been convicted of Distracted Driving is worse than other drivers. The change in status better aligns the premium (or surcharge) with the risk Wawanesa faces.

[94] Because the Distracted Driving conviction is connected to the driver and not the vehicles, Wawanesa needs to make this change across all vehicles types (e.g., personal, commercial, motorcycles, scooters, ATVs and snowmobiles) at the same time.

[95] Board staff advise that many other insurers treat a conviction for Distracted Driving as major. The proposed change aligns Wawanesa with these other carriers.

[96] Board staff recommends and the Board approves the proposed move of Distracted Driving conviction to major for all vehicles classes, as filed in the amendment.

Premium Dislocation Cap

[97] With the significant changes made in its last application, Wawanesa implemented a premium dislocation capping procedure that would see increases capped, all else being equal, at the greater of 20% or \$50. To offset this foregone revenue, Wawanesa also capped decreases at the greater of 10% or \$50. The cap applies at the coverage level. Through the course of the intervening year, Wawanesa applied to the Board to modify (i.e., reduce) the cap, but by the end of the year, the original cap was back in place.

[98] In this Application, Wawanesa proposed to have a cap; however, the terms will change. The base cap will see increases capped at the greater of 25% or \$100. Both elements represent increases from the current cap allowing the premium to move more quickly to the true premium. A negative cap will also continue; however, decreases will now be capped at the greater of 2% or \$50. While the \$50, in this case, is consistent with the current cap, the proposed percentage cap will limit decreases more than the current cap does.

[99] Wawanesa provided information that showed this base cap meets the Board requirement that the impact of the negative capping to be less than or equal to the impact of the positive capping. The information was provided by coverage given this

represents how the cap will apply. The cap brings the uncapped increase of 15.9% down to a capped increase of 12.1%.

[100] In addition to the base cap, Wawanesa seeks to add a second tier of capping as a result that an event changed how the vehicle was rated. The new tier, when triggered as described later, would see the 25% move to 30% for the cap on increases. For the cap on premium decreases, the 2% would become 25%, and the \$50 would become \$100. When the tier is triggered, therefore, the vehicle would move more quickly to the true premium.

[101] Wawanesa proposed the new tier would be triggered if one of the following occurred:

<b>Premium Decrease Events</b>	<b>Premium Increase Events</b>
Driving Record Improves(increases)	Minor convictions count increase went from 0 to 1
Decrease in Chargeable Claims used in Rating	Class Change (to higher risk class)
Decrease in minor/major/serious convictions used in rating	
Class change (to lower risk class)	

[102] When these events occur, Wawanesa suggests the client will be expecting a larger premium change than the current automated cap would produce. This tier will allow the premium change to better meet the expectations of clients, as well as to move the premium more quickly to the true premium.

[103] The transition to the true premium, with this tier approach, is smoother than if Wawanesa simply removed the cap, if one of these events occurred.

[104] In the event of a material change in risk (e.g., a new at-fault accident claim), the cap is removed in its entirety.

[105] The Board has concerns about capping programs that artificially delay getting to the true premium. While not prohibiting the use of caps or prescribing a specific time period, the Board prefers to see clients progress to true premium quickly. The second tier of the Wawanesa cap facilitates a quicker move to the true premium despite the more complicated nature of the cap.

[106] Wawanesa did provide some examples showing how the cap would work in practice. The examples show that the second tier of capping will move the clients more swiftly to the true premium and, perhaps, in a more intuitive approach from a client perspective. That is, the second tier allows more of an expected reduction in premium to actually occur than if the second tier did not exist. However, the same could be accomplished by having no cap on decreases at all. In this case, all of an expected reduction would be observed.

[107] The Board notes that it has allowed forms of tiered capping for other companies in the past. Generally, however, the focus of those caps was on increases at renewal.

[108] Wawanesa also explained it has an application before the New Brunswick Insurance Board that includes as similar tiered cap.

[109] Board staff notes that despite the concerns about the complexity of the cap, it is recommended the Board approve the proposed automated premium capping, as filed. The Board so approves.

### **Automobile Insurance Manual Review**

[110] Wawanesa proposed many changes to its manual in addition to those required to reflect the changes discussed in this report. These changes generally clarified

the types of business the Company will write, or provided clearer information to the broker on underwriting requirements.

[111] Wawanesa made one change to the proposed manual that resulted from questioning during the IR process. The change removed some confusion that the existing wording caused.

[112] Board staff have reviewed the manual on file and the proposed manual pages, included in the Application, and found no areas where the Company appears to be in violation of the *Regulations*.

[113] The Board requires the Company to file a revised electronic version of its Automobile Insurance Manual within 30 days of the issuance of the Order in this matter.

#### **IV FINDINGS**

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

[115] The Board accepts the Staff Indications, which equal the Wawanesa indications, unchanged, as the appropriate target to assess the reasonableness of the proposed changes.

[116] The Board approves the proposed changes to territorial base rates, as filed.

[117] The Board approves the proposed adoption of the 2018 CLEAR table, as filed.

[118] The Board approves the proposed changes to deductible factors, including the rebasing of the differentials to \$250 from the current \$100, as filed.

[119] The Board approves the proposed changes to the premiums for NSEF#20 Loss of Use endorsement, and for the Accident Waiver endorsement, as filed.

[120] The Board approves the proposed changes to the premiums for any NSEF#27 Legal Liability for Physical Damage to a Non-Owned Automobile endorsement, for both personal and commercial vehicles, and not just private passenger vehicles, as filed in the amendment.

[121] The Board approves the proposed non-standard endorsement, tentatively named 16W Suspension of Coverage, as filed, if, and only if, Wawanesa receives approval for its wording from the Superintendent of Insurance before the Board releases its Decision. If the approval is not available at the time the Decision is released, the Board will inform Wawanesa that it must file the endorsement in a separate filing, using a simplified version of the Section 155G Endorsement filing requirements.

[122] The Board approves the proposed changes to the Autonomous Emergency Braking System Discount, the New Business Discount, and the Years of Loyalty factor, as filed.

[123] The Board approves the two proposed changes to the definition of Chargeable Accident, as filed in the amendment.

[124] The Board approves the proposed change of a Distracted Driving conviction from minor conviction to major conviction for all vehicles, not just private passenger vehicles, as filed in the amendment.

[125] The Board approves the proposed automatic premium capping at renewal, assuming no material change in risk characteristics, including the second tier of capping for immaterial changes in risk, as filed.

[126] The Board resets the mandatory filing deadline to April 1, 2020, for these vehicles.

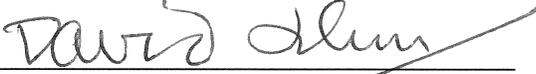
[127] The Board approves the proposed effective date of October 1, 2018, for both new business and renewals, as filed.

[128] 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.

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

[130] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 19<sup>th</sup> day of June, 2018.

  
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David J. Almon