DECISION **2018 NSUARB 223**
M08910

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **INTACT INSURANCE COMPANY** for approval to modify its rates and risk-classification system for commercial vehicles

BEFORE: Roberta J. Clarke, Q.C., Member

APPLICANT: **INTACT INSURANCE COMPANY**

FINAL SUBMISSIONS: December 4, 2018

DECISION DATE: **December 13, 2018**

DECISION: **Application is approved**

I INTRODUCTION

[1] Intact Insurance Company (Intact 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 commercial vehicles (CV). The Application, dated September 28, 2018, was filed electronically on October 1, 2018.

[2] Information Requests (IRs) were sent to the Company on October 4, 2018, and responses were received on October 23 and 29, 2018. Additional IRs were issued on October 29, 2018, to which the Company responded on October 29, 2018 and November 30, 2019.

[3] As a result of a review by Board staff, a staff report dated December 3, 2018 (Staff Report) was prepared. The Staff Report was provided to the Company for review on that date. The Company responded on December 3, 2018, with its only comment being a query regarding one part of the report, which was corrected by Board staff, and a revised Staff Report was provided to the Company on December 4, 2018. The Company 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 CV. 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 September 1, 2018, and at the request of the Company, the Board agreed to extend the filing date to October 1, 2018.

[7] The proposed effective dates are February 26, 2019, for new business and March 27, 2019, for renewal business.

Rate Level Changes

[8] The Company proposed to change its base rates and its risk-classification system. The proposed change represents an overall rate level increase of 7.8%.

[9] The actuarial indications provided by the Company were for a higher increase by approximately 1%. The Company proposed changes to its premium dislocation capping which reduced the proposed increase to 5.1%.

[10] In addition, the Company proposed removal of its Usage Based Insurance Discount program for CV, the introduction of two new rating variables, changes to the premium for its Responsible Driver Guarantee endorsement, as well as some minor changes to underwriting rules and rating notes.

[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;
- Loss development;
- Expense provisions including unallocated loss adjustment expenses;
- Credibility standards and procedure;

- Premium (rate group drift) trends;
- Experience period and weights;
- Premium to surplus leverage ratio; and
- Target and proposed return on equity (ROE).

[12] Board staff reported that the only issues where the Board might choose to consider other assumptions than those used by Intact were loss trends and premium trends. All other issues were resolved appropriately in the responses to IRs.

Loss Trends

[13] In the last private passenger vehicle (PPV) application for the Company, the Board allowed the use of Intact's loss trends (See 2018 NSUARB 44.). In this Application, the Company used the same PPV trends to develop loss trends for CV, despite having developed and used CV loss trends in its last CV application. Board staff identify this as an unusual approach. In response to IR-1, Q.8, Intact stated:

> We believe there is a relationship between not only PPV and Commercial vehicles loss trends in general but also a direct overlap of the clients, as many who have a commercial vehicle with Intact also have a personal vehicle. We also expect all Intact customers across both personal and commercial to be subject to similar claims handling and underwriting practices. While we would agree that heavy vehicles may experience drastically different loss trends, the majority of IRCA (…) are light vehicles making them subject to similar severity issues arising with more credibility and much less volatility on the PPV data.
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> [Response to Question 8 of IR-1]

[14] In addition, Intact submitted that CV trends, which would be based on small claims volume, would not provide useful results. Further, it said that a comparison of its CV and PPV claims numbers show much fewer CV claims. It also submitted that the use of fleet data in its CV analysis would likely distort the data, and thus be inappropriate for use regarding individually rated CVs.

[15] A comparison of the loss trends used by Intact with those used by the Board's consulting actuary, Oliver Wyman (OW), for both PPV and CV shows some significant differences for most coverages. The Board notes that OW selections are

based on data to the end of December, 2017, while Intact used data to the end of December, 2016. Intact said it had not yet completed its analysis of the data through 2017, although it stated it has experienced an increase in loss trends, and deteriorating results in the last accident year.

[16] The Board further notes that in the last PPV application, the use of the Intact trends was permitted, largely based on the market share enjoyed by Intact in Nova Scotia. However, the Board was clear to recognize that in doing so, it was addressing that application only, and not setting a precedent or prejudging any future applications.

[17] Board staff asked Intact to provide indications using the OW PPV trends and CV trends with the data OW had used. The use of the OW PPV loss trends resulted in higher indications than those used by Intact, and conversely, the use of OW CV loss trends produced lower indications. The indications used by Intact fell between the two sets of OW indications.

[18] In the circumstances, Board staff recommend that Intact be permitted to use its PPV indications for loss trends in this Application. The Board accepts this recommendation, but with the proviso that it is not setting a precedent for any future applications.

Premium Trends

[19] Intact used PPV premium trends rather than developing CV premium trends to be consistent with its use of loss trends for this Application. Further, it analysed data to the end of December, 2016, for consistency.

[20] The Company noted that most of the CVs it insures are “light commercial vehicles” and that the turnover of these vehicles would be similar to the PPV business.

Thus, it said premium trends should be similar. The use of CV data would have resulted in indications which were about 1% higher than the PPV indications.

[21] As it did with loss trends, Board staff recommend, in the circumstances of this Application, and for consistency with the use of PPV data, that Intact be allowed to use PPV premium trends to develop indications for CV. The Board accepts this recommendation, with the same proviso noted above.

[22] As a result, the Intact indications become those against which the Board will assess the reasonableness of the proposed rates. For all coverages, the direction of the proposed changes in rates is the same as the indications; however, the size of the change is smaller, except for Collision and Comprehensive coverages.

[23] With the proposed changes, the resulting ROE is just below the target for Intact, and the range which the Board has determined to be reasonable. In the circumstances, the Board finds the proposed rates to be just and reasonable and approves them.

Territorial Differentials

[24] After undertaking the required analysis of territorial differentials, it appeared that significant changes (both increases and decreases) should be made; however, the Company chose to make no changes. It based this on what it considered to be limited credibility in the data. Based on the number of claims over the last five years, the Board agrees that it is reasonable to make no changes to territorial differentials in this Application.

Other Changes

Usage Based Insurance Program

[25] The Company had received approval for the introduction of a Usage Based Insurance (UBI) Program in its 2015 CV application (2015 NSUARB 251). The amount of the associated discount was amended in its last CV application (2017 NSUARB 86). The program was designed to be similar to the UBI program for PPV.

[26] The Company now states that there have been very few commercial customers who have enrolled in the program, and that it appears that a differently designed program might be required for CV. It said that it is not viable to continue the program for CV customers.

[27] The Company proposed to discontinue enrollment in the program after the effective date for new business (February 26, 2019); however, those in the program who have received a discount will continue to receive the discount, and those currently in the evaluation phase may continue up to that date and obtain any indicated discount. As a result, there is no impact resulting from the proposed discontinuance of the program.

[28] Board staff recommend approval of the proposed removal of the UBI program for CV, and the Board agrees.

New Rating Variables

[29] Intact proposed the introduction of two new rating variables: Number of Years Licensed, and Vehicle Age. The Company used internal data for the Atlantic Provinces, as well as considering PPV data to develop the differentials for these variables.

[30] For Number of Years Licensed, the Company determined that the use of this variable will improve how it segments risks, which would lead to more appropriate premiums. It relied on physical damage coverages results to establish the differentials, which it believes will be a reasonable proxy for non-physical damage coverages, where data is limited. Intact uses the number of full years licensed since the principal driver obtained a first driver's license to define the number of years licensed. It created bands of years licensed so that the credibility of the differential is enhanced, and then developed indicated differentials. It then selected differentials, and off-balanced the impact of the introduction of the rating variable to make it revenue-neutral.

[31] For Vehicle Age, which the Company defined as the calendar year at the inception date of the policy minus the model year of the vehicle, the Company used Ontario differentials for non-physical damage coverages. This was because it considered the data for Nova Scotia and the Atlantic Provinces was too limited. For physical damage coverages, it created groups of vehicle age, and developed indicated differentials for the groups. Again, it off-balanced the impact of the introduction of this variable to make it revenue-neutral.

[32] Board staff recommended that the introduction of the two new rating variables and the respective associated differentials, as proposed by Intact, be approved. The Board accepts the recommendation.

Responsible Driver Guarantee Endorsement

[33] This endorsement protects the driving record applied to the insured vehicle from the consequences of the first, chargeable, at-fault accident in which the vehicle is involved. This means the driving record is not changed. If the vehicle is involved in a

second accident within six years, it would be treated as if it were the first accident, but it would not be protected by the endorsement. This would result in the application of the normal progression of the driving record.

[34] The Company proposed changes to the premium for the endorsement to ensure pricing consistency throughout the Atlantic Provinces. While some classes of vehicles will experience increased premiums, some will experience decreases, others will not change. The Company stated that changes would not exceed $10.

[35] The Board understands that while this endorsement has been offered in Nova Scotia for a number of years, it has only recently been offered in the other Atlantic Provinces. The premium structure which Intact proposed in this Application has been used in the other Atlantic Provinces.

[36] Board staff recommend the approval of the proposed changes to premium as requested by Intact. The Board accepts the recommendation.

Underwriting/Rating Rule Changes

[37] To make its underwriting manual more consistent with other provinces, Intact proposed some change to the wordings for accident forgiveness and driving record eligibility.

[38] The introduction of the Responsible Driver Guarantee Endorsement in the other Atlantic Provinces required clarification that accident forgiveness only applies to those policies which do not have the Endorsement. To be consistent, the same change is proposed to the Nova Scotia manual. Additionally, a section on the Responsible Driver Guarantee was added for consistency.

[39] The Company said that its administrative system automatically applies certain rating notes. It proposed some changes to its application of rating notes for all Types of Use within a subclass to ensure that the automatic system applies the notes consistently.

[40] Intact also proposed to remove All Perils coverage factors from several sections of its manual, as they are no longer required. This is because Intact calculates the premium for All Perils coverage by adding the premiums for Collision and Comprehensive coverages.

[41] Board staff recommend the approval of each of these changes, as proposed by Intact, and the Board accepts the recommendation.

Premium Dislocation Cap

[42] Currently, Intact applies a premium dislocation cap of 4% at the renewal of the policy. It proposed to increase the cap to 20%. The cap assumes that there is no material change in the insured risk. Where there is a change, or if the insured adds or removes a coverage, the cap is removed.

[43] In response to Board staff IRs, the Company said that more than 80% of its clients will reach their true premium at the first renewal, and the remainder will do so at the second renewal. Further, it said that is does not inform clients of the existence of the cap in policy documents.

[44] While the Board notes that the use of the higher cap may result in some insureds seeing an unexpected increase in the premium, Board staff have recommended the proposed change be approved. Board staff note that the cap will be removed

relatively quickly. The Board has expressed concerns in the past about the use of dislocation caps, as insureds are insulated from the true premium; however, in the circumstances of this Application, where the removal is not unduly delayed, the Board accepts the recommendation of Board staff to allow the proposed increase in the cap.

Automobile Insurance Manual

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

IV FINDINGS

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

[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 finds the proposed rates are just and reasonable. The Board approves:

- the proposed base rate changes;
- the proposal to leave territorial differentials unchanged;
- the removal of the UBI discount program as proposed;
- the introduction of the new rating variables and the associated differentials;
- the premium changes for the Responsible Driver Guarantee Endorsement;
- the proposed changes to rating rules, underwriting rules and rating notes; and
- the proposed change to the policy level premium dislocation cap.

[49] The Application included full actuarial indications and the required territorial analysis; therefore, it qualifies to set the new mandatory filing date for CV for the Company to October 1, 2021.

[50] The Board approves the effective dates of February 26, 2019, for new business and March 27, 2019, for renewal business.

[51] 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.

[52] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 13th day of December, 2018.

Roberta J. Clarke

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