DECISION

2019 NSUARB 7
M08988

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY**

FINAL SUBMISSIONS: January 4, 2019

DECISION DATE: **January 17, 2019**

DECISION: **Application is approved**

I INTRODUCTION

[1] The Portage La Prairie Mutual Insurance Company (Portage 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 (PPV). The Application, dated November 29, 2018, was filed electronically on that date.

[2] Information Requests (IRs) were sent to the Company on December 14, 2018, and responses were received on December 20, 2018.

[3] As a result of a review by Board staff, a staff report dated January 3, 2019 (Staff Report) was prepared. The Staff Report was provided to the Company for review on the same day. The Company responded on January 4, 2019, indicating that it had reviewed the Staff Report and had a request for clarification of one matter and a few suggested minor corrections. Board staff revised the report in accordance with the comments, and provided the revised staff report to the Company on January 4, 2019. The Company made no further comments in response.

[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 PPV. 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 December 1, 2018.

[7] The proposed effective dates are April 1, 2019, for new business and May 1, 2019, for renewal business.

Rate Level Changes

[8] The Company proposed to change its base rates and risk-classification system. The proposed change represents an overall rate level increase of 15.2%.

[9] The proposed changes were based on indications for a slightly higher all-coverages combined rate increase. The Company also proposed changes to its deductibles and endorsements, as well as to some other elements of its risk-classification system.

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

- Loss trends;
- Impacts of Minor Injury Reforms;
- Loss development;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expense provisions;
- Credibility standards, procedure, and the complement of credibility;
- Experience period and weights;
- Premium to surplus leverage ratio; and
- Target and proposed return on equity (ROE).

[11] Board staff report that the only areas where the Board might choose to consider alternative assumptions were the loss trends selections made by Portage and

the treatment of the Health Services Levy. All other issues which arose during the review by Board staff were resolved satisfactorily through the IR process.

Loss Trends

[12] Portage developed its loss trends after reviewing industry experience in Nova Scotia from 1998 to the end of December 2017. It chose to focus on data for the period from 2008-2017 for most coverages.

[13] The Company examined annual loss cost data only, due to concerns about the claims count referred to in the notes to the General Insurance Statistical Agency (GISA) exhibits that it used in its analysis and applied actuarial judgment to make its trend selections.

[14] The Board's consulting actuary, Oliver Wyman (OW), had developed assumptions for loss trends for PPV with the data to the end of December, 2017. OW examined trends for frequency, severity and loss cost information. Its selections were made after examining both five and 10 years of data, on a half-yearly basis.

[15] While OW had used the most recent past trend for future trends, Portage used future trends equal to past trends for all coverages, except for Direct Compensation Property Damage and Uninsured Automobile coverages. For the most part, the trends selected by OW and Portage were not substantially different. If OW trends were used, higher indications would result.

[16] Portage provided indications using all OW loss trends in its Application. The Board observes that, for most coverages, the Portage indications were not significantly less than those based on the OW loss trends. The only exceptions were for Comprehensive coverage, where Portage indications were higher, and Property

Damage-Tort coverage, where Portage indications were for a small decrease, compared to a small increase using the OW-based indications.

[17] Board staff recommended that the indications using the Portage loss trends be used to develop indications against which to assess the reasonableness of the proposed increases. This recommendation was based on a view that the loss trends were generally close and considering the overall proposed change.

[18] The Board accepts the Board staff recommendation.

Health Services Levy

[19] Portage currently charges a separate amount for the Health Services Levy (HS Levy). To establish this separate amount, Portage applies the proposed change to Bodily Injury Coverage to its current charge for the HS Levy.

[20] To determine the indicated change for Bodily Injury, Portage includes a provision for the actual HS Levy. The Board requires the HS Levy provision to be treated as a fixed expense. Portage based its provision for the HS Levy on the amount prescribed in 2017. The HS Levy, however, increased in 2018. Board staff inquired what the change in indications would be as a result.

[21] In its response to IR-1, Q. 10, Portage confirmed it had treated its provision for the HS Levy as a fixed expense. Portage further explained the provision used would adequately cover the increase in the HS Levy and, therefore, it did not change its indications.

[22] As a result, Board staff recommended that the indications need not be changed to reflect the increase in the HS Levy. In the circumstances of this Application, the Board accepts the recommendation.

Proposed Rate Changes

[23] Having accepted the Board staff recommendations, the indications against which to assess the reasonableness of the proposed changes are the Portage indications. For all coverages, where changes are proposed, Portage has followed the direction, but not the magnitude of the indications. The magnitude is smaller, and the overall proposed change is less than the indications. This results in the proposed ROE being both less than the Portage target and the low end of what the Board has considered reasonable in many recent applications.

[24] In the circumstances of this Application, the Board is satisfied that the proposed changes will result in just and reasonable rates and approves them.

Territorial Differentials

[25] The Company proposed no changes to its territorial differentials, and thus it is not required to undertake a territorial analysis, pursuant to the Board's recent change in filing requirements (2018-2 revised November 30, 2018).

[26] Portage did propose changes to its manual to include more postal codes under its territory definitions, but these do not represent any changes to the definitions as the coded areas are in the territories where they are currently rated.

Deductible Changes

[27] Portage proposed two changes to the deductible options it presently offers. The first is the removal of the two lowest levels of deductible for Collision coverage, neither of which are currently applicable to any of the policies the Company underwrites. The Company advised that the differentials for the Collision deductible are based on a deductible that is higher than those it proposes to remove. As a result, no impact will

result from the change. The Board accepts the recommendation of Board staff to approve the proposed removal of these two deductible levels.

[28] The second change to deductibles is the proposal to remove what is known as "The Incredible Shrinking Deductible." Currently, this allows the deductible selected by the client to reduce by 10% each year the client remains claims-free. If there is a claim, or no deductible is paid but there is a claim, the deductible reverts to the original level.

[29] Portage said that its generally poor underwriting experience has led it to re-evaluate its portfolio. It does not view continuing to offer this deductible as an appropriate marketing tool; further it wants to avoid the associated administrative expense as well as systems costs associated with new GISA reporting requirements related to this type of deductible.

[30] The Company said that clients who have had deductibles decrease from the deductible originally chosen will not be "grandfathered" and will be advised of the change. The Board understands this means they will revert to the deductible on which their premium is based.

[31] The Board accepts the recommendation of Board staff to approve the removal of the Incredible Shrinking Deductible as sought.

Conviction Classifications

[32] Like many insurers, Portage classifies convictions. It uses three classes: Minor; Major; and Criminal Code & Serious. In each class, the number of convictions impacts when the Company might choose to no longer underwrite the policy, or when a surcharge applies, and the amount of the surcharge.

[33] Portage proposed to move a conviction for driving while using a hand-held cellular device (Cell Phone Conviction) from the current classification as Minor to Major. The Board notes that other insurers have recently made the same change, if they had not already similarly classified the same offence. Board staff noted that this change has a very small impact on rates, and therefore, was not off-balanced.

[34] The Company also proposed to add a conviction for the unsafe passing of a stopped emergency vehicle to the list of Major convictions. It said, in response to IR-1, Q.4, that it views this offence as like other Major convictions such as improper passing or failing to stop for a school bus, and careless driving. Portage said that it believes that other markets either treat such a conviction in this way or are planning to do so.

[35] The Board finds that the proposal to make the changes to these conviction classifications is reasonable and approves it.

Endorsement Changes

[36] Portage proposed several changes to the endorsements it offers:

- The addition of new limits and associated premiums to endorsement SEF# 20-Loss of Use which provides coverage up to a specified limit per occurrence for a rental vehicle where the insured vehicle is out of service due to a loss from an insured peril under either Collision, Comprehensive, or Specified Perils coverage. The current limit is $1,000 for a $25 charge and new limits would be up to $2,500 with premiums that appropriately reflect the increased risk.

- An increase in premium for its Accident Waiver Enhancement Endorsement which protects a driver's six star driving record and claims-free discount in the event of an at-fault accident, when specific requirements are met.

- An increase in premium for its Physical Damages Extension Endorsement (PDEE) and Physical Damage Extension Endorsement (Specified Lessee) (PDEE(L)). These endorsements package three endorsements: SEF #20 Loss of Use (at the lowest limit); SEF# 27 Legal Liability for Damage to a Non-Owned Vehicle; and

SEF#43R/SEF#43R(L) – Limited Waiver of Depreciation (LWD)/LWD for Specified Lessee.

[37] Portage chose to propose these changes based on an analysis of its competitive position as it determined that its charges were lower than they should be. No off-balancing was done for the two endorsement premium increases.

[38] The Board accepts the recommendation of Board staff to approve the proposed endorsement changes and the associated premiums.

Rating Rules

[39] In addition to changes to the rules which have an impact on rates as discussed earlier in this Decision, Portage proposed several changes in the wording of its underwriting and rating rules. It did so mainly to clarify current practices.

[40] Board staff advise that none of the proposed changes appear to violate the *Regulations* and as a result, their approval is recommended. The Board accepts the recommendation.

Automobile Insurance Manual

[41] 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

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

[43] 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.

[44] The Board finds the proposed rates are just and reasonable, and approves them.

[45] The Board approves the proposed changes to deductibles, conviction classifications, endorsements and rating rules as discussed in this Decision.

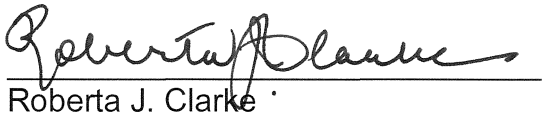
[46] The Application included full actuarial indications; therefore, it qualifies to set the new mandatory filing date for PPV for the Company to December 1, 2020.

[47] The Board approves the effective dates of April 1, 2019, for new business and May 1, 2019, for renewal business.

[48] 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.

[49] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 17th day of January, 2019.



Roberta J. Clarke