DECISION **2022 NSUARB 180**
M10764

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **ECHELON INSURANCE COMPANY** for approval to modify its rates and risk-classification system for commercial, interurban and towing vehicles

BEFORE: Julia E. Clark, LL.B, Member

APPLICANT: **ECHELON INSURANCE COMPANY**

FINAL SUBMISSIONS: **October 7, 2022**

DECISION DATE: **December 1, 2022**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Echelon Insurance Company applied to the Nova Scotia Utility and Review Board to modify its rates and risk-classification system for commercial and towing vehicles and maintain its rates for interurban vehicles.

[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 revised application meets these requirements and approves the company's proposed rates and risk-classification system for commercial, interurban and towing vehicles. The Board also approves the modifications to Echelon's endorsement offerings.

II ANALYSIS

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

[4] Echelon is a non-standard market insurer. The company markets to customers who may be denied coverage by traditional insurers but do not present risks of the level commonly written through the Facility Association.

[5] The Board will examine the following issues in this decision:

- Proposed Rates:
  i. commercial and towing vehicles
  ii. interurban vehicles
- Rate Groups
- Endorsement offerings

Proposed Rates

Commercial and Towing Vehicles

[6] Echelon's current base rates for commercial vehicles were set in 2020. The rates were set equal to 85% of the approved Facility Association base rates for urban areas and 75% for rural areas. Echelon intends to expand its commercial vehicle business and introduce special towing vehicle rates in Nova Scotia. The company proposes to move away from basing its rates on Facility Association rates and instead to adopt the IAO Actuarial Consulting Services Canada Inc. (IAO) rates recently approved by the Board [2022 NSUARB 53], with deviations. This change would result in an overall increase of 6.6% for commercial vehicles. Echelon also proposed to create a separate towing vehicle line of business, relying, in part, on the proposed commercial vehicle rates.

[7] Echelon proposes to adopt the rates and risk-classification systems that the Board recently approved for IAO for commercial vehicles [2022 NSUARB 53] for its commercial and towing vehicles, with some deviations. IAO's application included the actuarial and territorial analysis required under a mandatory filing. An insurer wanting to adopt approved IAO rates may apply to the Board without filing its own actuarial support if the company can justify its use of the IAO rates.

[8] To adopt IAO rates, a company must make an application that:

- Explains why it is appropriate for the company to adopt the rates;

- Adjusts (downward only) the rates to reflect a desire to use a proposed Return on Equity that is lower than the 12% ROE approved for IAO;

- Adjusts the rates, if desired, to reflect any differences in the company's expense ratio relative to that included in the approved IAO rates, as may be modified by the Board in its discretion.

[9] Echelon underwrites a small portfolio of commercial vehicles and the number of policies has been stable over the company's past applications. The company does not currently underwrite any towing vehicles. With this limited business, the company did not have credible data with which to develop its own actuarial indications in support of the application.

[10] Echelon did not propose an adjustment to its rates for return on equity (ROE) from the 12% approved by the Board for use by IAO. Furthermore, in its last private passenger vehicle application, the Board allowed Echelon to use a 12% ROE based on the company's circumstances. Echelon did not make any adjustments to its expense ratio from the expense ratio included in the approved IAO rates.

[11] Board staff consider that Echelon has met the three criteria to use IAO rates for commercial and towing vehicles and considers that the 12% ROE is appropriate for Echelon. However, the company also proposed deviations from the IAO rates and risk classification system. Echelon proposed lowering base rates and other deviations that it believes would allow the company to achieve its desired average premiums for the "non-standard risks" it underwrites. These target rates would lower base rates and average about 10% lower than what the Facility Association rates would produce.

[12] The company proposed some deviations from the IAO differentials. Echelon prefers to use a separate Class 43T for towing vehicles to avoid drastic changes

to its Class 43 differentials, which would impact other commercial vehicles it currently underwrites. The company based the Class 43T differentials on its Ontario business, the Facility Association tow truck rates, and the company's view of competitive positioning for towing vehicles.

[13] Echelon established a discount for towing vehicles that are CAA Network Partners, consistent with the level offered in Ontario. Echelon will also modify the deductibles under the IAO rates, using additional levels of deductibles that IAO does not include. The company will also provide greater deductibles to accommodate higher value towing vehicles. The company relied on its Ontario algorithm to determine the differentials for these higher levels.

[14] Echelon will modify the liability limits available under the IAO rates to allow up to a maximum $5 million liability limit. The company will also offer a lower $4 million limit for towing vehicles that is not offered by IAO. Echelon set the differentials for this new limit by interpolating between existing limits.

[15] Echelon proposed a new "Non-Standard Risk Indicator" rating variable for commercial vehicles. This variable, which is not used by IAO, will allow the company to segment "non-standard" risks from regular market risks and to assign a premium appropriate for the risk of the vehicle. The company based the differentials on those used for Ontario commercial vehicles, with a lower differential for non-standard risks in Nova Scotia.

[16] The company proposed to remove an underwriting rule that declines commercial vehicle policies with a driver licensed less than nine years on the policy. To mitigate the risk associated with less-experienced drivers, Echelon will add a "Number of

Years Licensed" rating variable. The company based the differentials on its Ontario business because of the lack of credible Nova Scotia data and its determination that its private passenger algorithm had too many elements inappropriate to use for commercial vehicles.

[17] In Ontario, Echelon uses differentials that vary by age and gender. As age is a prohibited rating variable in Nova Scotia, the company instead transformed its age-based differentials into years-licensed differentials. The company also chose not to reflect gender in its Nova Scotia risk-classification system. For drivers licensed ten or more years, the company used its Ontario experience to produce an average differential such that the introduction of the variable would have no overall impact on premiums.

[18] The company supported these elements of its proposal. The Board accepts Board staff's recommendation to approve the proposed lowering of base rates using the IAO rates with proposed differentials, the new rating variables and associated differentials, including the separate towing vehicle Class 43T and CAA Network Partner discount.

Interurban Vehicles

[19] The Board approved Echelon's current rates for interurban vehicles in its 2020 decision (2020 NSUARB 77). These rates equal the rates previously approved by the Board for IAO in its decision reported at 2019 NSUARB 39 and were the most recently approved IAO rates at the time of that application by Echelon. In its decision on Echelon's interurban vehicle rates, the Board determined that the company met the criteria to adopt IAO rates without modifications. Echelon is proposing to leave these rates unchanged, despite the Board approving higher rates in IAO's recent application. The company

explained it does not write interurban vehicles currently and does not actively market for those vehicles. At this time, Echelon prefers not to implement new rates for those vehicles.

[20] The company's annual premiums for interurban vehicles fall below the Board's threshold for eligibility for filing under the *Section 155G Prior Approval – Minor filing Requirements*. In these circumstances, a proposal to maintain current rates for these vehicles does not require further justification and the Board approves Echelon's proposal to leave its rates for interurban vehicles unchanged.

Rate Groups

[21] Echelon proposed to use a modified version of IAO's rate group Table 2 for commercial and towing vehicles and interurban vehicles to simplify the rating approach for physical damage coverages. Echelon proposed to reconfigure the table to use Vehicle Age and List Price New factors instead of Model Year and List Price New. By switching to the use of Vehicle Age, the table becomes generic and will not require changes in future years. The IAO table stops at the equivalent of 19 years old, and Echelon will use the same differentials for all vehicles aged 19 years or more.

[22] Echelon notes that use of the modified Table 2 for all vehicles will produce lower average rate groups and lower premiums overall. Board staff recommend the Board approve the proposed changes to generic vehicle age and list price in the modified version of Table 2. The Board agrees with this recommendation.

Endorsements

[23] Echelon proposed to modify its endorsement offerings. The company will remove its NSEF #28 – Reduction of Coverage as respects Operation by Named

Person(s) endorsement. The company has no current customers with this endorsement and will not offer the endorsement going forward. Echelon will offer NSEF#28A Excluded Driver Endorsement, which removes coverage for the excluded persons named in the endorsement.

[24] The company proposes to add two standard endorsements required for towing vehicles, including NSEF #9 – Marine Use Excluded Endorsement (Amphibious Automobiles) and NSEF #25 – Alteration Endorsement. Echelon also proposes to add five non-standard endorsements for towing vehicles. The Superintendent of Insurance approved the wording of these endorsements in 2017, but the company did not introduce them at that time. Echelon proposes to introduce the previously approved versions of the following endorsements:

- *ENS 20A – Loss of Use – Travel Costs (Broad Form)* is available to heavy commercial vehicles only for a set premium.
- *ENS 20G – Loss of Use – Travel Expenses or Loss of Income (Broad Form)* is also available to heavy commercial vehicles only and provides coverage up to a per occurrence limit. The premium is based on the All Perils deductible, driving record, and vehicle class.
- *ENS 109 – Interest Deleted* removes the insurable interest from the specified vehicle when a lessor or lienholder interest is deleted. Echelon will not charge for this endorsement.
- *ENS 110 – Per Occurrence Deductible* ensures that where multiple claims from different coverages arise from a single occurrence, only one deductible will apply. The company does not charge for this endorsement.

[25] Echelon provided the endorsement wording and the approval letter from the Superintendent for the non-standard offerings. Board staff recommended the Board approve the proposed modifications to the endorsement offerings. The Board agrees.

Automobile Insurance Manual

[26] Echelon provided two manuals with the application. One covers commercial vehicles, including interurban vehicles. The second manual is a new manual for towing vehicles only. Echelon explained it prefers to keep towing vehicles separate from the commercial vehicles to allow for differences in discounts and rating variables.

[27] Board staff reviewed both manuals and raised certain concerns with Echelon. The company submitted a revised version of each manual. Board staff reviewed the revised manuals and did not find any instances where the manuals appear to violate the *Act* or its regulations. Echelon must file an electronic version of both manuals within 30 days of the issue of the Order in this matter.

III SUMMARY

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

[29] The company provided support for its proposal to modify its rates and risk-classification system for commercial and towing vehicles by adopting the approved IAO rates and risk classification system, with modifications. Echelon also provided support for its proposal to maintain its rates equivalent to the last approved rates for IAO for interurban vehicles. As it has in the past, the Board will allow these approaches for Echelon to fulfill the requirements of a mandatory filing.

[30] The Board finds the proposed changes to base rates for commercial and towing vehicles and the unchanged rates for interurban vehicles are just and reasonable and approves the effective date of May 1, 2023, for new business and July 1, 2023, for renewals for commercial and interurban vehicles. The Board accepts the proposed effective date of April 1, 2023, for towing vehicles.

[31] 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.

[32] The application qualifies to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations.* The Board resets the mandatory filing deadline to September 1, 2025, for commercial, interurban and towing vehicles.

[33] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 1st day of December, 2022.

Julia E. Clark