DECISION **2018 NSUARB 224**
M08952

<u>NOVA SCOTIA UTILITY AND REVIEW BOARD</u>

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **THE PERSONAL INSURANCE COMPANY**

FINAL SUBMISSIONS: December 6, 2018

DECISION DATE: **December 17, 2018**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Personal Insurance Company (TPIC 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 miscellaneous vehicles (motorcycles, motorhomes, all-terrain vehicles, snow vehicles and trailers). The Application was dated and filed on November 2, 2018 and the Company filed an amendment on November 13, 2018.

[2] Information Requests (IRs) were sent to TPIC on November 21, 2018, and responses were received on November 27, 2018.

[3] As a result of review by Board staff, a staff report dated November 27, 2018 (Staff Report), was prepared. The Staff Report was provided to the Company for review on the same day. The Company responded on December 6, 2018, indicating that it had reviewed the Staff Report and had no 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 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 modify its rates and risk-classification system for miscellaneous 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 November 1, 2018.

[7] The proposed effective dates are March 17, 2019, for new business and May 16, 2019, for renewal business.

[8] TPIC proposed changes to its base rates for all vehicles. TPIC, in its filing, showed the proposed changes to the indicated changes for these coverages:

- Bodily Injury (BI) & Property Damage-Tort (PD-Tort) Combined,
- Direct Compensation Property Damage (DCPD),
- Accident Benefits (AB),
- Collision (Coll),
- Comprehensive (Comp), and
- Health Services Levy.

[9] TPIC proposed the following changes to base rates, which for all vehicles are much lower than the indicated changes:

- ATVs +9.2%
- Motorcycle +5.7%
- Motorhomes +8.3%
- Snow Vehicles +9.0%
- Trailers +9.4%

The changes varied by coverage.

[10] TPIC chose to leave the health levy unchanged to reduce the impact of other changes advising this would not unduly impact the profitability of miscellaneous vehicles.

[11] The Company proposed changes to the risk-classification system for motorcycles. Several new variables are introduced, some are removed, while others are modified.

[12] Board staff reviewed the rate level indications developed by the Company and in doing so examined all aspects of the ratemaking procedure including:

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

[13] Based on Board staff's review of the filing there were no issues that arose surrounding the Company's analysis of its rate level needs. Therefore, Board staff recommended the use of the indications provided by the Company as the target against which to assess the appropriateness of the proposed rates. The Board agrees.

All-Terrain Vehicles

[14] The Company made changes in the direction of the indicated change; however, the size of the change differs. Except for DCPD, the proposed change results in rates that are lower than indicated and produced a proposed return on equity well below the 10% target which represents the Board's low end of the range of 10% to 12%. Despite a negative return, Board staff recommended the Board approve the proposed change for all-terrain vehicles as filed.

Motorcycles

[15] For motorcycles, changes are made in the direction of the indications. For Bodily Injury and PD-Tort, Collision and Comprehensive, the proposed changes result in rates that exceed indicated rates, while the reverse is true for Accident Benefits and DCPD.

[16] The proposed rates are lower than indicated and produce a rate of return below the 10% target. Despite this, Board staff recommended approval of the proposed change for motorcycles, as filed.

[17] TPIC proposed many changes to the risk-classification system discussed later in this Decision. The proposed off-balancing of the impact of these changes to the risk-classification system will make the changes revenue-neutral.

Motorhomes

[18] Again, with motorhomes, TPIC made changes in the direction of the indications, however, the proposed changes result in rates that are lower than indicated rates. The proposed rates produce a rate of return on equity again below the 10% target. Despite the lower return, Board staff recommended the proposed rate for motorhomes.

Snow Vehicles

[19] TPIC has very few snow vehicle policies in the province. Where changes are made they are in the direction of the indications; however, the proposed changes result in rates that are lower than the indicated changes and produce a return on equity well below the 10% target. Despite the low return on equity, Board staff recommended approval of the proposed rate change for snow vehicles.

Trailers

[20] Like snow vehicles, TPIC has very few policies insuring trailers.

[21] TPIC proposed changes only to Bodily Injury and PD-Tort and Comprehensive. For these coverages the proposed changes are smaller than the indicated changes. TPIC makes no changes in other coverages despite indications that show increases.

[22] For Collision, no change is proposed despite a small indicated decrease. A large portion of the trailers carry both Comprehensive and Collision, therefore, most trailers will see premiums that are lower than indicated for these coverages combined. Board staff recommended the Board approve the proposed rate changes as filed.

Other Proposed Changes

Motorcycle Risk-Classification Changes

[23] TPIC proposed an overhaul of its risk-classification system for motorcycles. The Company introduced many new variables/rating criteria and a Fixed Expense component. TPIC will remove several rating criteria/surcharges. Finally, the Company modified its existing Number of Years Licensed criteria and made changes to several of its existing differentials. Despite the changes, TPIC will still write motorcycles on an accommodation only basis.

[24] A premium dislocation cap will mitigate the impact of the revised rating structure on its clients.

Territory

[25] TPIC currently does not rate motorcycles by territory. With the revision to the rating structure, TPIC will introduce territory. The Company lacked sufficient

motorcycle experience to develop motorcycle specific territorial differentials. TPIC used private passenger vehicle average premiums to develop indicated differentials. The selected differentials were based on the indications with some smoothing of the differentiations among the territories.

[26] A Fixed Expense component was also added. This amount is added to the determined premium for Bodily Injury & PD-Tort, DCPD, and Accident Benefits (i.e., all mandatory coverages). The addition of this expense ensures the same level of fixed expenses is collected to cover the costs of servicing the risks, regardless of the premium charged.

Removed Variables

[27] With the proposed addition of the new variables, some existing variables became redundant. TPIC proposes the removal of the following items:

Removed Item	Notes
Engine Displacement (CCs)	The variable acted as proxy for vehicle weight and Manufacturer's Retail Suggested Price. Given this information is captured in the new rating variables, there is no longer a need for this stand-alone variable.
Specialty Motorcycle Surcharge	TPIC applied a 15% surcharge to a variety of specific brands of motorcycles to reflect higher repair and replacement cost, as well as weight and power. TPIC believes these are now better captured in the new rating variables, making the surcharge redundant.
Surcharge: Endorsement 5	This 5% surcharge applied for leased vehicles, but TPIC explained its Generalized Linear Model analysis did not show this was a statistically significant predictor of risk, so it will be removed.
Model Year	This variable was originally intended as a proxy to Vehicle Age. The new rating variables better capture this information removing the need for this proxy.

Modified Variables and Differentials

[28] TPIC is changing its Number of Years Licensed variable. Rather than using the current groupings, the Company will use discrete values from 0 years to 61 years,

and a final grouping of those licensed for more than 61 years. This approach allows for a more granular way to assign a rate to the risks faced.

[29] Board staff recommended the Board approve the proposed changes to the rating structure, including the introduction of new variables, removal of some of the existing variables and modification to existing variables as well as the proposed differential changes as filed.

Premium Dislocation Cap

[30] To mitigate the impact of significant increases in premiums for all vehicles, as well as significant decreases in premium for motorcycles, TPIC automatically applies a premium dislocation cap at renewal.

[31] For vehicles other than motorcycles, a 10% cap is applied so that the premium increase at renewal will not exceed 10% assuming no material change in risk occurs. There is no cap that reduces the size of any decreases at renewal for these vehicles. For motorcycles, the Company proposes to maintain its current 20% cap on renewal premium increases and 10% cap on renewal premium decreases. The premium foregone under the cap on increases exceeds the extra premium collected under the cap of decreases, as the Board requires.

[32] For all vehicles, TPIC expects the caps will be removed by the third policy year. This is consistent with the Board's view that the caps should be removed quickly in order to allow the capped individuals to move to their true premium.

[33] Board staff recommend the Board approve the continued use of the premium dislocation caps, as filed.

Automobile Insurance Manual Review

[34] Board staff reviewed the revised Manual pages provided by the Company, as well as the Automobile Insurance Manual on file, and found no areas where the Company appeared to be in violation of the *Regulations*.

Effective Date

[35] TPIC proposed an effective date of March 17, 2019, for new business, and May 16, 2019, for renewals. These dates seem reasonable, and Board Staff recommended that the Board approve them.

IV FINDINGS

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

[37] 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.

[38] The Board approves the proposed changes to base rates for all vehicles as filed.

[39] The Board approves the proposed changes to the rating structure for motorcycles, including the introduction of the new variables, the removing of some existing variables, and the modification to existing variables, as well as all proposed differentials as filed.

[40] The Board approves the premium dislocation cap as filed.

[41] The Board approves the effective date of March 17, 2019, for new business and May 16, 2019, for renewal business.

[42] Because the Application included full actuarial analysis, it meets the requirements of the *Regulations* to reset the mandatory filing deadline for these vehicles. The mandatory filing deadline is reset to November 1, 2021.

[43] 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.

[44] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 17th day of December, 2018.

Peter W. Gurnham