DECISION **2022 NSUARB 185**
M10788

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **AVIVA GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: November 1, 2022

DECISION DATE: **December 15, 2022**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Aviva General Insurance Company (Genco) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposes rate changes that vary by coverage and result in an overall increase of 5%. In addition to changes to rates, the company asks the Board to approve changes to its discounts and surcharges, its endorsements, its rate group table, and to its rating variables and their differentials. Genco also proposes to change its territory definitions and make changes to underwriting and rating rules. The company requests the use of a revised premium dislocation capping program which lowers the overall proposed increase from 5.0% to 4.6%.

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

II ANALYSIS

[3] Genco applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, the company received and responded to Information Requests (IRs) from Board staff. Board staff prepared a report to the Board with recommendations on the applications (Staff Report). Before providing the Staff Report to the Board, Board staff shared it with Genco. After sharing the original version of the report, Genco noted that it

learned it could vary updates of the Vehicle Description Table by province and that a new referral rule had not been addressed. Board staff modified the Staff Report based on this information. The revised report was shared with the company and they 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 use of elevated inflation factors warrants additional discussion. Board staff consider that Genco satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

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

- Proposed Rate Level Changes
- Territorial Definitions and Differentials
- CLEAR Table
- Changes to Rating Variables
- Responsibility Factor
- Discount Changes
- Conviction Surcharges
- Endorsement Changes
- Rating Rule and Underwriting Rule Changes
- Premium Dislocation Capping

Proposed Rate Level Changes

[6] Genco proposes an overall rate increase of 5%. The proposed increase is about two thirds of its indications.

Elevated Inflation Factor

[7] The company introduced an Elevated Inflation Factor in its indications. The purpose of this factor is to recognize the increased costs which the company is experiencing due to a high inflation environment. Costs have risen dramatically,

outpacing the growth in the Consumer Price Index, which Genco refers to as “inflation shock.” While the company used the loss trends from Oliver Wyman, the Board’s consulting actuaries, those trends do not capture inflation shock. Thus, the company included an adjustment to ultimate losses to capture future higher inflation.

[8] Board staff note that, in its report on loss trends based on data to the end of 2021, Oliver Wyman observed an adjustment in loss trends should be included due the current high inflation environment. Such an adjustment would be in addition to the normal allowance for inflation. Genco proposes such an approach and provided an explanation of the process to determine elevated inflation factors in responses to IRs.

[9] Board staff conclude that this approach appears reasonable and recommend that the Board permit the use of the elevated inflation factor in the indications. The Board accepts the recommendation, considering the observations of Oliver Wyman. Board staff, therefore, advise that the Genco indications should be used as the appropriate target to assess the reasonableness of the Genco proposal. *Comparison of Proposed Changes to Indicated Changes*

[10] For most coverages, the proposed rate changes produce lower rates than indicated. The exceptions were DCPD, Collision and SEF#44. For the first two, Genco chose to make no change given the indications were for small decreases.

[11] For SEF#44, Genco more than doubled the premium, while the indication was for a much smaller increase. The company notes the current Nova Scotia average premium is well below the level charged in Newfoundland and Labrador. The proposed increase aligns Genco’s Nova Scotia premium with that province. The industry average premium for SEF#44 is around $20 and Genco’s related companies, Aviva Insurance

Company of Canada (Aviva) and Traders General Insurance Company of Canada have a higher average premium. The proposed change puts the Genco average premium in line with the industry and its affiliates. The large percentage increase, therefore, seems reasonable.

[12] Genco proposed an overall increase that is below the indicated level. The company stated it chose to protect its customers from a large rate level change as it introduces the results of its model refresh. The refresh may change the competitiveness of the company's rates in several segments. Genco wants to see how the refreshed model behaves before taking larger increases.

[13] Genco estimated that the proposed rates would produce a return on equity of 8.02%, which is below the target of 10%. Genco is making a conscious decision to forgo some profitability for the benefit of its customers.

[14] Board staff recommend the Board approve the proposed rates for Genco. The Board agrees.

Territorial Definitions and Differentials

[15] To develop and review proposed territorial differentials, Genco conducted a generalized additive model (GAM) analysis. This analysis allowed the company to develop territorial indications for each territory and coverage. However, the company said that it chose instead to adopt the differentials directly from the GAM model, which it believes more accurately captures the territorial differentials. Rather than produce territorial base rates as the company has done in the past, it chose a provincial base rate to which the new territorial differentials will apply.

[16] The company also revised its territory definitions. Genco created simple loss cost models using driver and vehicle variables and then determined the difference between the predicted loss cost from these models and the actual loss cost for each exposure. Based on the postal code for the exposures, the company grouped regions of similar residual values to establish the proposed 15 contiguous territories. Board staff consider this a reasonable approach.

[17] Board staff recommend approval of the proposed territorial definitions, differentials, and the change to a provincial base rate. The Board accepts these recommendations.

CLEAR Table

[18] Genco currently uses the 2019 version of the CLEAR (AB Alberta & Atlantic) Combined (Coll & DCPD) table. It now proposes to adopt the CLEAR (AB Alberta & Atlantic) Collision, DCPD and Comprehensive Separated version of the 2022 CLEAR table. The company used its GAM model to produce rate group differentials, and thus the use of a separated DCPD and Collision rate group table allows fitting the data into the GAM model where Collision rate group tables were used.

[19] Genco included the impact of the table change and the new differentials when determining the off-balancing calculations for all the proposed risk classification changes.

[20] Board staff recommend approval of the adoption of the 2022 CLEAR table version as proposed, as well as the proposed new rate group differentials. The Board accepts the Board staff recommendation.

Changes to Rating Variables

[21] Genco undertook a GAM analysis of five years of data for the Atlantic Provinces for the Aviva-related companies. The model included a province control variable to remove any differences between the four provinces. Based on the analysis, the company changed the differentials for the following rating variables:

- Deductibles;
- Driving Record;
- Driving Gender;
- Limit;
- Rate Group;
- Responsibility Factor;
- Territory;
- Vehicle Age; and
- Years Licensed.

[22] Because the GAM analysis suggested other variables reflecting vehicle features provided more predictive power over and above the CLEAR table, the company proposed to introduce the following new rating variables:

- Anti-lock Braking System;
- Brake Assist;
- Curb Weight;
- Drive Train;
- Engine Cylinder;
- Engine Displacement;
- Lane Assist;
- Make Region;
- Price;
- Wheelbase; and,
- Years Since Last at Fault.

[23] Further, new variables related to driver characteristics are proposed:

- Annual KM;
- Commute KM;

- Driver Role Type;
- Urban Rural;
- Vehicle Use; and
- Years Owned.

[24] Genco selected new variables after conducting a robust analysis of the statistical significance of each variable. Once the decision was made to include the variable, the company selected differentials which were the same as those indicated by the modelling with a number of deviations which either restricted or modified the application of the variables. The company off-balanced the impact of the changes to the variables to make them revenue-neutral.

[25] The changes to differentials for the Responsibility Factor are discussed below. Board staff recommend the acceptance of the other proposed changes to the existing variables, as well as the introduction of the new variables and their associated differentials.

Responsibility Factor

[26] Genco, like many insurers operating in Nova Scotia, has received approval for the use of a credit-based rating variable. Credit score can only be obtained with the consent of the customer. The company calls the variable the Responsibility Factor. In this application, the company proposes to change the differentials based on their GAM analysis model.

[27] Currently, the differentials provide a small discount to any insured who consents to the collection of credit score data and a credit score is found. The differentials are tiered so that higher discounts apply to those with better credit scores.

[28] Instead of grouping values for the Responsibility Factor into bands with a single discount value, the company proposes a differential for each Responsibility Factor

value. The basic discount where a client consents to collection of the data will, however, be smaller. The company estimated the rate at which clients would consent to credit-scoring. The company used the current distribution and this estimate to develop an estimated distribution of Responsibility Factors. Genco then used this data to determine the impact of the changes to the differentials and off balanced the proposed changes. The impact to be off-balanced is a reduction for all coverages, excluding SEF#44.

[29] The Board accepts the recommendation of Board staff to approve the proposed changes to the Responsibility Factor.

Discount Changes

[30] The company proposes to change several of its current discounts. The discounts for Autonomous Emergency Braking System and Short Commute are no longer needed as they are replaced by new rating variables. The removal of the Loyalty discount aligns Genco with its sister companies, Aviva and Traders.

[31] The company proposes replacing the current Green Vehicle Discount which applies to all hybrid vehicles with two separate discounts, one for electric vehicles, and the other for hybrid vehicles. The Electric Vehicle discount is twice the percentage of the Hybrid Vehicle discount, which the companies explain by stating that electric vehicles are known to be more fuel and energy efficient. The company says that the discounts align their rating program with federal government programs and Genco's own net-zero strategy.

[32] The company also proposes to modify the Multi-Vehicle Discount by varying the discount by coverage rather than using the same discount for all coverages. The company based the change, which sees the discount increased, on the GAM analysis.

[33] Board staff say that all the changes in the discount offerings of the company have been supported, and recommend their approval, including any associated off balancing. The Board accepts the recommendation.

Conviction Surcharges

[34] Currently Genco applies surcharges for minor, major and serious convictions. For major convictions the company will apply a 25% surcharge for the first conviction and add 25% for each additional one. No change is proposed for serious convictions. The Board understands that the company declines risks with more convictions than it is willing to underwrite.

[35] Board staff advise that the proposal is the same as one recently approved in New Brunswick and the surcharges are like those of other insurers in Nova Scotia. The company will off-balance the impact of the changes to make them revenue neutral. The Board accepts the recommendation of Board staff to approve the proposed surcharge changes.

Claims Surcharge

[36] Genco applies a surcharge for chargeable or at-fault claims in the past six years. The surcharge starts with the first such claim and increase for each subsequent claim. Genco proposed to change its surcharge to match that used by its sister companies. Board staff recommended approval of the change and the Board approves it.

Endorsement Changes

[37] The company proposes changes to several endorsements they currently offer.

[38] The company proposes a change to the eligibility criteria for the NSEF#43R and NSEF#43L endorsements – Limited Waiver of Depreciation. Genco will lower the eligible rate group limit from under 64 to under 55. The change aligns Genco with its offering in other Atlantic provinces and with Aviva and Traders.

[39] Genco uses NSEF#16 - Agreement for Suspension of Coverage and NSEF#17- Reinstatement of Coverage to allow a client to temporarily suspend coverages (other than Comprehensive and Specified Perils). During the pandemic, Genco allowed suspension for as few as 15 days but will now return the minimum suspension level to 60 days. Genco will also change how a refund of premium for the period of suspension is processed.

[40] Genco will also change the premium charged for NSEF#6A - Permission to Carry Passengers for Compensation. For one to three passengers, the premium is 10% of the Third-Party Liability (Bodily Injury, PD-Tort and DCPD). For four or more passengers, the policy must be referred to Genco before binding. Currently, a surcharge would apply. The proposal removes the surcharge for four or more passengers, leaving the premium the same as the premium for one to three passenger risks.

[41] Genco included the impacts of these changes, if any, in the total impact that was off-balanced to make the changes revenue-neutral.

[42] Finally, to prepare for the vehicle sharing economy, Genco proposed the introduction of the non-standard endorsement, VSH-Permission to Participate in a Vehicle Sharing System. This endorsement removes the specific exclusion of renting the vehicle under the policy. The removal of this exclusion would allow for short-term rentals of the vehicle when used as a “Vehicle Share Automobile” under a vehicle sharing network

deemed acceptable to Genco. Turo is the only acceptable company. Turo provides insurance coverage during the “Delivery Period” and the “Rental Period.” The Genco endorsement wording is the same as that used by Aviva, which the Superintendent approved for use for all companies under the Aviva Group. Genco will charge the same $30 premium for the endorsement that Aviva does.

[43] Board staff recommend the approval of the changes as proposed, together with the off-balancing and the Board accepts the recommendation.

Rating Algorithm

[44] Genco proposed changes to its rating algorithm to reflect the changes noted above. Board staff recommend the Board approve the proposed changes to the rating algorithm. The Board accepts the recommendation.

Reclassification of Distracted Driving Convictions

[45] Genco currently treats distracted driving convictions as minor convictions and is proposing to treat these convictions as major convictions. The Board approved such a change for many other companies.

[46] Board staff recommend the Board approve reclassification of distracted driving convictions. The Board accepts this recommendation.

Premium Dislocation Capping

[47] Genco currently has a renewal premium dislocation capping mechanism approved by the Board, which limits renewal premium increases to 25%. The company proposed a new renewal premium dislocation capping structure that introduces a negative cap which caps the premium decreases at renewal and varies the positive and negative cap based on the uncapped dislocation that a client will see.

[48] The negative cap meets the criteria established by the Board, which requires the income foregone from the cap on renewal premium increases (i.e., positive cap) to exceed the additional revenue collected under the negative cap. Genco expects that the cap will be in place, on average, for two years before the policyholders reach their true premium.

[49] Board staff recommend approval of the changes to the renewal premium dislocation capping mechanism, and the Board accepts this recommendation.

III SUMMARY

[50] The Board finds that the applications follow the *Act* and *Regulations*, as well as the *Rate Filing Requirements*.

[51] The Board finds the proposed rates for Genco are just and reasonable, and approves the changes effective July 1, 2023, for both new business and renewal business.

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

[53] The Board approves the proposed changes to territory definitions and differentials; adoption of the 2022 version of a Canadian Loss Experience Automobile Rating (CLEAR) table; changes to rating variables and associated differentials; removal of certain discounts; changes to minor and serious conviction surcharges; endorsement changes; changes to the rating algorithm; rating and underwriting rule changes; changes

to their credit-based rating variable, called the Responsibility Factor; and, changes to the renewal premium dislocation capping mechanism.

[54] The changes to the rating algorithm, which the Board approves, reflect all changes, other than base rates and rating and underwriting rules, approved in this decision.

[55] The application qualifies to set a new mandatory filing date for the company under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The new mandatory filing date for private passenger vehicles is October 1, 2025.

[56] Board staff reviewed the 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.

[57] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 15th day of December 2022.

Jennifer L. Nicholson