DECISION **2024 NSUARB 185**
M11869

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 (GENCO)** for approval to change its rates and risk-classification system for private passenger vehicles

BEFORE: M. Kathleen McManus, K.C., Ph.D., Member

APPLICANT: **AVIVA GENERAL INSURANCE COMPANY (GENCO)**

FINAL SUBMISSIONS: October 21, 2024

DECISION DATE: **November 14, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On September 3, 2024, 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 8.0%. In addition to changes to rates, the company also seeks to: adopt the 2024 version of the Canadian Loss Experience Automobile Rating (Alberta and Atlantic Canada) (CLEAR) Table; change differentials for its rating variable, Years Licensed; introduce a High Theft Vehicle Surcharge and Theft Recovery Device Discount; make changes to underwriting and rating rules; and, modify its renewal premium dislocation capping structure.

[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 Genco's application meets these requirements and approves the company's proposed rates and risk-classification system. The Board also approves: the adoption of the 2024 CLEAR Table; the changes to rating variable, Years Licensed; the introduction of a High Theft Vehicle Surcharge and Theft Recovery Device Discount; the changes to underwriting and rating rules; and the changes to the renewal premium dislocation capping structure.

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, Genco received and responded to Information Requests (IRs) from Board

staff. As part of its response to the IRs, Genco revised its application about proposed changes to the renewal premium dislocation capping. 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 Genco. The company reviewed the report and informed Board staff that it agreed with the recommendations but for some errors it identified. Board staff corrected these errors in the Staff Report.

[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 certain issues. Board staff considers 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:

- Loss trends;
- Credibility standards;
- Proposed rate changes;
- Adoption of 2024 CLEAR Table;
- Change to Rating Variable: Years Licensed;
- Adoption of High Theft Vehicle Surcharge and Theft Recovery Device Discount;
- Changes to underwriting and rating rules; and,
- Changes to Renewal Premium Dislocation Capping Mechanism.

Loss Trends Including the Elevated Inflation Factor

[6] In its recent report for loss trends based on data through June 2023, Oliver Wyman, the Board's consulting actuaries, noted that with the current high inflation environment, an adjustment for above-normal inflation should be considered when selecting loss trends. Also, to recognize the spike in costs in the second half of 2021, Oliver Wyman suggested the inclusion of one-time severity shocks in the second half of 2021 of 11.3%, 8.9% and 14.0% for Direct Compensation Property Damage (DCPD), Collision, and Comprehensive, respectively. That is, while Oliver Wyman trends reflect

the normal inflation, the companies should provide an adjustment for any expected future inflation above this level, as well as the recent spike.

[7] In its last major application, Genco introduced an Elevated Inflation factor into its indication model to recognize that it is experiencing increased costs due to the high inflation environment. Costs have risen dramatically recently, with the pace of the growth exceeding the normal average consumer price index (CPI) growth. The company refers to the excess of the actual realized CPI and the normal average CPI as inflation shock. Because the Oliver Wyman loss trends do not capture this inflation shock factor, the company included an adjustment to ultimate losses to capture this forward-looking higher inflation. The company stated its approach accounts for the higher severity suggested by Oliver Wyman, thus its method recognizes the concerns regarding inflation.

[8] Genco made its own selections regarding loss trends. When the indications using those values are compared to those of Oliver Wyman's selections (ignoring the severity adjustment as Genco already accounts for it in its approach), the overall indications both produce similar indicated increases.

[9] Board staff recommends the Board allow the use of the Genco loss trends and elevated inflation factor adjustments in the calculation of its indicated rate level needs. The Board agrees.

Credibility Standards

[10] When determining how much weight to apply to its own experience when developing indicated rate level needs, Genco compares its number of claims to a standard level, which varies by coverage (i.e., longer tail liabilities require more claims to be fully credible) and then takes the square root of that ratio. If the company has more

claims than the standard, the data is fully credible. If the ratio is lower than one, the company data is not fully credible, and the company must find a complement to assign the remaining credibility.

[11] For the complement of credibility, Genco took the permissible loss ratio from the previous full filing and adjusted it for net trend and for the remaining excess indication after recognizing the Board approved rates changes in the previous filing and a subsequent expedited approval application. The company observed a significant gap between its own experienced-based loss ratio (pre-credibility loss ratio) and the complement of credibility loss ratio. In most years, the pre-credibility loss ratio is much higher than the complement loss ratio. Genco suggests this continued gap shows the complement also responds to emerging experience. The company further believes that updating its indications for regulatory purposes places further strain on the gap. Genco noted that while it files every two years, the company does develop indications more frequently. The informal indications demonstrate the gap continues to widen.

[12] Genco suggested that to close the gap more quickly, a one-time change to the credibility calculation should be used. That is, the company wishes to assign more credibility to its own experience and less on the complement to more quickly respond to the experience observed. To do so, Genco increased the credibility assigned to its longer tail coverages. The company expects this change to be a one-time only adjustment.

[13] The concept of credibility is designed so that the proper weight is assigned to the company's own experience, with the remainder applied to the selected complement. Genco wants to assign more weight to its own data to close the gap faster. While the company files every two years, nothing prevents the company filing more often,

except for the resources it requires to prepare a filing. Genco could file more frequently to respond more quickly to its own experience. While that may not close the gap as fast as this proposal would, it is an option more in line with standard credibility theory.

[14] Board staff asked Genco to provide some academic literature to support the assigning of more credibility to its own data. While the company did not provide any literature, Genco explained that the underlying concept of its proposed method assumes it would submit a mandatory filing every two years, and in between each mandatory filing, it would file an expedited (Section 155H) application or a Section 155G application using residual indication. However, the expedited filing, on top of the update for net trend, would also see the indication use an updated complement. Genco believes the increase in weight assigned to its own data in this filing is a mathematical equivalent of this process.

[15] If the company used the standard credibility approach, the indications would be for a slightly smaller increase of 6.88% than the Genco indications produce. Clearly, the new method does result in a larger move towards the results the pre-credibility experience would produce.

[16] Given the result is not that different, and without endorsing the approach used by Genco, Board staff recommends the Board accept the proposed credibility approach in the circumstances of this application only. The Board agrees but notes that it may not allow this approach in future filings as Genco can file more frequently than every two years and this one-time adjustment should help close the gap.

<u>Comparison of Proposed Rates to Indicated Rates</u>

[17] For all coverages except Accident Benefits and Family Protection Endorsement (SEF#44) and Collision, the proposed rate changes produce lower rates

than indicated. For SEF#44, Genco proposed no change despite the indication of a larger decrease. The company's average premium is at the industry average level and the reduction, as indicated, would therefore not seem prudent. Genco also proposed no change for Collision despite the indication of a reduction. The company explained it targeted an 8% overall change and opted to leave the Collision rates unchanged. This approach creates a small cross-subsidy. However, given the vast majority of risks carry Collision, the impact is minimized.

[18] Genco proposed an overall increase that is below the indicated level. The company stated it chose not to take the full indication after considering how best to strengthen customer loyalty and retention, maintain competitiveness, and focus on long-term growth. The company chose to sacrifice some profitability for the benefit of its customers. Genco estimated the proposed rates would produce a return on equity of 8.39%, which is below the Board's target of 10%.

[19] Board staff recommends the Board approve the proposed rates for Genco. The Board agrees.

Canadian Loss Experience Automobile Rating (CLEAR) Table

[20] To assign rate groups for Collision and Comprehensive coverages, Genco currently uses the CLEAR (Alberta & Atlantic) Collision, DCPD and Comprehensive Separated version of the 2022 CLEAR table. The company proposed the adoption of the 2024 version of this table. Genco included the impact of the table change when determining the off-balancing calculations for all the proposed risk-classification changes.

[21] Board staff recommends the Board approve the proposed adoption of the 2024 CLEAR (Alberta & Atlantic Canada) Collision, DCPD and Comprehensive Separated table. The Board agrees.

Change to Rating Variable: Years Licensed

[22] In its last application, Genco increased its differentials for drivers with 0-4 Years Licensed. Genco made that decision based on its competitive position and its appetite for those risks. The change impacted both principal and occasional operators. The company observed that the change resulted in occasional operator premiums that exceed principal operator premiums. To have an occasional operator, there must be a principal operator on the policy and Genco felt the premiums for the occasional operator were too high. To address the concerns, the company proposed to reduce the occasional operator differentials to remove half of the previously approved increase. Principal operator differentials will not change.

[23] Genco included the impact of this change when determining the off-balancing calculations for all the proposed risk-classification changes.

[24] Board staff recommends the Board accept the proposed changes to Years Licensed differentials. The Board agrees.

Adoption of High Theft Vehicle Surcharge and Theft Recovery Device Discount

[25] Genco observed that car thefts are on the rise. While the Atlantic provinces have not experienced the full extent of the trend in increased car thefts observed in Ontario and Quebec, as governments take efforts to reduce auto theft in those provinces, there is an expectation that car thieves will refocus their efforts in the Atlantic provinces. The company believes those higher car theft trends will eventually arrive here.

[26] Because auto theft claims experience in the Atlantic provinces is not fully credible or as robust, Genco relied on its analysis for Ontario to make its proposed changes, where the company noted that unrecovered theft losses grew rapidly in 2022. Those losses represent one-third of the company's total Comprehensive losses. In the Atlantic provinces, unrecovered theft loss was almost half of the total Comprehensive loss cost.

[27] Genco found vehicles that are targeted more frequently for theft experience have higher Comprehensive claims than other vehicles. Attempting to assign the proper premium to the risk posed, the company proposed the introduction of the High Theft Vehicle Surcharge.

[28] In Ontario, Genco identified a list of frequently stolen makes and models of vehicles. Vehicles on this list had auto theft loss costs that were nine times larger than vehicles not on the list. The frequency of claims for vehicles on that list was four times higher than vehicles not on the list. This evidence suggests a surcharge should apply to these vehicles.

[29] If a vehicle is on Genco's "frequently stolen" list, the company will apply a High Theft Vehicle surcharge. Genco used its Ontario surcharge level of $1,000. Genco justified its use in that province based on observed difference in Comprehensive theft loss costs between vehicles on the list and those not on the list. While the gap in Comprehensive loss costs in the Atlantic provinces is not as large, the company expects as auto theft increases here, the gap will widen quickly making the use of the Ontario surcharge prudent in Nova Scotia.

[30] The Insurance Bureau of Canada says Atlantic Canada is showing signs it will be the next hardest-hit region in the country for automobile theft. Automobile thefts have risen in Nova Scotia, most notably in Halifax where theft has risen 122% from 2018 through 2023. As well, a recent Equité Association auto theft trend report showed that automobile thefts in Ontario were 14% lower year over year for the first half of 2024. This reduction is attributed to the efforts made to crack-down on theft in that province. For the same period, however, automobile thefts rose 11% in Atlantic provinces. Left unchecked, Genco believes that the losses from automobile theft will continue to grow and that the gap in loss costs between vehicles on and not on the list of high theft vehicles will move quickly towards the Ontario level. The company submits that the circumstances in the Atlantic provinces justify the proposed surcharge.

[31] With the goal of reducing the risk of unrecoverable theft losses, Genco will waive the High Theft Vehicle surcharge if the insured has an approved vehicle recovery device installed. If the device is installed after the policy renews, the company will remove the surcharge for the remainder of the policy year and future renewals. The only Genco approved theft recovery device is KYCS Locate, a well-known theft recovery platform, which is available here in Nova Scotia. Genco provided information from Ontario that demonstrated the successful reduction in unrecoverable Comprehensive theft loss costs for vehicles using the KYCS device. The company expects to approve other programs (e.g., TAG) if those services become available here. However, until that time, KYCS is the only device whose installation will allow waiver of the surcharge.

[32] Genco also proposes to introduce a Theft Recovery Device Discount. For vehicles with an Genco-approved theft recovery device installed (i.e., KYCS), a 20%

discount will apply to the Comprehensive premium. The device must be professionally installed in the vehicle and activated to receive the discount. The discount will apply for three policy terms.

[33] The company provided an initial list of the high theft vehicles and outlined how the list will be maintained and updated. The company will monitor trends in conjunction with its partnership with a company that examines auto thefts. This monitoring will allow Genco to review which vehicles are seeing increased theft trends and proactively update its high theft vehicle list. The expectation in Ontario is for an update every six months, but this could change as the need demands.

[34] Board staff recommends the Board approve the proposed list of high theft vehicles and the process to update that list, as well as the proposed introduction of the High Theft Vehicle Surcharge and the Theft Recovery Device Discount. The Board agrees.

Changes to Underwriting and Rating Rules

[35] Genco proposed changes to its underwriting and rating rules, including some endorsement rule changes. Three rules about declining coverage will change. The first change will remove the level 3 automated vehicle restriction. That is, the company will now only decline level 4 and 5 automated vehicles. The company is willing to now write the level 3 automated vehicles. The second will decline price-rated and/or vehicles valued $150,000 or more that have no compulsory liability or Accident Benefits coverage. Instead, Genco will require such a vehicle to use NSEF#16 – Agreement for Suspension of Coverage endorsement and NSEF#17 – Reinstatement of Coverage endorsement to temporarily remove all coverages except Comprehensive or Specified Perils. The final

change introduces a new rule that will decline a vehicle that has NSEF#19 – Limitation of Amount endorsement if the required documentation (e.g., professional appraisal) has not been provided. The company notes no existing policies would be impacted by the change.

[36] Genco will now require any price-rated vehicle to be referred to head office so that the proper underwriting of the vehicle can be done before the policy is written.

[37] The company will update the eligibility criteria for NSEF#16 to reflect that it must be used to remove coverage for price-rated vehicles and vehicles valued at more than $150,000. Genco will also clarify details on the use of NSEF#19 so that brokers use it properly. The company will change the eligibility criteria for NSEF#19A – Valued Automobile Endorsement that will require a private passenger vehicle to be over 48 months old to use the endorsement.

[38] Genco will also make High Theft Vehicles ineligible to have either the NSEF#43R – Limited Waiver of Depreciation or NSEF#49R(L) – Limited Waiver of Depreciation (Specified Lessee) endorsement, unless the vehicle has a Genco approved theft recovery device (i.e., KYCS) installed and the vehicle is within two model years including the current year. While the company has some vehicles that would be impacted by this change, the company will offer these existing risks the opportunity to have the device installed free of charge.

[39] Genco will retire NSEF#36 - Commercial Automobiles Used Exclusively for Pleasure endorsement. The company explained the endorsement is outdated, and it does not fit what Genco believes are acceptable risks. No existing vehicles have the endorsement.

[40] Finally, Genco will remove Speeding 45+ kilometres per hour over the limit as a Major conviction. In its place, the company will add Speeding 50+ kilometres per hour over the limit as a Serious/Criminal conviction. The surcharge for Serious convictions is much higher than the surcharge for Major convictions. The change will result in a significant jump in surcharge for those cases where the driver exceeded the speed limit by 50 or more kilometres per hour. Genco explained the Speeding 50+ kilometres over is the threshold where provinces consider the offence Stunting or Stunt Driving, which attracts higher financial penalties along with immediate suspension of driver's licence, and perhaps impounding of the vehicle. The company believes that the change better reflects the severity of the offence.

[41] In addition to the rule changes required to implement the High Theft Vehicle Surcharge and the Theft Recover Device Discount, the company made some rule changes for other discounts. Genco made changes to the Combined Policy Discount and the Multi-Vehicle Discount to clarify the intention of how they are to be used. That is, the company clarified that it will not combine policies for unrelated individuals or multiple named insureds where the Named Insured includes more than just the spouse or partner. While there may not be widespread confusion now, Genco believes the change will make sure the intent will be followed as new partnerships develop.

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

<u>Changes to Renewal Premium Dislocation Capping Mechanism</u>

[43] Genco currently uses a Board-approved premium dislocation capping mechanism that limits increases and decreases renewal. The company's renewal premium dislocation capping mechanism caps both premium increases (positive cap) and premium decreases (negative cap) at renewal. The size of the positive and negative cap varies based on the uncapped dislocation that a client will see.

[44] The proposal sought to remove the negative cap and change the limit on premium increases to 50%. That is, premium decreases and premium increases up to 50% will flow naturally. Only increases more than 50% will be reduced. This change allows reductions to flow through freely while taking more of the large percentage premium increases.

[45] Genco indicates that, on average, the cap will be in place for two years. A few insureds may need more time to reach their true premium. The company will revisit the mechanism in the next filing.

[46] Board staff recommends the Board approve the proposed premium dislocation capping structure. The Board agrees.

III SUMMARY

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

[48] The Board finds the proposed rates are just and reasonable, and approves the changes effective February 1, 2025, for new and renewal business.

[49] 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.

[50] 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 Genco for private passenger vehicles is September 1, 2026.

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

[52] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 14th day of November, 2024.

M. Kathleen McManus