

DECISION

**2020 NSUARB 6
M09522**

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 change its rates and risk-classification system for all-terrain vehicles

BEFORE: David J. Almon, LL.B., Member

APPLICANT: **ECHELON INSURANCE**

FINAL SUBMISSIONS: December 17, 2019

DECISION DATE: **January 17, 2020**

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 All-Terrain Vehicles. The company proposed rate changes that vary by coverage and result in an overall all-coverages-combined increase of 15%. In addition to changes to rates, the company proposed changes to its risk-classification by introducing several new rating variables and adjusting the differentials for existing rating variables.

[2] The Board must consider whether the proposed rates and risk-classification system are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*. The Board is satisfied that Echelon's application meets these requirements and approves the proposed changes.

II ANALYSIS

[3] Echelon applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*.

[4] Echelon received and responded to Information Requests (IRs) from Board staff. Board staff prepared a report to the Board with recommendations on the application (Staff Report). Before providing the Staff Report to the Board, Board staff shared it with Echelon. The company reviewed the report and informed Board staff that it agreed with the recommendations and had no further comments.

[5] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested Echelon satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

[6] Board staff recommends the Board use the Echelon indications as the appropriate target against which to assess the reasonableness of the proposed rate changes.

Comparison of Proposed Rates to Indicated Rates

[7] In comparing the Echelon indications to the proposed rate changes, the company deviated from its indications, resulting in some very large percentage differences for many coverages. For some of these coverages, however, the current premium is small and the large indicated changes or the differences from those indications reflect small dollar amounts.

[8] In making its selections, in addition to the indicated changes, Echelon also considered the relationship between its current rates and those of Facility Association (i.e., the insurer of last resort) and those of IAO Actuarial Consulting Services Aon Reed Stenhouse Inc. (IAO). Echelon provided comparisons of its current and proposed average premiums with those using Facility and IAO rates.

[9] Echelon provided these observations on its proposal:

Bodily Injury (BI)

[10] The proposed reduction brings the average premium in line with those using IAO.

Property Damage (PD)

[11] Given the premium is under \$2.00, the change is not material.

Direct Compensation Property Damage (DCPD)

[12] Given the large gap in premium between Facility and IAO, Echelon chose a middle ground, not wanting to lower all the way down to the IAO level.

Accident Benefits (AB)

[13] Because Echelon rates are already higher than both IAO and Facility, it did not make sense to increase rates as indicated.

Physical Damage Coverages (Collision (Coll), Comprehensive (Comp), All Perils & Specified Perils)

[14] While the loss experience for these coverages suggests the rates are dramatically inadequate, the closeness of current Echelon premiums to the Facility level did not leave much room to increase rates the full amount.

[15] Echelon stated that the allocation of the changes across the coverages, despite some cross-subsidies, seems fair and adequate, especially given the uncertainty in the indications that arises with a small volume of business. Given a higher percentage of vehicles insured by Echelon carry both mandatory coverages and physical damage coverages, the concern about cross-subsidies is reduced.

[16] Board staff recommends and the Board approves the proposed rate changes.

Changes in Rating Variables

[17] Echelon proposed many changes to its rating variables. These changes include the addition of new rating variables as well as changes to the differentials for existing rating variables. Echelon did not provide actuarial support for the revised differentials or the proposed differentials for the new rating variables. Instead, Echelon relied upon a review of the variables and differentials for two competitors in Quebec, where that regulator allowed for an examination of those competitors differentials. These competitors were Intact and Desjardins.

[18] Echelon focused on the relativities for PD, DCPD, Collision and Comprehensive as it was these differentials that were freely available from the Quebec regulator. While in some cases, it would be intuitive for some of the rating variables to apply to Bodily Injury and Accident Benefits, Echelon did not have access to data to support such changes or simply chose to focus on the physical damage coverages.

[19] The new rating variables are:

Variable	Coverages	Notes
Engine Size	BI	<ul style="list-style-type: none"> Reduce premium for smaller engines
Gender	PD, DCPD, Coll	<ul style="list-style-type: none"> reduction for females
Vehicle Age	PD, DCPD, Coll, Comp, SP	<ul style="list-style-type: none"> uses three scales, one each for PD & DCPD, Coll, Comp & SP
Vehicle Class	PD, DCPD, Coll, Comp, SP	<ul style="list-style-type: none"> uses the Insurance Bureau of Canada classes based on type of use (e.g., sport, utility, recreational) with the same scale used for all coverages
Years Licensed	PD, DCPD, Coll, Comp, SP	<ul style="list-style-type: none"> where the operator has no driver's license, Echelon will substitute consecutive years insured with an ATV, uses three scales, one each for PD & DCPD, Coll, Comp & SP
Years Since At-Fault Accident	PD, DCPD, Coll	<ul style="list-style-type: none"> variable is capped at the number of years driving experience, uses two scales, one for PD & DCPD, and one for Collision
Multivehicle	All Coverages	<ul style="list-style-type: none"> applies a 5% discount if there is more than one vehicle on a policy
Minor Conviction	BI, PD, DCPD, AB, Coll	<ul style="list-style-type: none"> applies a surcharge after the third minor conviction in three years, which grows as number of convictions grows.
Major Conviction	BI, PD, DCPD, AB, Coll	<ul style="list-style-type: none"> applies a surcharge after the first major conviction in three years, which grows as number of convictions grows.
Criminal Conviction	BI, PD, DCPD, AB, Coll	<ul style="list-style-type: none"> applies a surcharge after the first criminal conviction in three years, which grows as number of convictions grows.

[20] Board staff advised that none of these new variables appear to violate the *Insurance Act* or its *Regulations*.

[21] Echelon made the following changes to the differentials existing rating variables:

Variable	Change
TPL Rate Group	Generally lowered the DCPD differentials and extended their use to Property Damage
Collision Rate Group	Revised differentials
Comprehensive Rate Group	Revised differentials
SP Rate Group	Revised differentials
Collision Deductibles	Lowered differentials for \$500, \$750 and \$1,500
Comprehensive Deductible	Lowered differentials for deductibles over \$100
SP Deductible	Lowered differentials for deductibles over \$100
Coverage Amount	Increased BI differential for \$500,000 limit Lowered SEF#44 differential for \$500,000 limit

[22] The impact of the proposed changes varies by variable and by coverage. The increase observed for optional physical damage coverages were offset by reductions for mandatory coverages to produce an overall impact that Echelon estimates is a 1% increase. Echelon, however, off-balanced the impacts of the changes by coverage to make them revenue-neutral.

[23] The Board accepts the recommendation of Board staff and approves the introduction of new rating variables, the changes to differentials for existing variables, the extension of the TPL Rate Group variable to Property Damage, and the associated off-balancing of the impacts of these changes to make them revenue-neutral.

III SUMMARY

[24] The Board finds that the application follows the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

[25] The Board finds the proposed rates are just and reasonable, and approves the changes effective April 1, 2020, for both new business and renewal business.

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

[27] The application qualifies to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The new mandatory filing date for Echelon for (All-Terrain Vehicles) is December 1, 2022.

[28] Board staff reviewed the Automobile Insurance Manual filed with the Board. Board staff did not find any instances where the Manual contravened the *Act* and *Regulations*. Echelon must file an electronic version of its Manual, updated for the changes approved in this decision, within 30 days of the issuance of the Order in this matter.

[29] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 17th day of January, 2020.



David J. Almon