

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

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

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

APPLICANT: **THE INSURANCE COMPANY OF PRINCE EDWARD ISLAND**

FINAL SUBMISSIONS: May 8, 2019

DECISION DATE: June 5, 2019

DECISION: Application is approved.

I INTRODUCTION

[1] The Insurance Company of Prince Edward Island (ICPEI) 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, ICPEI received and responded to Information Requests (IRs). Board staff also reviewed the Application and prepared a report (Staff Report). After reviewing the Staff Report, ICPEI 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)*, ICPEI proposed rate increases that varied by coverage and resulted in an overall increase of 20%. The actuarial analysis that ICPEI filed with its Application showed that its overall

increase should be slightly higher. The company proposed that its new rates become effective September 1, 2019, for new and renewal business.

[6] 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 ICPEI used in its actuarial analysis. Board staff examined all aspects of the ratemaking procedure to reach this conclusion and consider that ICPEI satisfactorily addressed all other aspects of the ratemaking procedure in its Application and IR responses.

[7] In this Decision, the Board considered:

- the reasonableness of ICPEI's proposed rates;
- the modification of its Inexperienced Driver Discount; and
- the adoption of the 2018 Canadian Loss Experience Automobile Rating table.

[8] The impacts of the proposed changes were not made revenue-neutral but formed part of the overall change.

Adjustment for Legalization of the Recreation Use of Cannabis

[9] On October 17, 2018, the Canadian government legalized the recreational use of cannabis. ICPEI 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] ICPEI cited a 2017 bulletin from the Highway Loss Data Institute 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] ICPEI 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 ICPEI 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, ICPEI 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 ICPEI to provide indications with the adjustment to frequency for recreational cannabis use removed, in order to quantify its impact. ICPEI 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, ICPEI can then reapply to the Board.

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

Canadian Loss Experience Automobile Rating (CLEAR) Table

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

[23] ICPEI proposed to adopt the 2018 version of this table. The impact of the table change was allowed to flow through to the overall change.

[24] 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.

Inexperienced Driver Discount

[25] ICPEI determines rates for inexperienced drivers based partially on how long the driver has been licenced. The Company uses a scale of DR 0 to DR 6 which represents the number of years a driver has been claims free. DR 0 represents less than one year, and DR 6 represents at least six full years. Each driving record has a unique differential or multiplier that applies to the base premium. The lower the number of years claims free, the larger the multiplier.

[26] The Company currently offers a discount that reduces the multiplier for inexperienced drivers licensed less than six years who meet the following criteria:

- Have no at-fault accidents in the last six years;
- Have no convictions (minor, major or serious) in the past three years; and
- Have no license suspensions of one year or more related to driving record offences since receiving the original license.

[27] The current structure of the discounts created inequities for some of these inexperienced drivers. ICPEI proposed to make two changes to the discount to address this problem. The first changes add a 10% discount to DR 6 customers to avoid a client seeing an increase in premium after adding the sixth claims-free year. The second change extends the discount to principal operators licenced less than nine years, instead of limiting it to the current six years.

[28] ICPEI provided support for the proposed changes to the discounts. Board staff recommend approval of the changes and the Board agrees.

Automobile Insurance Manual

[29] ICPEI proposed changes to its Automobile Insurance Manual to reflect changes to the Inexperienced Driver Discount.

[30] Board staff reviewed the current manual and found no areas where the company violates the *Act* or its regulations. Board staff recommend approval of the proposed changes to the Automobile Insurance Manual. The Board approves the changes.

IV FINDINGS

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

[32] 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.

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

[34] 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.

[35] The Board approves the proposed changes to the Inexperienced Driver Discount.

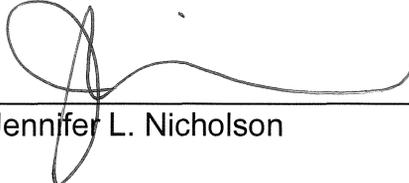
[36] The Application included full actuarial support for the Company's proposed rates which allows a new mandatory filing date of February 1, 2021, to be set for the Company for private passenger vehicles.

[37] The Board approves the effective date of September 1, 2019, for new and renewal business.

[38] 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.

[39] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 5th day of June, 2019.



Jennifer L. Nicholson