DECISION

2018 NSUARB 221
M08922

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **THE DOMINION OF CANADA GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: November 19, 2018

DECISION DATE: **December 10, 2018**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Dominion of Canada General Insurance Company (Dominion 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. The Application, dated October 2, 2018, was filed on the same date.

[2] Information Requests (IRs) were sent to the Company on October 9, 2018, and responses were received on October 26, 2018. Additional IRs were issued on October 29 and November 6, 2018, to which the Company responded on November 5 and November 6, 2018, respectively.

[3] As a result of a review by Board staff, a staff report dated November 14, 2018 (Staff Report) was prepared. The Staff Report was provided to the Company for review on November 15, 2018. Aside from identifying some errors that were corrected in the Report, Dominion had no further comments. Their response was sent to the Board on Friday, November 16, 2018, at 6:11 p.m., and therefore, was received by the Board on Monday, November 19, 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 commercial vehicles. 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 August 1, 2019.

[7] The Company originally proposed effective dates of March 1, 2019, for new business and April 1, 2019, for renewal business. The Company changed these dates to March 15, 2019, and April 15, 2019, respectively in its comments on the Staff Report.

Rate Level Changes

[8] The Company proposed changes to its rates and risk-classification system that resulted in an overall rate level increase of 5%. To support this proposal, Dominion 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, assuming that its actuarial assumptions actually prove correct. These actuarial indications suggest that Dominion should increase its rates overall by a much higher amount. Dominion proposed changes by coverage that vary from the indicated changes.

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

- Loss trends and 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 and proposed Return on Equity (ROE).

Based on a review of the filing, and through the IR process, the Board considers the following issues surrounding the Dominion analysis of its rate level needs that arose where the Board could consider alternate assumptions are:

- Loss trends;
- Expense provision;
- Treatment of Health Services Levy; and
- Profit provision.

All other issues identified were resolved through the IR process.

Loss Trends

[10] Board staff showed a table comparing the loss trend rates used by Dominion and those selected by the Board's consulting actuaries, Oliver Wyman (OW). Because OW provided updated loss trend selections that were not available to Dominion when it filed, Board staff provided both the December 2016 based OW selections and the December 2017 based OW selections.

[11] Dominion selected future loss trends that matched the past loss trends. In the December 2016 based report, OW did the same. In the December 2017 based report, except for Collision, OW also did the same.

[12] In making its selections, Dominion reviewed 20 years of data up to December 2016. Dominion developed trend values for frequency, severity and loss costs using different subsets of this data reflecting all 20 years, the most recent 10 years and the most recent five years. After reviewing how well the model fit the data and applying judgement, the Company made its selections for past trends.

[13] OW performed a similar analysis focusing on the last 15 years of data. OW reviewed frequency, severity and loss costs when making the selections. OW tended to

focus on both five and ten years of data. Where the commercial data was not that credible, OW focused on the loss costs rather than frequency and severity. Apart from Collision, in the 2017 based report, OW selected future trends that equaled the past trends. For Collision, OW selected a higher loss trend based on observations from 2012 through to 2017. However, OW expects a return to the longer term, and lower, average of +2%.

[14] In the Application, Dominion provided indications using the OW trends (2016 report), comparing the results to the Dominion indications. To recognize that the experience may have worsened, or at least OW's view of it, Board staff asked Dominion to compare its indications to those using the more recent selections by OW.

[15] Direct Compensation Property Damage (DCPD) and Accident Benefits showed marked differences in indications. In other filings, OW indicated that it is difficult to pick a trend for commercial vehicles for Accident Benefits, due to the volatility of the data. Unable to discern a trend, OW selected 0.0%. For DCPD, OW relied on DCPD and Property Damage-Tort combined to develop its selection. Dominion reviewed the last four years of DCPD data only in developing the trends. Board staff notes that the Dominion trends are close to those OW selected for private passenger vehicles. Given light commercial vehicles, that Dominion may write, may have similar experience, Board staff is inclined to accept the Dominion selections for DCPD and Accident Benefits, in the circumstances of this Application only.

[16] Collision also shows a large variance, resulting from the Dominion selection of 9.5% versus the OW selection of 2.0% (after April 1, 2013). Dominion selected a small negative trend for frequency (based on all 20 years of data), and a 12.1% severity trend.

The high severity trend recognizes more recent experience (last 5-10 years). Over the shorter term, the Collision frequency shows a much higher decline than the 2.3% selected. Dominion explains that it is difficult to believe the larger frequency declines will continue. However, there is some belief the large severity trends will continue, only slightly abated. The 9.5% selection for loss cost trend appears to be larger than that observed in the various points Dominion provides.

[17] Board staff notes that, had Dominion used the last five years only for Collision, the loss cost trend would have been about 6%. While this result is higher than the OW selection based on commercial data, it is consistent with that observed for private passenger vehicles. The use of a +6.0% trend would represent a reasonable compromise between the Dominion +9.5% and the OW +2.0%.

[18] For all other coverages, given the differences are relatively small, Board staff suggests that the Dominion selections seem reasonable.

[19] Board staff recommends, and the Board requires, Dominion to use all its loss trend selections, except for Collision, where a +6% trend would be used, when developing indications against which the Board should assess the appropriateness of the proposal. The use of this trend will lower the Collision indication from +21.8% to +10.6% and will reduce the overall indication from +16.2% to +13.8%. The use of this trend will halve the Collision indicated increase and will reduce the overall indication by about 2.5 percentage points.

Expense Provision

[20] In its decision in a 2017 Dominion private passenger vehicle application, the Board rejected Dominion treating its general expenses as 25% fixed and 75% variable.

The Board based this decision on the advice of its consulting actuary, who stated the 75% variable expense assumption was higher than that observed for other companies. The Board required Dominion to use a 50/50 weighting instead of the 25/75 weighting.

[21] In this Application, Dominion used the 25/75 split. The Company provided no evidence to support the change from the Board decision, other than a statement that the Company believes it to be in line with the industry averages. Dominion provided indications, using the Board ordered 50/50 split from the last application and despite the small impact, to be consistent with the private passenger vehicle application, Board staff recommends the Board require Dominion to use the 50/50 split of general expenses.

Health Levy

[22] Dominion converts the $33.09 per vehicle Health Services Levy into a variable expense expressed as a percentage of Bodily Injury, PD-Tort, and DCPD premium. The Board requires the Health Services Levy to be treated as a fixed expense. In the last Dominion private passenger vehicle application, it required the Company to make this change. As noted, Dominion used the variable approach in this Application.

[23] Board staff recommends, and the Board requires, Dominion to treat the Health Services Levy as a fixed expense and not as a variable expense, when developing indications.

Profit Provision (Return on Equity)

[24] Dominion uses a target return on equity of 12% that when combined with Dominion's selections for investment return on surplus assets and premium to surplus ratio produce a profit provision of 9.6% of premium.

[25] The Board, generally, views an acceptable range for return on equity to be 10% to 12% that, considering a 2:1 premium to surplus ratio, results in a profit provision range of 6.2% to 7.7%. The Dominion profit provision is outside this Board range.

[26] In a recent private passenger vehicle application, the Board allowed Dominion to use its selected premium to surplus ratio, but the Company proposed a 10% return on equity. This resulted in a 7.6% profit provision, which is near the top end of the Board range. The Board accepted those assumptions in that file after reviewing the financial information provided by Dominion. The information in that file, as well as the information in this application, suggests that the Dominion experience in Nova Scotia has not been good, relative to its experience in the rest of Canada. It does not warrant forcing the Company to the low end of the profit provision range (i.e., 6.2%) as has been done with other insurers.

[27] Board staff asked Dominion to provide indications using a 10% return on equity and its selected premium to surplus ratios.

[28] After comparing these indications to the original indications, Board staff recommends, and the Board requires, Dominion to use a 10% return on equity and its selected premium to surplus ratio, consistent with the profit provision that was allowed in a recent private passenger vehicle application.

Staff Indications

[29] Board staff recommended that the Staff indications, which are the recommended target, against which the Dominion proposal should be assessed, would be those calculated using the following:

- the use of a +6% trend for Collision;
- a 50/50 split of general expenses between variable and fixed;

- fixed expense treatment of the Health Services Levy; and
- a 10% ROE and the Dominion selected premium to surplus ratio.

[30] Board staff provided a table showing staff indications compared to the original Dominion indications. The Staff Indications were about 3.3 percentage points lower than the Dominion indications.

Comparison of Proposed Rates to Indicated Rates

[31] Board staff also provided a table showing staff indications compared to the proposed rate changes.

[32] Dominion proposed changes only to DCPD and Accident Benefits. The Company explained that it focused its change to address recent deterioration in the claims experience for these mandatory coverages. The primary focus is on DCPD. Dominion also points out that while the percentage change for Accident Benefits is large, the average premium is much smaller for this coverage. The change represents an $11 increase.

[33] With the overall rate increase being much lower than the indicated increase, the return on equity produced by the proposed rates will be much lower than the 10% recommended target. Board staff recommends, and the Board approves, the proposed base rate changes, as filed.

Other Proposed Changes

Territory Differentials

[34] Dominion performed an analysis of its loss ratios by territory. Using these territorial loss ratios, with Territory 1 as the base level (i.e., differential 1.000), the indicated territorial relativities were developed.

[35] The analysis of these relativities supported a move towards the 2018 differentials published by IAO Actuarial Consulting Services Inc. (IAO). To reflect this, Dominion proposed differentials that were 80% of the Dominion current differentials and 20% of IAO differentials.

[36] The impact of this change was off-balanced to make it revenue neutral. Board staff recommends and the Board approves, the proposed territorial differentials, as filed.

Differential Changes

[37] Dominion proposed changes to its differentials for the following rating variables:

- Classification;
- Driving Record;
- Liability Limit; and
- Deductible.

[38] The Company did not conduct an analysis of the indicated differentials for these variables because the volume of Dominion business in Nova Scotia would not produce a meaningful actuarial analysis. The Company, relying on a review of the IAO differentials and the opinion of its own underwriting experts, proposed the adoption of its Ontario differentials.

[39] Board staff recommends, and the Board approves, the proposed changes to these differentials, as filed.

Commercial Dual Policy Discount

[40] Dominion offers a discount of 10% for commercial vehicle premiums if there is also a commercial property insured by Dominion or sister companies on the policy.

Dominion proposes to allow the discount to also apply if, instead of the commercial property insurance, there is personal property insurance in place through Dominion or sister companies.

[41] Allowing the personal property expands the discount to more supporting policies. Dominion explains that policies with multiple products have better historical experience. Expanding the discount allows the Company to attract more of these risks and to reward those who have these supporting policies.

[42] Board staff recommends and the Board approves, the proposed changes to the eligibility criteria for the Commercial Dual Policy Discount, as filed.

Distracted Driving Conviction

[43] Dominion proposes 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.

[44] Dominion indicated the change will align the Company with the industry. Without such alignment, drivers with Distracted Driving convictions could select Dominion, taking advantage of the lower surcharges applied to the conviction. Dominion further states that provinces have taken stronger steps to curtail Distracted Driving because it poses a significant risk to other drivers/pedestrians. These steps include larger fines and longer suspensions. The Company's proposed change in status better aligns the premium (or surcharge) with the risk Dominion faces when accepting a risk with a Distracted Driving conviction.

[45] Many other insurers treat a conviction for Distracted Driving as major. The proposed change aligns Dominion with these other carriers, as the Company desires.

[46] Board staff recommends, and the Board approves, the proposed move of Distracted Driving conviction to major, as filed.

Changes to Conviction Surcharges and Conviction-Free Discount

[47] In addition to the reclassification of Distracted Driving, Dominion proposed several changes to its conviction surcharges along with the introduction of a Conviction-Free discount.

[48] The Conviction-Free discount of 10% will apply if all insured operators have not had any minor, major or serious convictions. Any subsequent conviction will, of course, result in the removal of the discount. The Discount is an incentive to attract these better or cleaner risks to Dominion.

[49] Dominion also proposed the removal of the surcharge for the third minor conviction. Currently, an insured with three minor convictions has a 15% surcharge apply. A fourth minor conviction would increase the surcharge to 25%, and each subsequent conviction would add another 15%. Under the proposal, there would be no surcharge until for the fourth minor conviction at which point a 25% surcharge would apply.

[50] Dominion proposed to increase the surcharge for each Major conviction after the first, from 5% to 25%. The Company also proposed an increase from 50% to 100% for the first Serious conviction.

[51] All the changes align Dominion with its competitors, and better compensates the Company for the risks it faces insuring such customers while rewarding

those with no convictions. The surcharge changes also serve to harmonize Dominion's Nova Scotia rating with Dominion's Ontario rating.

[52] Board staff recommends, and the Board approves, the changes to the conviction surcharges and the introduction of the Conviction Free Discount, as filed.

Other Surcharge Changes

[53] In addition to the conviction surcharge changes, Dominion proposed changes to its At-Fault Accident Schedule and its Insurance Lapse surcharge, as well as the introduction of a minimum for its Snow Plough Blade surcharge.

[54] Dominion applies a 30% surcharge when a client has three at-fault (including partially at-fault) accidents. Each subsequent at-fault accident sees another 10% added to the surcharge. Dominion proposes to increase the incremental surcharge to 15%.

[55] Dominion currently applies a 25% surcharge when the client has had a chargeable lapse in insurance coverage. The criteria for a chargeable lapse comply with the *Regulations* (i.e., Dominion's use of lapse in this context is allowed). Dominion proposes to double the surcharge from 25% to 50%. This level is in line with the surcharges currently used in Ontario. The change harmonizes the two provinces.

[56] Dominion charges a 15% surcharge when a snow plough blade is attached to a commercial vehicle. The Company proposed the addition of a $75 minimum premium increase when a snow plough blade is attached. The surcharge becomes 15% subject to a minimum $75 additional premium.

[57] Board staff recommends, and the Board approves, the proposed changes to these surcharges, as filed.

Modifications to Premium Calculations

[58] Dominion proposed the following changes to its premium calculations:

- The Specified Perils (SP) base rate will be set to 70% of the Comprehensive base rate (note, the current SP rate is approximately 70% of Comprehensive, so there is no major impact);
- All Perils premium will be set equal to the sum of the Collision and Comprehensive premium for interurban vehicles (this is an increase from the current Collision plus 95% of Comprehensive premium) aligning it with other commercial vehicles;
- The SEF#44 premium for interurban vehicles will be more consistent with that for Commercial automobiles;
- DCPD premium for Trailers will be changed to 25% of the full premium from a factor between 10-25% that varies by type of trailer; and
- Collision premium for all trailers will decrease to 75% of the full premium from 100%.

[59] The last two changes harmonize the Trailer charges with those used in Ontario, while making the rates more competitive.

[60] Board staff recommends, and the Board approves, all the proposed changes to the premium calculation, as filed.

Adoption of Canadian Loss Experience Automobile Rating (CLEAR)

[61] Dominion currently uses a List Price New Table to assign rate groups for both light and heavy vehicles. In this Application, Dominion proposed the adoption of CLEAR tables to assign rate groups to light commercial vehicles. This change will allow the Company to better segment its risks.

[62] In addition, Dominion will introduce, as it did with its private passenger vehicles, Model Year Differentials, CLEAR Adjustment Table, and the Travelers Proprietary Symbols for Bodily Injury. The derivation of these differentials is based upon

the approved Optima differentials for private passenger vehicles, along with the results of a multivariate analysis using Commercial automobile data.

[63] Dominion will use the CLEAR rate groups for Accident Benefits, DCPD, Collision, and Comprehensive. While Accident Benefits will use the CLEAR differentials as published by the Insurance Bureau of Canada, the remaining differentials were adopted from Dominion's commercial automobile business in Ontario.

[64] As it does with private passenger vehicles, Dominion will apply a CLEAR Adjustment, where there is additional segmentation benefit after applying the CLEAR Rate Groups. While Dominion indicates the majority of commercial vehicles will not see a CLEAR adjustment applied, the change will harmonize the approach used in the province with other Atlantic provinces and Ontario. As a result, on a country-wide basis, all risks subject to the adjustment will be captured.

[65] For Bodily Injury where no CLEAR rate groups exist, Dominion will use Travelers Proprietary Symbols. The Vehicle Identification Number is used to determine the appropriate symbol to apply. The process used to periodically update these symbol assignments, as well as the CLEAR Adjustment, will be like that approved for private passenger vehicles.

[66] The impact of these changes was off-balanced to make them revenue-neutral.

[67] Board staff recommends, and the Board approves, the proposed adoption of CLEAR tables along with the proposed differentials, the CLEAR Adjustments, and the rating groups and differentials for Bodily Injury, as filed.

Automobile Insurance Manual

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

IV FINDINGS

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

[70] The Board accepts the Staff indications (calculated using a +6% loss trend for Collision, a 50/50 split of general expenses into fixed and variable, the treatment of Health Services Levy as a fixed expense, and a 10% ROE and the proposed premium to surplus ratio) as the appropriate target against which to assess the reasonableness of the proposal.

[71] The Board approves the proposed change in base rates, as filed.

[72] The Board approves the proposed changes to territorial differentials, as filed.

[73] The Board approves the changes to the differentials for Classification, Driving Record, Liability Limit, and Deductibles, as filed.

[74] The Board approves the proposed changes to the Commercial Dual Policy Discount, as filed.

[75] The Board approves the change of the treatment of a conviction for Distracted Driving from Minor to Major conviction, as filed.

[76] The Board approves the proposed introduction of the Conviction-Free Discount and the proposed changes to conviction surcharges, as filed.

[77] The Board approves the proposed changes to the At-Fault Accident Surcharge Schedule and the Insurance Lapse Surcharge, and the introduction of the Snow Plough Blade Surcharge, as filed.

[78] The Board approves the proposed changes to Specified Perils premium, the All Perils premium and SEF#44 premium for interurban vehicles, and the DCPD and Collision premiums for trailers, as filed.

[79] The Board approves the proposed adoption of the 2018 CLEAR table, the Dominion CLEAR adjustments, and the Travelers Proprietary Symbols for Bodily Injury, as filed.

[80] 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.

[81] The Board finds the proposed rates are just and reasonable.

[82] The Board resets the mandatory filing deadline to October 1, 2021.

[83] The Board approves the effective dates of March 15, 2019, and April 15, 2019, for new business and renewals respectively, as revised by Dominion.

[84] 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.

[85] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 10th day of December, 2018.

David J. Almon