DECISION

2019 NSUARB 78
M09123

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 commercial vehicles and interurban trucks

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

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

FINAL SUBMISSIONS: June 5, 2019

DECISION DATE: **June 14, 2019**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Insurance Company of Prince Edward Island filed supporting documents and materials with the Nova Scotia Utility and Review Board for approval to modify its rates and risk-classification system for commercial vehicles and interurban trucks. The application was dated March 15, 2019.

[2] After reviewing the application Board staff asked for, and obtained, responses to Information Requests (IRs) from the Company. Board staff then prepared a Staff Report which was provide to the Company for review. The Company responded identifying an error and requesting a change to the effective date. The requested change was made by Board staff.

[3] The Board did not deem it necessary to hold an oral hearing on the application. The Board finds the proposed rates and risk classification system are just and reasonable 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] The Company sought approval to change its rates and risk-classification system for commercial vehicles and interurban trucks. 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 February 1, 2019. The Company requested and received an extension to March 15, 2019. The application included full actuarial indications, which qualifies to reset the mandatory filing deadline.

[6] The proposed effective date for both new business and for renewal business is October 1, 2019.

Rate Level Changes

[7] The Company proposed changes to base rates that varied by coverage and territory. These changes result in an overall rate level increase of 5.0% for commercial vehicles and 25.1% for interurban trucks. The proposed changes were based upon indications that recommended slightly higher overall increases.

[8] In considering the Company's application, Board staff reviewed 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.

[9] The IR process resolved all issues Board staff raised in connection with the application.

Staff Indications

[10] Board staff recommended the Board use the Company's indications, as revised in the IR process, as the target against which to assess the reasonableness of the Company's proposal.

[11] Board staff noted that, for commercial vehicles, the proposed changes are in the direction of the indicated change, but generally the size of the change is smaller. The exception is Specified Perils where the Company proposed setting the premium at 75% of the Comprehensive premium as is done by the Company in other provinces. Board staff recommended the Board approve the proposed rate changes for commercial vehicles.

[12] Board staff reviewed the proposed changes, for interurban trucks, against the indication which showed that the proposed changes were somewhat less than the indicated changes.

[13] Aside from setting the Specified Perils premium to 75% of the Comprehensive premium, the Company proposed a standard 25% increase for all coverages. This proposal was made despite indications suggesting that the changes could vary by coverage. The Company explained that given the very few vehicles insured, there is little credibility in the results.

[14] Board staff accepted this explanation and recommended approval of the proposed rate changes for interurban trucks.

Other Proposed Changes

Territorial Differentials

[15] The Company proposed changes to its territorial differentials. It based its proposal on suggestions and feedback from its underwriting team. The Company felt it is better able to position itself in the marketplace by relying on this information. The Company advised that it wanted to grow its business in one territory. To avoid making its commercial vehicle rates less competitive by allowing a 5% increase to impact that territory, the Company proposed an increase to the differentials in the other territories to offset part of the increase in the target territory. In the view of Board staff, the differences between the proposed and indicated changes do not warrant the Board altering the proposal and Board staff recommended the Board should approve the proposed territorial differences for commercial vehicles.

Class Differentials

[16] The Company proposed changes to the class differentials that vary by coverage and class. During the IR process some errors noted by Board staff were corrected. Board staff recommended the Board approve the proposed changes in class differentials as presented during the IR process.

Endorsement Changes

[17] The Company offers endorsement NSEF#27b - Legal Liability for Damage to Non-Owned Automobile Business Operations for Non-Owned Automobiles in Your Care, Custody or Control. The endorsement is available on a vehicle that carries All Perils or Collision and Comprehensive coverage. For a $50 premium per vehicle, the coverage

is provided for up to 60 consecutive days, with a $500 deductible and a limit of $75,000 for heavy vehicles.

[18] The Company proposed to add more value limits (i.e., $100,000, $125,000, and $150,000) to the endorsement. The premiums for these new limits are $65, $75 and $80 per vehicle, respectively. The Company relied upon underwriter feedback to set these premiums. The change in premium as the level increases appears to appropriately reflect the increased risk.

[19] The Company noted that the higher limits may require a deductible higher than the $500 standard limit for the endorsement.

[20] The Company also added the standard endorsement NSEF#28a – Excluded Driver to its manual. This endorsement excludes coverage under the policy while the excluded driver (as named in this endorsement) operates any vehicle insured under the policy. There is no premium charged for the endorsement nor will there be a reduction in premium from the exclusion of the driver. The Company explained the endorsement may only be used with an underwriter's approval. Board staff recommended approval of the proposed endorsement changes.

Surcharge Changes

[21] The Company proposed two new surcharges and to modify an existing surcharge.

[22] The first new surcharge is the Occasional Operator Surcharge. The Company will apply a 20% surcharge when an occasional operator licensed less than nine years is insured under the policy. The Company explained its administrative system cannot charge a separate premium for an inexperienced occasional operator. The

application of a surcharge represents a method to overcome this inability to charge for the additional risk.

[23] The Company chose 20% after reviewing the algorithm used by its sister company, Echelon Insurance, in Quebec. That algorithm charges between 10% and 50% with the value varying by age and sex. The 20% was viewed as a prudent starting point as the Company's surcharge approach is not as sophisticated as the Echelon algorithm.

[24] The second new surcharge was the Excess Km Surcharge. This surcharge would apply only to Class 36 and 44 vehicles. The Company will apply a 20% surcharge if the vehicle regularly makes trips that exceed 80km one-way. Such a vehicle poses a larger risk than a vehicle travelling 10km regularly. The Company again based the 20% level for the surcharge on a review of the Echelon algorithm in Quebec. That algorithm is much more detailed and provides for many layers of distances travelled. The Company views the 20% surcharge as a prudent first step at rating for the additional risk. As data emerges, the Company may seek to refine the surcharge in future filings.

[25] The Company will modify its Regional Exposure Surcharge. The current version applies a 25% surcharge to the premium for all coverages for the percentage of time the vehicle is operated outside of the Maritime region (i.e., Nova Scotia, New Brunswick and Prince Edward Island). The revision will apply the full 25% surcharge if the vehicle operates outside the Maritime region, regardless of how long the vehicle is operated outside the region.

[26] The Company explained the surcharge was originally intended for snowbirds travelling to Florida to live for four to six months of the year. Surcharging these clients for the time they were out of the region made intuitive sense. Most commercial

vehicles travelling outside of the region, however, do so on a regular basis throughout the year. The Company does not want its insured trucks to travel outside the Maritimes and it views the increased surcharge as a barrier to this. However, the Company did not want to outright decline such vehicles. The Company submitted that a client with several vehicles insured, but with only one venturing outside the Maritimes, may choose to find insurance elsewhere if the one vehicle is declined. The surcharge provides the Company with some compensation for the additional risk and allows for the full policy to be written.

[27] Board staff recommended the Board approve the proposed introduction of the Occasional Operator Surcharge and the Excess Km Surcharge, as well as the proposed changes to the Regional Exposure Surcharge.

Automobile Insurance Manual

[28] In addition to changes required to reflect the items discussed in this Decision, the Company proposed to make other revisions to its Automobile Insurance Manual including a description of:

- risks that must be referred to underwriters;
- risks that the Company will not write;
- definitions;
- levels for minimum deductibles;
- lists of minor and serious convictions; and
- surcharges.

[29] None of the changes violate the *Act* or its *Regulations*.

[30] Board staff found no area where the Company appeared to be in violation of the *Regulations* and recommended the Board approve the proposed revisions to the Automobile Insurance Manual.

IV FINDINGS

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

[32] 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.

[33] The Board finds the proposed rates are just and reasonable and approves them as filed.

[34] The Board also approves:

- the proposed changes to the territorial differentials for commercial vehicles;
- the proposed changes to the class differentials for both commercial vehicles and interurban trucks;
- the proposed changes to endorsement NSEF#27b and the addition of NSEF#28a;
- the proposed introduction of the Occasional Operator Surcharge and the Excess KM Surcharge, as well as the proposed changes to the Regional Exposure Surcharge; and
- the proposed changes to the Automobile Insurance Manual.

[35] The Board also approves the effective date of October 1, 2019, for new business and for renewal business.

[36] The application included full actuarial indications and the required territorial analysis; therefore, it qualifies to set the new mandatory filing date for commercial vehicles and interurban trucks for the Company to March 1, 2022.

[37] The Board requires the Company to file an electronic version of its updated Automobile Insurance Manual within 30 days of the issuance of the Order in this matter.

[38] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 14th day of June, 2019.

Peter W. Gurnham