DECISION **2024 NSUARB 51**
M11522

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **CAA INSURANCE COMPANY**

FINAL SUBMISSIONS: February 5, 2024

DECISION DATE: **March 14, 2024**

DECISION: **Application is approved**

I INTRODUCTION

[1] CAA Insurance Company (CAA) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles.

[2] CAA proposes rate changes that vary by coverage and territory and result in an overall increase of 9.6%. CAA based this proposal on indications for a much larger overall combined increase. In addition to changes to rates, CAA proposed to adopt the 2024 Canadian Loss Experience Automobile Rating (CLEAR) table to assign rate groups for physical damage coverages. CAA will also modify its vehicle rate group table differentials and its Loyalty Discount. CAA off-balanced the impacts of these other changes to make them revenue-neutral.

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

II ANALYSIS

[4] CAA applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, CAA 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

CAA. The company reviewed the report and informed Board staff that it had no further comments.

[5] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested that the Board further review CAA's loss trends and expenses, specifically the Health Services Levy. Board staff consider that CAA satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

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

- Calculation of Indicated Rate Level Changes
    - Loss trends
    - Expense provisions, including Unallocated Loss Adjustment Expenses
- Proposed Rate Changes
- Changes to Territorial Differentials
- Adoption of the 2024 CLEAR Table
- Vehicle Rate Group Differentials
- Changes to Loyalty Discount

Calculation of Indicated Rate Level Changes

Loss Trends

[7] CAA adopted the loss trends selected by the Board's consulting actuaries, Oliver Wyman, as outlined in Oliver Wyman's report based on data through December 2022. The company did not conduct its own actuarial analysis. It justified this on the basis that CAA has experienced significant growth recently, but the prior year's data was not credible enough to use in developing loss trends.

[8] In developing the selections, Oliver Wyman noted the recent increase in inflation. Rather than recognizing the heightened inflation in the loss trends, Oliver Wyman chose to include a scalar or level change parameter that would increase severity

for DCPD and Collision at 2021-2 by 9% and 10%, respectively. The trends selected by Oliver Wyman would then apply to the “shocked” claims.

[9] The Oliver Wyman Report includes a footnote stating that past loss trends include a one-time severity increase. CAA said that it interpreted that note to mean that the selected past trend already imbedded the inflation shock, so the company did not include this “severity shock” in its calculations. However, Board staff explained that inflation shock was meant to be added, in addition to selected loss trends. CAA noted that this change would increase indications by 1.1%.

[10] Despite the result being a small increase in the indications, Board Staff recommended the Board require CAA to include the “severity shock” at 2021-2 for DCPD and Collision when determining its indications.

Expenses

[11] When developing its indications, CAA assumed a Health Service Levy of $32.69, as reported by the General Insurance Statistical Agency (GISA) in its 2022 report. However, in response to Board staff’s questions, CAA noted the 2023 invoiced levy was $42.70. If CAA used the 2023 levy in the indications, the indications would increase by 1.1%. Board staff recommended the Board require CAA to use the 2023 invoiced Health Service Levy when developing its indicated rate level.

Staff Indications

[12] The Staff Indications use CAA’s assumptions, except for the inclusion of the Oliver Wyman “severity shock” for DCPD and Collision, and the use of the 2023 invoiced level for Health Services Levy.

[13] The overall increase under the Staff indications would be 2.2% higher than the CAA-indicated increase. The Board will assess the company's proposal against the Staff Indications, which include Oliver Wyman's "severity shock" for DCPD and Collision and use the 2023 invoiced level for the Health Services Levy.

Proposed Rates Changes

[14] CAA proposed increases for Bodily Injury, Collision and Comprehensive that are below indicated levels. CAA proposed no changes for other coverages. The overall proposed increase of 9.6% was well below the Staff-indicated change. CAA said it proposed smaller changes than indicated, to maintain rate stability, avoid the fluctuations that could occur if it took full indications every filing, and reduce the dislocation impact of the rate increase on its clients.

[15] CAA proposed no changes to DCPD, Accident Benefits, Uninsured Automobile and Family Protection Endorsement (SEF#44). This choice results in higher rates than indicated for these coverages. Because these coverages are mandatory and the proposal for Bodily Injury (another mandatory coverage) is for a rate increase below indications, the change for mandatory coverages combined is well below the indicated level. As such, the Board need not intervene to address these individual coverages.

[16] Because the proposal results in rates below the Staff-indicated level, CAA's proposed return on equity will be below the assumed 10%, which is the low end of the Board's target range for reasonable returns. CAA estimates the proposed rates would produce a return on equity of -2.4% under the Staff assumptions.

[17] The Board finds the proposed changes to base rates will result in rates that are just and reasonable and approves them.

Other Proposed Changes

Territorial Differentials

[18] CAA analyzed its territorial differentials to determine whether changes were indicated. CAA proposed modifications to its differentials that generally followed the indications but capped the magnitude of the proposed change to limit premium dislocation. The cap varied by coverage.

[19] The proposed changes to the differentials produced an overall increase. CAA off-balanced this increase through base rates to achieve the proposed overall rate change of 9.6%. The Board approves the proposed changes to territorial differentials and the resulting territorial base rates.

Adoption of the 2024 CLEAR Table

[20] CAA currently uses the 2023 CLEAR (Canada, Collision and DCPD Combined for Alberta & Atlantic Canada) table to assign rate groups for physical damage coverages. CAA will adopt the 2024 version of this table, which the Board approved for use in Nova Scotia late last year.

[21] CAA off-balanced the impact of the implementation of the new table to make the change revenue-neutral. Board staff recommends the proposed adoption of the 2024 CLEAR table. The Board agrees.

Vehicle Rate Group Differentials

[22] Rather than using the CLEAR differentials, CAA uses its own vehicle rate group differentials when determining physical damage coverage premiums. The company grouped its vehicle rate groups into bands so that each band had a similar number of exposures. CAA then determined the relativities of the ultimate loss ratios of the bands.

Using this information, the company identified an increasing trend for the DCPD and Collision differentials as the rate groups increase. Based on this analysis, the company increased the differentials for rate groups higher than a certain level by 5%. This adjustment is a partial move towards the indications revealed in the analysis.

[23] CAA off-balanced the impact of the vehicle rate group differential changes to make them revenue-neutral. Board staff recommended the Board approve the proposed vehicle rate group differentials and the Board agrees.

Loyalty Discount

[24] CAA offers a tiered Loyalty discount that varies based on the client's tenure with the company and the number of roadside assistance calls the client has requested. The current discount ranges from 10% to 20%.

[25] The company proposed to offer the Loyalty discount to its Everyday/A La Carte members. This membership level differs from other levels of membership because it only provides Bike Assist and not roadside assistance.

[26] To recognize the benefit differences and the lack of roadside assistance, CAA proposed a lower, flat-rate discount for its Everyday/A la Carte members. Board Staff recommends its approval. The proposal for the new discount level appears reasonable based on the benefit differences and Board approves it.

Automobile Insurance Manual Review

[27] CAA proposed one change to its automobile insurance manual beyond those required to reflect the changes approved in this decision. The company revised its decline coverage rule if a person demonstrates abusive behaviour towards CAA employees, agents, brokers, or authorized representatives. The change elaborates on

the type of behaviour that CAA considers abusive and gives more clarity about when CAA may use the decline rule. This rule would not violate one of the prohibited grounds for declining a risk.

[28] Board staff also reviewed the manual on file and found no areas where the company appears to violate the *Act* and *Regulations*. CAA must file an updated manual with the changes approved in this decision within 30 days of the Board's Order.

III SUMMARY

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

[30] The Board finds the proposed rates are just and reasonable, and approves the changes effective July 1, 2024, for new business and August 15, 2024, for renewal business.

[31] The financial information supplied by CAA 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 new mandatory filing date for CAA for private passenger vehicles is January 1, 2026.

[33] The company must file an electronic version of its Automobile Insurance Manual, updated for the changes approved in this decision, within 30 days of the issuance of Board's Order.

[34] An Order will issue accordingly.

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

Julia E. Clark