

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

IN THE MATTER OF AN APPLICATION by **ECHELON INSURANCE** for approval to modify its rates and risk-classification system for private passenger vehicles

BEFORE: Jennifer L. Nicholson, CPA, CA, Member

APPLICANT: **ECHELON INSURANCE**

FINAL SUBMISSIONS: May 9, 2019

DECISION DATE: **May 30, 2019**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Echelon Insurance applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles.

[2] Since the filing of this application, Echelon received and responded to Information Requests (IRs). Board staff also reviewed the application and prepared a report (Staff Report). After reviewing the Staff Report, Echelon agreed with the recommendations and did not offer any further comments.

[3] The Board did not consider it necessary to hold an oral hearing. The Board finds that the proposed rates and risk-classification system are just and reasonable in the circumstances and approves the application.

II ISSUE

[4] 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

[5] In its application under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*, Echelon proposed rate increases that varied by coverage and resulted in an overall increase of 35%. The actuarial analysis that Echelon filed with its application showed that its overall increase should be slightly higher. The company proposed that its new rates become effective August 1, 2019, for new and renewal business and later revised it to September 15, 2019.

[6] Echelon is a non-standard market insurer. The Company appeals to customers who are denied coverage by traditional insurers.

[7] Board staff reviewed the application and suggest that the only aspect of the ratemaking procedure that needs further review is the adjustment to claims frequency to reflect the impact of the legalization of recreational cannabis use in Canada, which Echelon included in its actuarial analysis. Board staff examined all aspects of the ratemaking procedure to reach this conclusion and consider that Echelon satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

[8] In this Decision, the Board will consider:

- the reasonableness of Echelon's proposed rates;
- the introduction of new rating variables;
- the modification of differentials for existing variables;
- changes to surcharges;
- the modification of the rating algorithm; and
- the adoption of the 2018 Canadian Loss Experience Automobile Rating table.

Adjustment for Legalization of the Recreation Use of Cannabis

[9] On October 17, 2018, the Canadian government legalized the recreational use of cannabis. Echelon 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 and therefore an increase in claims frequency.

[10] Echelon 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 where recreational use of cannabis was legalized compared to neighbouring 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%.

[11] Echelon applied an adjustment to the claim frequency of 3% for all coverages.

[12] It is noteworthy that a 2018 update to the study cited by Echelon 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.

[13] 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.

[14] 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.

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

[16] It is not clear if the experience in Nova Scotia will be closer to that for Colorado or Oregon. Using the combined states result 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.

[17] 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 has long been allowed. The claims frequency may already be reflecting the experience of the medical users.

[18] Recent studies also showed that the highest usage of cannabis before legalization was in Nova Scotia. Statistics Canada recently released a report that suggested cannabis use has 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.

[19] Board staff asked Echelon to provide indications with the adjustment to frequency for recreational cannabis use removed, in order to quantify its impact. Echelon recalculated its indicated rate level need after removing this adjustment. The change resulted in the overall increase decreasing by 3.7%.

[20] 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, Echelon can then reapply to the Board.

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

Proposed Rates

[22] The Company proposed changes to its rates and risk-classification system that results in an overall rate level increase of 35% which is slightly lower than indicated.

[23] Echelon proposed several changes, none of which were off-balanced to be revenue neutral. The Company instead allowed the impact of the changes to flow through to the overall change.

[24] Board staff recommend approval of the proposed rates and the Board agrees.

Territorial Differentials

[25] Echelon proposed changes to its territories based on data inferred from comparing numerous profiles using competitor's rates. Echelon proposed the addition of a new territory for the region of Truro. For this new region Echelon chose differentials that represented an average of two competitors rating of a similar geographic area.

[26] Both competitors have provided support for their relativities in their applications, so the Echelon approach appears reasonable.

[27] Board staff recommend approval of the proposed changes to territory definitions and differentials and the Board agrees.

Canadian Loss Experience Automobile Rating (CLEAR) Table

[28] To assign rate groups for physical damage coverages, Echelon currently uses the 2017 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) version of the CLEAR tables published by the Insurance Bureau of Canada.

[29] Echelon proposed to adopt the 2018 version of this table. The impact of table changes was considered when off-balancing the impact of all changes.

[30] Board staff recommend approval of adoption of the 2018 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) table for physical damages and accident benefits. The Board agrees.

New Rating Variables

[31] Echelon proposed a significant overhaul of its rating algorithm. The Company proposed to introduce many new rating variables. Several of these new variables are currently captured in the Class variable. Echelon will unbundle the Class variable to rate on the component variables. Echelon hopes the increased segmentation will better match premium to risk. The Company believes the new algorithm will promote fairness and will avoid clients taking advantage of the current, less-sophisticated rating approach used by Echelon.

[32] Echelon did not have enough of its own data nor did it have access to industry data, to provide actuarial analyses of the new variables. Echelon relied on:

- Differentials inferred from competitors' rates (where available);
- Differentials that Echelon used in other jurisdictions;
- Feedback from underwriting and claims;
- Experience from prior pricing exercises; and
- Judgement from its actuaries.

Echelon proposed the following new rating variables:

Echelon Used in Other Jurisdictions

- Number of Drivers/Number of Vehicles on Policy
- Body Style
- Vehicle Price
- Manufacturer/Truck

Inferred from Competitors

- Kilometers per Year
- Kilometers to Work
- Driver Type (Principal/Occasional)
- Number of Years Licensed
- Number of Years with Auto Insurance
- Gender

- Business Kilometers

- Multiline Discount

- Multivehicle Discount

- Vehicle Age

[33] Echelon explained details of the new variables and addressed all questions related to the new variables. The Board reviewed the analysis and is satisfied that all changes are compliant with the *Act* and its *Regulations*.

[34] The Company altered its rating algorithm to reflect these new variables.

[35] Board staff recommend approval of the proposed new rating variables and the associated differentials and the Board agrees.

Changes to Existing Differentials

[36] Echelon also proposed changes to the differentials for many of its existing rating variables. Lacking data to conduct an analysis of the industry and Echelon data, the Company largely based its differentials on those of its competitors. This approach is similar to that used for territory.

[37] Board staff recommend approval of the differential changes for existing variables and the Board agrees.

Surcharge Changes

[38] Echelon currently applies a surcharge for convictions and chargeable claims. The Company has a separate surcharge for minor convictions, major convictions and criminal convictions. In all cases, the surcharge is based on the number of occurrences in the last three years. Echelon uses the number of each conviction to determine the surcharge for each.

[39] Echelon proposed to remove the current additive surcharge and to replace it with a multiplicative factor. For each type of conviction and chargeable claims, the number of occurrences in the last three years will determine a differential to apply. The surcharge differentials are then multiplied together to determine the factor to apply to the premium.

[40] The current surcharges apply to Bodily Injury, Property Damage-Tort, DCPD, and Collision. The new differentials will apply to these coverages and also to Accident Benefits and Comprehensive. Echelon explained most competitors apply these surcharges to Accident Benefits and Comprehensive. The change aligns Echelon with its competitors.

[41] Echelon altered its rating algorithm to reflect these surcharge changes.

[42] Board staff recommend the approval of the proposed changes to the surcharges. The Board agrees.

Automobile Insurance Manual

[43] Echelon proposed changes to its Automobile Insurance Manual.

[44] Echelon proposed to add descriptions for additional circumstances where it will not agree to insure a vehicle. Echelon explained that these new circumstances are intended to reduce the potential for fraudulent activities.

[45] Echelon also proposed a minor change to its description of acceptable business uses. The word “personal” will be removed from “business uses of the driver’s personal vehicle” in the current description of acceptable business uses.

[46] Board staff reviewed the current manual and found no areas where the company violates the *Act* or its *Regulations*. Board staff recommend that the Board approve the proposed changes to the Automobile Insurance Manual including the underwriting and rating rules. The Board approves the changes.

IV FINDINGS

[47] The Board finds that the Application follows the *Act* and its *Regulations*, as well as the *Rate Filing Requirements*.

[48] The financial information supplied by the Company satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the Company.

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

[50] The Board approves the proposed changes to the territory definitions, the associated differentials, and the off-balancing of the impact of these changes.

[51] The Board approves the proposed adoption of the 2018 CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) CLEAR table to assign rate groups for physical damage coverages and Accident Benefits.

[52] The Board approves the proposed new rating variables and the associated differentials.

[53] The Board approves the proposed changes to the differentials for existing rating variables.

[54] The Board approves the proposed changes to surcharges.

[55] The Board approves the proposed changes to the rating algorithms.

[56] The Board approves the proposed changes to the Automobile Insurance Manual including rating and underwriting rules.

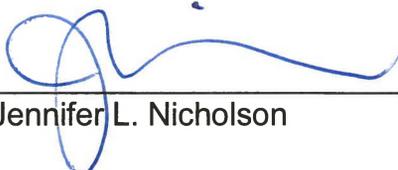
[57] The application included full actuarial support for the Company's proposed rates which allows a new mandatory filing date of February 1, 2021, to be set for the Company for private passenger vehicles.

[58] The Board approves the effective date of September 15, 2019, for new and renewal business.

[59] 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.

[60] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 30th day of May, 2019.



Jennifer L. Nicholson