DECISION **2019 NSUARB 40**
M09042

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 private passenger vehicles

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

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

FINAL SUBMISSIONS: March 12, 2019

DECISION DATE: **March 25, 2019**

DECISION: **Application is approved as modified by this Decision.**

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 private passenger vehicles. The Application, which was filed on January 7, 2019, followed an old version of the *Board's Rate Filing Requirements for Automobile Insurance – Prior Approval including Mandatory Filing*) and, in response to an inquiry by the Board, the Company filed a revised Application on January 14, 2019.

[2] Information Requests (IRs) were sent to the Company on February 4, February 22, and March 6, 2019, and responses were received on February 11, March 5, and March 7, 2019, respectively.

[3] As a result of a review by Board staff, a staff report dated March 8, 2019 (Staff Report) was prepared and provided to the Company for review on the same date. The Company's response was received on March 12, 2019, and indicated 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 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 for changes to its rates and its risk-classification system for private passenger vehicles. The Application was made in accordance with the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*).

[7] The proposed effective dates are May 21, 2019, for new business and June 24, 2019, for renewal business.

Rate Level Changes

[8] As noted, Dominion proposed changes to its rates and risk-classification system. The impact of these changes is an overall all-coverages combined increase of 13.3%. This result compares to the Company's actuarial indications that suggest a much larger increase should be taken.

[9] Dominion also proposed changes to the premium for its endorsements. When the impact on premiums of the proposed changes to endorsements is included, the overall change increases to 15%.

[10] Board staff reviewed the rate level indications developed by Dominion and, in so doing, examined all aspects of the ratemaking procedure, including the following:

- 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 (ROE).

[11] Based on Board staff's review of the Application, the issues regarding the assumptions used by Dominion to develop its indications where the Board should consider the use of alternate assumptions or that warrant more discussion are:

- the expense provision;
- the profit provision; and
- the adjustment for legalization of the recreational use of cannabis.

Expense Provision

[12] In previous Decisions the Board rejected Dominion treating its general expenses as 25% fixed and 75% variable. The Board based its Decisions 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 instead to use a 50/50 weighting instead of the 25/75 weighting. In this Application, Dominion again reverted to the former 25/75 weighting. The Company provided no evidence to support the change from the Board's previous Decisions.

[13] Board staff recommended the Board require Dominion to use a 50/50 weighting of its general expense provision into fixed and variable expenses instead of the 25/75 split selected by the Company. The Board agrees.

Profit Provision

[14] Dominion targets an after-tax ROE of 10% per annum. The Company uses a 1.6:1 premium to surplus ratio, as it did in the previous applications. Based upon the tax rate and investment income assumptions provided by Dominion, this equates to a profit provision of about 7.9% of premium.

[15] The 7.9% profit provision is just outside the top end of a range that reflects the Board's 10-12% range for reasonable ROE and a 2:1 premium to surplus ratio (i.e., 6.3%-7.8%). A quick review of the financial information suggests that the Dominion experience in Nova Scotia has not been good, when compared to the Company experience in the rest of Canada. It does not warrant forcing the Company to the low end of the profit provision range as has been done with other insurers.

[16] Board staff recommended the Board allow Dominion to use its profit provision, as filed. The Board agrees.

Adjustment for Legalization of the Recreation Use of Cannabis

[17] On October 17, 2018, the Canadian government legalized the recreational use of cannabis. Dominion argued that it is reasonable to expect that consumption of cannabis will increase. This increased usage will lead to more charges of impaired driving and more accidents. That is, claims frequency would increase as a result of the legalization.

[18] Dominion cited a 2017 bulletin from the Highway Loss Data Institute (HLDI) that refers to a study of the increase in claims frequency for the states in the United States (US Study) where recreational use of cannabis was legalized compared to neighboring states where recreational use remained illegal. The US Study concluded there is a statistically significant increase in collision claim frequency of about 2.7%. The individual state results vary significantly and showed even higher increases that ranged from 4.5% to 13.9%.

[19] Dominion applied an adjustment to the claim frequency of 1.35% (or half the 2.7%) for Accident Benefits, Collision, PD-Tort, and Direct Compensation Property Damage. The Company believes this is a prudent, measured approach to reflect the impact of "a significant industry event".

[20] It is noteworthy that a 2018 update to the study cited by Dominion suggests the methodology used to produce the 2.7% frequency increase would now produce a 6% frequency increase. While Colorado and Washington show significant increases in frequency, the results for Oregon show no real difference.

[21] In October 2018, the Insurance Institute for Highway Safety (IIHS) released a study that was based upon police-reported crashes in the same three states. This study relied on insurance claims. The result of the IIHS study suggested an increase of 5.2% in police-reported crashes versus the experience in neighboring states that have not legalized recreational use. The IIHS study also notes the Oregon experience is markedly different from that of Colorado and Washington.

[22] The IIHS study advises caution generalizing the results of the study to other states and by extension to other provinces. It also suggests those jurisdictions considering legalization should focus efforts on education and enforcement to address the risks.

[23] Rather than waiting and analyzing the emerging experience under the new legalized recreational use regime, Dominion seeks to apply the results of the US Study, although reduced by half, across the board for the coverages indicated.

[24] It is not clear if the experience in Nova Scotia will be closer to that for Colorado or Oregon. Using the combined states result (i.e., the 2.7%) could be seen as

addressing this issue. If the evidence is closer to the Oregon experience however, Nova Scotia drivers would have paid more than justified for coverage.

[25] The use of the US Study results also implies the education and enforcement regimes will be the same as in those states. In addition, the starting points for example, the level of usage, are assumed to be the same as well. In Canada, however, the recreational use of cannabis was legalized in an environment where its use for medical purposes had long been allowed. The claims frequency may already be reflecting the experience of the medical users.

[26] Recent studies also showed that the highest usage of cannabis before legalization was in Nova Scotia. Statistics Canada recently released a result that suggested cannabis use had not increased dramatically since legalization. One could argue that based on these results, any impact on frequency is already reflected in the claims frequency and the application of any additional adjustment would be double-counting the impact. Another argument would be that given the uncertainty of what the impact, if any, would be in Nova Scotia, it is simply too early to allow such an adjustment.

[27] Board staff asked Dominion to provide indications with the adjustment to frequency for recreational cannabis use removed, in order to quantify its impact.

[28] While the impact is not large, given the concerns raised about differences between the starting point, the education and enforcement issues, and the novelty of recreational sales, Board staff recommended the Board not allow any adjustment for the legalization of the recreational use of cannabis until the Nova Scotia, or Canadian, experience shows that the legalization did have an impact on frequency. If a new

Canadian/Nova Scotia claims frequency impact emerges, Dominion can then reapply to the Board.

[29] The Board accepts Board staff's recommendation.

Staff Indications

[30] Based upon the recommendations above, the Staff indications become those calculated using (a) a 50/50 weighting of general expenses; and (b) no factor for the legalization of the recreational use of cannabis; along with (c) all other Dominion assumptions.

Comparison of Proposed Rates to Staff Indications

[31] The proposed overall increase is about 40% of the indicated increase. The size of the steps taken towards the coverage indications, where changes are made, varies between 35-55% of the indicated change. During the IR process, Board staff asked Dominion about taking smaller than indicated increases. The Company responded:

> The Dominion balances rate indications, premium stability and business considerations including its competitive position when proposing changes to its rates. To follow indications to their maximums would cause large dislocation, negative policyholder reaction and reduce The Dominion's retention ratio. The proposed rate changes for BI, PD, DCPD, AB and Collision follow the direction of indications but are lower in magnitude to manage dislocation while at the same time addressing premium adequacy issues.
>
> [Response to Question 1 of IR-1]

[32] Dominion recently introduced a revised rating system, and the effects of that change may take a while to emerge. Continuing to make partial moves towards the indications may be prudent in these circumstances.

[33] Given the proposed rates are for a smaller increase than indicated, the proposed ROE is well below the target 10%. Despite this, the rates should not jeopardize the financial position of the Company.

[34] Dominion provided sufficient support for its proposal. Board staff recommended the Board approve the proposed rates, as filed.

Other Proposed Changes

Territorial Differentials

[35] Dominion proposed no changes to its territorial differentials. As such, the Board did not require an analysis of territorial differentials.

Changes to Endorsements

[36] Dominion proposed to increase its premiums for its endorsement SEF#20 – Loss of Use. This endorsement provides for coverage, up to a specified limit per occurrence, for a rental vehicle, if the insured vehicle is out of service due to loss from an insured peril under the Section C coverage (e.g., Collision, Comprehensive, Specified Perils).

[37] Dominion based its proposed changes on loss ratios that exceed 100% in each of the last three accident years for the endorsement. Such loss ratios mean the claims costs exceed the premium charged. These loss ratios are much higher than a more traditional 60-65% level, which would leave room to provide for expenses and a reasonable profit.

[38] Dominion proposed increases that doubled the premium for the lowest per occurrence limit. As the per occurrence limit increased, the ratio of the proposed premium to the current premium declined. Put another way, the percentage increase in premium declined as the per occurrence limit increased. This observation is consistent with the decreasing marginal value of the increased limits. Dominion estimated this change would impact three-quarters of its private passenger vehicles.

[39] Dominion also proposed the removal of the $5 discount it provides when SEF#20 is purchased together with endorsement SEF#27 - Legal Liability for Damage to Non-Owned Automobiles. Dominion explained there were no additional savings when the endorsements were packaged together; therefore, a discount was not warranted. Dominion stated that this change would impact almost half of its private passenger vehicles.

[40] Board staff recommended the Board approve the proposed change to the SEF#20 premiums and the proposed removal of the $5 discount when SEF#20 and SEF#27 are purchased together, as filed.

Other Sections

[41] Board staff reviewed the remaining sections of the Application and found that they comply with the *Rate Filing Requirements*.

Automobile Insurance Manual

[42] 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.

Effective Date

[43] Dominion proposed effective dates of May 21, 2019, for new business, and June 24, 2019, for renewal business. Board staff recommended the Board approve these dates, as filed.

IV FINDINGS

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

[45] 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.

[46] The Application included full actuarial indications and, therefore, qualifies to set the new mandatory filing date for private passenger vehicles for the Company to January 1, 2021.

[47] The Board declines to allow any adjustment in indications for the legalization of the recreational use of cannabis until the Nova Scotia, or Canadian, experience shows that the legalization did have an impact on frequency.

[48] The Board approves the proposed changes to the rates, as filed.

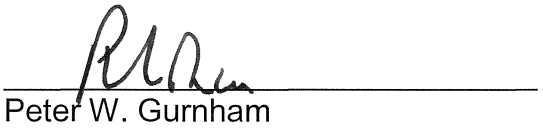
[49] The Board approves the changes to endorsements requested by Dominion.

[50] The Board approves the effective dates of May 21, 2019, for new business and June 24, 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 25th day of March, 2019.



Peter W. Gurnham