DECISION

2018 NSUARB 173
M08850

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **CO-OPERATORS GENERAL INSURANCE COMPANY** for approval to modify its endorsement offerings for private passenger vehicles and light commercial vehicles

BEFORE: Peter W. Gurnham, Q.C., Chair

APPLICANT: **CO-OPERATORS GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: September 11, 2018

DECISION DATE: **September 20, 2018**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Co-operators General Insurance Company (Co-operators or Company) filed supporting documents and materials (Application) with the Nova Scotia Utility and Review Board (Board) on August 22, 2018, for approval to modify its endorsement offerings for private passenger vehicles and light commercial vehicles. Co-operators proposed revisions to its Limited Waiver of Depreciation Endorsements (NSEF#43R and NSEF#/43R(L)). The Company proposed a change in coverage term from 24 months to 60 months and applied to replace the current $50 flat fee premium for the endorsements with a proposed premium structure that applies a factor, to the vehicle premiums, which varies by vehicle age and time since purchase.

[2] Co-operators also proposed the introduction of a new endorsement bundle, the Physical Damage Extension Endorsement Package, that groups endorsements NSEF#20 – Loss of Use and NSEF#27 – Legal Liability for Damage to Non-Owned Automobiles together and lowers the premium for the combination.

[3] As a result of a review by Board staff, a staff report dated September 11, 2018 (Staff Report) was prepared, and provided to the Company for review on that date. The Company responded later that day indicating that it had reviewed the Staff Report and identified an error. Board staff made minor revisions to the Staff Report and the Company had no further comments on the Report.

[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 Co-operators' proposed changes to the premium structure and coverage for its Limited Waiver of Depreciation Endorsements, and its proposed Physical Damage Extension Endorsement Package for private passenger vehicles and light commercial vehicles will result in rates which are just and reasonable and in compliance with the *Insurance Act* (*Act*) and its *Regulations*.

III ANALYSIS

NSEF#43R/43R(L) – Limited Waiver of Depreciation Endorsements

[6] Co-operators currently charges a flat $50 annual premium for this endorsement, which waives depreciation on repair or replacement of the vehicle because of loss due to an insured peril that occurs in the first 24 months that a vehicle is in service. The coverage applies only if the vehicle is a total loss.

[7] Co-operators argued that the use of a flat premium, regardless of the type of vehicle and the age of the vehicle, is not appropriate. For example, the current premium for the endorsement would be the same for a $75,000 vehicle and a $20,000 vehicle. The difference between purchase price and depreciated price is much larger in the event of a total loss for the more expensive car.

[8] The Company also argued that if a driver is a poorer risk (e.g., few years licensed, poor claims history), the risk of a total loss is higher. Co-operators stated the premium for the endorsement should be higher to compensate Co-operators for the additional risk. The current flat premium does not do this.

[9] To address these concerns, Co-operators proposed to charge a premium for the endorsement based upon the premium the client pays for the coverages under which the endorsement would top up the standard benefits. Those coverages are Direct Compensation Property Damage (DCPD), Collision, Comprehensive, All Perils, and Specified Perils. The endorsement premium, therefore, should be based upon the premiums charged for these coverages only, which are based upon vehicle and driver characteristics.

[10] Having determined that the endorsement premiums should vary by vehicle age and months since purchase, the next step is to develop a process to use to determine the required matrix of factors.

[11] The Company had experience collected under its current endorsement. Co-operators used this information to develop excess loss factors for the first two 12-month periods. National data was used instead of just Nova Scotia data to improve the credibility.

[12] For data for the third to fifth years, the Company looked again at its national experience and determined claims for total losses. The claims information was compared to vehicle value at the time of purchase. Co-operators then attempted to validate the vehicle information. If the value in the Co-operators system was within a set percentage of the value published by the Insurance Bureau of Canada (IBC), Co-operators used its own value. If not, the Company used the IBC value.

[13] With this information, Co-operators fitted a generalized linear model to the data to predict the ratios between excess loss and primary loss. The Company used this model data to populate a matrix that displayed the excess cost of a total loss, relative to the loss

covered by the standard coverage. This information was used to develop the matric of endorsement premium factors to use.

[14] Co-operators will grandfather its clients with the current version of the endorsement, and its $50 premium, until the end of the two-year term. These clients will have the option of moving to the new version. No new clients, however, will be able to purchase the two-year version.

[15] The proposed effective dates are January 16, 2019, for new business and February 15, 2019, for renewal business.

[16] In the view of Board staff, Co-operators provided sufficient support for its proposed changes to these endorsements. Board staff recommended approval of the new premium structure and the revised term, as filed.

Endorsement Bundle – Physical Damage Extension Endorsement Package

[17] The Physical Damage Extension Endorsement Package bundles endorsements NSEF#20 – Loss of Use and NSEF#27 – Legal Liability for Damage to Non-Owned Automobiles and charges a single premium.

[18] The standard limits for the bundle are $75,000 for NSEF#27 and $1,500 for NSEF#20. For an additional premium, the coverage under NSEF#20 can be increased.

[19] The charge for the standard version of the bundle is $80. The extra NSEF#20 coverage is available for $4 for each additional $100 of coverage.

[20] Co-operators explained the cost of purchasing the two endorsements separately is $100. The bundle provides a savings of $20. Co-operators wants to

encourage its clients to manage their automobile risk and believes the discount applied to the bundle provides a great incentive to do so.

[21] Where a policy covers multiple vehicles that each carry NSEF#20, and the policy also has NSEF#27, Co-operators will remove the NSEF#20 from one vehicle and the NSEF#27 on the policy, and will instead add the bundle. Co-operators outlined the steps for determining which vehicle would be chosen. These criteria seem reasonable.

[22] Co-operators stated that for the more than 2,500 vehicles that carry both endorsements, it will apply the lower bundle premium automatically. This decision results in an overall premium reduction of 0.05%.

[23] In the view of Board staff, Co-operators provided sufficient support for its proposed endorsement bundle and its proposed premium and Board staff recommended approval of the proposed Physical Damage Extension Endorsement Package and the proposed premium, as filed.

IV FINDINGS

[24] The Board finds that the Application complies with the *Act* and *Regulations*.

[25] The Board finds that the proposed changes to the premium structure and coverage term for NSEF#43R/43R(L) – Limited Waiver of Depreciation Endorsement and the proposed introduction of the Physical Damage Extension Endorsement Package are just and reasonable and approves their introduction.

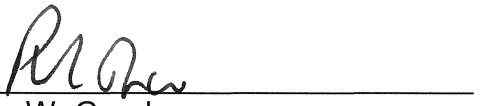
[26] The financial information submitted by the Company for its prior recent application satisfies the Board, pursuant to Section 155I(1)(c) of the *Act,* that the proposed endorsements are unlikely to impair the solvency of the Company.

[27] The Board approves the effective dates of January 16, 2019, for new business and February 15, 2019, for renewal business.

[28] The Company is required to file an electronic version of its updated Automobile Insurance Manual within thirty (30) days of the issuance of this Decision.

[29] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 20th day of September, 2018.



Peter W. Gurnham