DECISION **2020 NSUARB 76**
M09700

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY** for approval to change its rates and risk-classification system for private passenger vehicles

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

APPLICANT: **THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY**

FINAL SUBMISSIONS: May 26, 2020

DECISION DATE: **June 9, 2020**

DECISION: **Application is approved.**

I INTRODUCTION

[1] The Portage la Prairie Mutual Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposed rate changes that vary by coverage and result in an overall increase of 9.8%. In addition to changes to rates, the company also asked the Board to approve changes to payment plans, endorsement offerings, and underwriting and rating rules. As well, the company proposed the adoption of the 2020 Canadian Loss Experience Automobile Rating (CLEAR) tables.

[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 Portage's application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

[3] Portage applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Portage 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 Portage. The company reviewed the report and informed Board staff that it had no further comments.

[4] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested that the Board further review loss

trends. Board staff consider that Portage satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

Indicated Rate Level Changes

Loss Trends

[5] The company based its selected loss trends primarily on a review of industry experience in Nova Scotia through December 31, 2018. The company examined experience from 1999 through 2018 but focused primarily on more recent data (2008-2018) when making its selections.

[6] A comparison of the Portage loss trend selections with those prepared by the Board's consulting actuaries, Oliver Wyman, revealed that in most cases the two trends were within 1% of each other. The lone exception was the future trend selection for Direct Compensation Property Damage, where the Oliver Wyman choice was 2.5% lower.

[7] In making its selection, Oliver Wyman reviewed the combined Property Damage-Tort and Direct Compensation Property Damage experience. Oliver Wyman noted a flattening of the loss costs for the combined coverage.

[8] Portage stated enough time had elapsed to allow for a trend for Direct Compensation Property Damage to be determined on its own. Using this data, Portage could not develop a good fitting model with a trend as low as the Oliver Wyman future trend selection.

[9] After considering the Portage comments, Board staff recommended the Board allow Portage to use its own selected loss trends, including its selection for Direct

Compensation Property Damage, in developing the indications to be used to assess the appropriateness of the company's proposal.

Proposed Rate Changes

[10] In all cases where changes are being made, Portage proposed changes that are in the direction of the indicated changes, but the size of the change is about half of the indicated increase. Portage explains that, despite a need to address the premium shortfall that exists, taking the full indication would be an untenable position at this time. Concerns about the pandemic and the impact of large increases for its customers helped inform this position.

[11] Because the overall proposed change is well below the overall indicated change, the proposed return on equity is well below the Portage target and the low end of the Board's reasonable range of 10%.

[12] The Board has concerns about companies not taking full indicated increases. In previous applications, Portage made large steps towards its indicated increases. Given the unique circumstances of the pandemic, the rationale for taking a more conservative increase is reasonable.

[13] Board staff recommend the Board approve the proposed changes to base rates. The Board agrees.

Adoption of 2020 CLEAR Table

[14] Portage currently uses the 2018 Canadian Loss Experience Automobile Rating (CLEAR) table to assign rating groups for Accident Benefits and physical damage coverages. The company uses the CLEAR (AB Alberta & Atlantics) – Collison and Direct Compensation Property Damage Combined version of the table. Portage proposed the

adoption of the 2020 version of this table, which the Board approved for use earlier this year.

[15] Portage identified the impact of the adoption of the new table and off-balanced that impact through base rates to make the table change revenue-neutral.

[16] Board staff recommend the Board approve the proposed adoption of the 2020 CLEAR table and the associated off-balancing of the impact. The Board agrees.

Endorsement Changes

[17] Portage proposed the removal of three of its current endorsement offerings. The endorsements being removed are:

- NSEF#3 – Drive Government Automobiles;
- NSEF#6a – Permission to Carry Passengers for Compensation; and
- NSEF#25 – Alteration Endorsement.

[18] No vehicle currently covered by Portage carries NSEF#3 or NSEF#25, and only a few carry NSEF#6a. Given the limited usage of these endorsements, Portage wants to remove them.

[19] Portage intends to grandfather the few vehicles carrying NSEF#6a, as long as the risk has not changed significantly. That is, if Portage does not receive information at renewal that changes the exposure, the client may continue to purchase the endorsement.

[20] Board staff recommend the Board approve the proposed removal of these endorsements. The Board agrees.

Rating Rules

[21] Portage is making modifications to the wording of its underwriting and rating rules. The company explains the changes are to provide more clarity and more usability for its brokers. The changes will also align the Nova Scotia manual with those used in other jurisdictions.

[22] Several of the changes apply to vehicles other than private passenger vehicles. Portage included a table of the proposed changes and identified the types of vehicles to which the change applies. While this application is for private passenger vehicles, the changes to the underwriting rules for other types of vehicles are acceptable in the circumstances.

[23] Portage will remove its six-month policy term and will now require all policies to be for a one-year term. Very few vehicles used this term option. The removal aligns Portage's policies in Nova Scotia with its policies in other provinces.

[24] Portage will also remove its quarterly payment option but will retain its monthly payment option. Portage explained the quarterly version is an inefficient billing method that involves significant manual intervention to function. The removal will make the administration of payment plans much easier.

[25] Portage modified its referral rules (i.e., the conditions under which a policy must be referred to head office prior to binding the risk). When referred, Portage assesses the risk to make sure it is underwritten correctly, and the proper premiums are applied. The new or modified risks to be referred include:

- New drivers with less than six years' experience (used to be five years);
- Vehicles requiring a NSEF#6a removed as that endorsement no longer offered;
- Risk with non-payment in last 12 months now required to pay in full with no payment option;

- Risk with surcharge greater than 10%;
- Vehicles with driving record 3* or less;
- Vehicles travelling into USA for more than two consecutive weeks (used to be 30 days);
- Applicant or named insured had non-payment cancellation in last six years; and
- Any driver with one at-fault claim and one or more moving violation in past three years (used to be two or more moving violations).

[26] Portage will also change the method to determine the premium when there are multiple inexperienced occasional operators (Class 05 or 06) insured on a single vehicle. In such circumstances, Portage charges only a single Class 05/06 premium. Rather than stating the company uses the Class 05/06 operator with the least driving experience, Portage revised the manual to state the company uses the highest rated Class 05/06 operator to determine the premium. Portage explained that the change merely clarifies the rule for the broker.

[27] Portage also changed the eligibility criteria for its Farmers and Fishermens Discount. Portage will require farmers and fishermen to be self-employed to be eligible for the discount. Portage explained that without being self-employed, the farmer or fisherman would be essentially a laborer and would most likely be commuting to work. This commuting exposure eliminates the savings that supports the discount.

[28] Portage also clarified that the Farmers and Fishermens Discount is not available to deckhands.

[29] The proposed changes do not appear to violate the *Insurance Act* or its *Regulations*. Board staff recommend the Board approve the proposed underwriting and rating rules changes. The Board agrees.

III SUMMARY

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

[31] The Board finds the proposed rates are just and reasonable, and approves the changes effective September 1, 2020, for new business and October 1, 2020, for renewal business.

[32] The financial information supplied by Portage 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 application qualifies to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The new mandatory filing date for Portage for private passenger vehicles is May 1, 2022.

[34] Board staff reviewed Portage's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. The company 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.

[35] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 9th day of June, 2020.

Jennifer L. Nicholson