DECISION **2024 NSUARB 186**
M11870

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **AVIVA INSURANCE COMPANY OF CANADA** 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 INSURANCE COMPANY OF CANADA**

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 (Aviva) 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 10.0%. 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) Collision, DCPD, and Comprehensive Separated Table; change differentials for its Years Licensed rating variable; the introduction of a High Theft Vehicle Surcharge and Theft Recovery Device Discount; make changes to underwriting and rating rules; and, remove its renewal premium dislocation capping mechanism.

[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 Aviva's application meets these requirements and approves the company's proposed rates. The Board also approves: the adoption of the 2024 CLEAR Table; the changes to the 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 removal of renewal premium dislocation capping.

II ANALYSIS

[3] Aviva applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Aviva 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 Aviva. 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 Aviva 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;
- 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,
- Removal of Renewal Premium Dislocation Capping.

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, Aviva 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] Aviva made its own selections regarding loss trends based on a combination of the industry benchmark (i.e., Oliver Wyman trends) and trends developed from its own data. When the indications using those values are compared to those of Oliver Wyman's selections (ignoring the severity adjustment as Aviva already accounts for it in its approach), the overall indications both produce indicated increases that are close in size.

[9] Board staff recommends the Board allow the use of the Aviva loss trends and elevated inflation factor adjustments in the calculation of its indicated rate level needs. The Board agrees and will use the Aviva indications as the appropriate target to assess the reasonableness of the company's proposal.

Comparison of Proposed Rates to Indicated Rates

[10] For most coverages, the proposed rate changes produce lower rates than indicated. The exception was Uninsured Automobile where the company proposed no change despite indications for a small decrease. Aviva estimated that the proposed rates

would produce a return on equity well below the Board's target of 10%. 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. Aviva wants to see how the refreshed model behaves before taking larger increases.

[11] Board staff recommends the Board approve the proposed rates for Aviva. The Board agrees.

Adoption of 2024 CLEAR Table

[12] To assign rate groups for Collision and Comprehensive coverages, Aviva 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. Aviva included the impact of the table change when determining the off-balancing calculations for all the proposed risk-classification changes.

[13] 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

[14] In its last application, Aviva increased its differentials for drivers with 0-4 Years Licensed. Aviva made that decision based on its competitive position and its willingness to insure these 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 Aviva 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.

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

[16] 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

[17] Aviva 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.

[18] Because auto theft claims experience in the Atlantic provinces is not fully credible or as robust, Aviva 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.

[19] Aviva 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.

[20] In Ontario, Aviva 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.

[21] If a vehicle is on Aviva's "frequently stolen" list, the company will apply a High Theft Vehicle surcharge. Aviva used its Ontario surcharge level of $1,000. Aviva 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.

[22] 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, Aviva 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.

[23] With the goal of reducing the risk of unrecoverable theft losses, Aviva 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 Aviva approved theft recovery device is KYCS Locate, a well-known theft recovery platform, which is available here in Nova Scotia. Aviva 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.

[24] Aviva also proposes to introduce a Theft Recovery Device Discount. For vehicles with an Aviva-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.

[25] 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 Aviva 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.

[26] 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

[27] Aviva proposed changes to its underwriting and rating rules, including some endorsement rule changes. Four 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 change is the addition of a rule that will decline price-rated and/or vehicles valued $150,000 or more that have no compulsory liability or Accident Benefits coverage. Instead, Aviva 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 third 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. The final change is a new rule that will see Aviva decline a risk for optional physical damage coverage if there is unrepaired damage to the vehicle. The company does not want to extend damage coverage to existing damage.

[28] Aviva 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. As well, the company will require referral to head office before writing any risk requiring NSEF#19 or NSEF#19A – Valued Automobile Endorsement.

[29] 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. Aviva 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 that will require a private passenger vehicle to be over 48 months old to use the endorsement.

[30] Aviva 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 an Aviva 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.

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

[32] 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.

Removal of Renewal Premium Dislocation Capping

[33] Aviva currently uses a Board-approved renewal premium dislocation capping mechanism that limits increases and decreases renewal. The company proposes to remove this mechanism and let renewals occur using the true premium.

[34] Board staff recommends the Board approve the removal of renewal premium dislocation capping for Aviva. The Board agrees.

III SUMMARY

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

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

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

[38] 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 Aviva for private passenger vehicles is September 1, 2026.

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

[40] An Order will issue accordingly.

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

M. Kathleen McManus