DECISION **2024 NSUARB 43**
M11529

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **CUMIS GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: February 22, 2024

DECISION DATE: **March 8, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] CUMIS General Insurance Company 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 18%.

[2] CUMIS also asks the Board to approve changes to territorial differentials, rating variables, endorsement offerings, and the adoption of the 2024 Canadian Loss Experience Automobile Rating (CLEAR) table. CUMIS also seeks changes to its underwriting and rating rules, including the reclassification of Distracted Driving convictions, and changes to its renewal premium dislocation cap.

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

II ANALYSIS

[4] CUMIS applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, CUMIS 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 CUMIS. The company reviewed the report and informed Board staff that it agreed with the recommendations and 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 CUMIS' profit provision. Board staff considers that CUMIS 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:

- Profit provision;
- Proposed rate changes;
- Changes to territorial differentials;
- Changes to rating variables;
- Changes to endorsements;
- Adoption of 2024 CLEAR table;
- Reclassification of Distracted Driving convictions;
- Changes to underwriting and rating rules; and,
- Changes to the premium dislocation cap.

Profit Provision

[7] The Rate Filing Requirements note that, in general, the Board finds a return on equity between 10% and 12% to be reasonable, assuming a premium-to-surplus ratio of 2:1. The Board also allows a return on premium approach to reflect profit and generally views a range of 5.5%-7% as reasonable.

[8] CUMIS proposed a target return on equity of 12% in its indications and a premium-to-surplus ratio consistent with prior filings to reflect profit in its rates. The resulting profit provision is 5.6% of premiums. This is lower than in CUMIS' last application because of a higher return on surplus assets assumption. Also, CUMIS changed the methodology used to produce the premium-to-surplus ratio to better reflect the company's economic capital model. The change better aligns the company's internal risk evaluation and internal capital target.

[9] In recent decisions approving rates for automobile insurance, the Board directed applicants to lower their target return on equity to 10%. The Board took this action because of a concern that the industry was earning returns exceeding the 12% the Board believed it was approving. This concern was based in part on information in financial reports released by the General Insurance Statistical Agency (GISA) in 2012 and 2013. The 2014 to 2019 GISA reports show negative returns on equity for the industry. The Board does not regard this as the result of it forcing companies to the lower end of their profit range. The negative returns are more likely because many companies are not increasing rates as much as their actuarial studies suggest they should, coupled with deteriorating experience. The Board continues to require a 10% return on equity for most companies, unless they can show a different treatment is warranted. The Board notes the 2020 to 2022 versions of the report show positive returns on equity, in part due to the impacts of the pandemic.

[10] In previous applications, the Board allowed CUMIS to use a 12% return on equity based on the information that the company provided demonstrating its experience differed from the industry. The financial information in this filing continues to show this result, with only two years showing a return of more than the target 12%, with one of those years being 2021, where the COVID-19 impact on driving experience likely contributed significantly to the higher profits. The return on equity results over the last five years switched annually from below 12% to above 12%, showing the returns have been quite volatile.

[11] During the information request process, the company provided tables comparing Nova Scotia's loss ratios and combined ratios to those for all of Canada. The

five-year loss ratio in Nova Scotia is much higher than the loss ratio observed for automobile insurance for the whole country. This result suggests the returns on equity may be even lower in Nova Scotia.

[12] Board staff noted CUMIS' results are different from the average industry results and that the company does not appear to have over earned. Board staff recommends the Board continue to allow the use of the 12% return on equity in the indications rather than replacing it with a 10% return on equity. The Board agrees.

Proposed Rate Changes

[13] CUMIS proposed changes to its current rates and risk-classification system that vary by coverage. The changes are uniform by territory and result in an overall rate level increase of 18%. CUMIS based the proposed changes on indications that suggest a higher all-coverage combined increase should be taken.

[14] The proposed rate changes follow the direction of the indications. Except for Uninsured Automobile and Family Protection Endorsement (SEF#44), CUMIS proposed changes in rates smaller than the indicated increase. For Uninsured Automobile and SEF#44, CUMIS proposed no change in rates, despite indications for a decrease. Given that CUMIS is taking lower indicated increases for other mandatory coverages, it is reasonable that it does not decrease its premium for Uninsured Automobile and SEF#44. The Board has concerns when a company does not take the full indicated increase in rates. CUMIS remains committed to a gradual approach to rate adequacy, without unduly impacting clients all at once.

[15] Board staff recommends the Board approve the proposed base rate changes. The Board agrees.

Changes to Territorial Differentials

[16] In this application, CUMIS conducted a generalized linear model (GLM) analysis that included its territorial differentials. This analysis differed from the methodology used in previous applications but is used by its sister company, Co-operators General Insurance Company. Using this analysis, CUMIS determined credibility weighted indicated changes for each of its territory differentials for those coverages where rates vary by territory. CUMIS proposed changes to the territorial differentials that followed the indications.

[17] While the results from the new methodology may differ from the indicated differentials produced using the previous methodology, the new method allows CUMIS to make fewer manual selections or groupings, simplifying the process for developing differentials.

[18] CUMIS determined the impact the territorial differential changes would have on the premium collected. CUMIS included this impact in the amount that the company off-balanced to make all the changes revenue-neutral by coverage, so that the total premium collected was not more than the proposed base rate changes would produce.

[19] Board staff recommends the Board approve the proposed territorial differentials. The Board agrees.

Changes to Rating Variables

[20] CUMIS also used the GLM analysis, discussed above, to determine the indicated differentials and proposed changes to these rating variables:

- Use;
- Exposure;
- Years Licensed/Gender Interaction;
- Years Licensed/Years Claims Free Interaction; and
- Insurance Score (CUMIS credit-based rating variable).

[21] The GLM analysis used combined data from January 2018 through April 2023 for CUMIS and its sister company, Co-operators General Insurance Company as well as COSECO Insurance Company, which is now part of Co-operators. CUMIS included information from all Atlantic provinces rather than relying solely on Nova Scotia data, which added more credibility to the results. CUMIS controlled concerns about provincial differences in coverage by including a "Province" control variable.

[22] CUMIS made a business decision to hold most discounts fixed at the current level in the GLM model. The company is comfortable that the modeling acts to make sure insureds will pay an adequate premium for the risk they pose. For the rating variables that it proposed to change, CUMIS stated:

- **Use**: the company made some structural changes to allow more segmentation for Bodily Injury & Property Damage and Collision. The company selected the indicated changes with some adjustments to maintain a logical progression from one group to the next;
- **Exposure**: the GLM analysis suggested this variable remained predictive for Collision and Comprehensive but not for Bodily Injury & Property Damage-Tort, and Direct Compensation Property Damage (DCPD). CUMIS removed the variable for Bodily Injury & Property Damage-Tort. For DCPD, CUMIS left the variable in while moving the differentials towards the indications. CUMIS made a minor change to the groupings used for this variable for Comprehensive. The dislocation

was minimal. The company adopted the model indications for differentials, capped so the changes did not exceed +/- 20%;

- **Years Licensed/Gender Interaction**: CUMIS continued its previous methodology that used splines, or curves, within the GLM analysis. The company creates separate splines for males and females and then uses these splines within its GLM model to produce differentials. The company capped the differential changes to -20% and +30% to limit dislocation and to keep a smooth progression between segments;
- **Years Claims Free**: CUMIS modelled the variable using curves for all coverages. The company selected differentials that matched the indications but capped the changes to -20% and +30% to reduce dislocation;
- **Years Licensed/Years Claims Free Interaction**: CUMIS observed that excluding the interaction between Years Licensed and Years Claims Free, caused the company to charge too much for claim-free drivers with little experience. CUMIS proposed to apply an adjustment factor when the Years Claims Free equaled the Years Licensed for claim-free drivers licensed for zero to five years. The adjustment serves to lower the rates for these drivers. The company then combined Years Licensed, Years Claims Free and this adjustment variable, to develop its Grid variable; and,
- **Insurance Score**: this variable is the company's credit-based rating variable, which may result in a discount for those customers who provide consent for CUMIS to do a credit check. CUMIS proposed changes to this variable that align generally with the GLM indications but made some adjustments to maintain a reasonable

progression. The company also made manual adjustments for those credit bands that do not rely on an explicit score (e.g., employees, non-consenters (i.e., no discount), no credit record found, etc.).

[23] CUMIS combined the impact of these rating variable changes with the impact of the territorial differential change and other changes, and off-balanced the total, by coverage, to make the combined changes revenue neutral.

[24] Board staff recommends the Board approve the proposed differential changes for all these variables. The Board agrees.

Changes to Endorsements

i) Changes to Pricing of NSEF#27 – Liability for Damage to Non-Owned Vehicles

[25] CUMIS proposed changes to its NSEF#27 – Legal Liability for Damage to Non-Owned Automobiles endorsement. This endorsement protects the insured against liability imposed by law or assumed by contract, for physical damage, to any automobile in their care, custody, or control. It applies only to vehicles the insured rents on a daily or short-term (30 days or less) basis.

[26] The company currently provides coverage up to $75,000 and proposes to increase the limit to $100,000. CUMIS also proposed to increase the premium from $40 to $85. The increase in premium exceeds the increase in coverage. When asked about this anomaly, CUMIS said that it based the proposed rate change on both competitive information and discussions with its business partners to understand the rate needs for this endorsement. CUMIS also wanted to align its premium with what Co-operators implemented last year.

[27] CUMIS also changed the price for its Physical Damage Extension Endorsement Package (PDE) because it includes the NSEF#27 endorsement. CUMIS proposed to increase its premium from $55 to $110. This increase exceeds the price increase for NSEF#27. CUMIS stated the goal was to harmonize with CUMIS and Co-operators prices for the bundles in other provinces as the lack of rates review led to Nova Scotia being underpriced.

[28] Board staff recommends the Board approve the proposed changes to NSEF#27 and the PDE endorsement bundle. The Board agrees.

ii) Addition of NSEF#1-45 – Restricted Permission to Drive for Insured Transportation Network

[29] CUMIS proposed the new endorsement NSEF#1-45 Restricted Permission to Drive for an Insured Transportation Network. This endorsement provides permission for an eligible listed operator to drive an insured vehicle for compensation using a Transportation Network Company (TNC) platform.

[30] The endorsement provides coverage under the policy, for the coverages included on the policy, while the driver has logged onto a TNC, for example UBER, for the purpose of providing transportation services while it has not accepted a ride request (Period 1). Any claims while the driver is heading to pick up a client (Period 2) or is transporting a client (Period 3) obtained from the TNC while logged onto the TNC application are covered by the overarching TNC policy (SPF#9).

[31] CUMIS stated this endorsement will close a gap for Period 1, by providing better coverage for those clients taking it. The company will offer the endorsement with no restrictions on type of vehicle or coverages carried on that vehicle. The coverages extended under the endorsement will only be those carried on the vehicle.

[32] The company believes the premium should vary in relation to the risk characteristics of the insured vehicle and driver. That is, an insured vehicle and driver that pose more risk to the company should pay a higher premium. To accomplish this goal, CUMIS will use a premium formula that sets the endorsement premium equal to 5% of the premiums for the coverages carried on the vehicle. Those premiums will vary with the risk posed by the insured vehicle and driver. Using a percentage will ensure the endorsement premium also varies in relation to the risk.

[33] The company did not have any historical claims experience upon which to base the selection of 5% for the endorsement premium. CUMIS relied on the limited competitor information it had to set this amount. The company will review the results once clients begin to carry the endorsement and will reassess the premium when sufficient data has been accumulated. The company expects only a minimal portion of its clients to take out this endorsement.

[34] Board Staff recommends the Board approve the proposed introduction of the NSEF#1-45 along with the premium formula. The Board agrees.

Adoption of 2024 CLEAR Table

[35] CUMIS currently uses the 2023 CLEAR table to assign rating groups for Accident Benefits and physical damage coverages. CUMIS uses the CLEAR (Canada, Collision, DCPD and Comprehensive Separated, for Alberta & Atlantic Canada) version. In this application, CUMIS proposed the adoption of the 2024 version of this table, which the Board recently approved for use. CUMIS combined the impact of the table change with the impact of the new variable introduction, and off-balanced the total to make the whole change revenue-neutral.

[36] Board staff recommends the Board approve the proposed adoption of the 2024 CLEAR table. The Board agrees.

Reclassification of Distracted Driving Convictions

[37] CUMIS Insurance Group currently classifies a conviction for Distracted Driving, that is, using a handheld/operated electronic/wireless device, as a Minor conviction. CUMIS proposes to reclassify such convictions from Minor to Major for all its vehicles. CUMIS may attract more risks with Distracted Driving convictions if it continues to treat the risk as Minor. CUMIS noted that moving the classification to Major conviction would be more consistent with the impact on claims experience observed for those clients with such convictions. CUMIS also notes that the Board has approved this reclassification for many other companies.

[38] For its existing policyholders, CUMIS will continue to treat Distracted Driving convictions that have already occurred as Minor. CUMIS will not increase premiums beyond the current level for those convictions, which are already considered in the rating. New Distracted Driving convictions for existing policyholders and such convictions for new business will be treated by CUMIS as Major convictions. Given that CUMIS will continue to treat existing Distracted Driving convictions for its current clients as Minor, there is no impact that needs to be off-balanced.

[39] Board staff recommends the Board approve the reclassification of Distracted Driving convictions from Minor to Major, including the treatment of existing convictions for its current policyholders as Minor. The Board agrees.

Changes to Underwriting and Rating Rules

[40] CUMIS proposed other changes to its underwriting and rating rules. First, the company will now accept vehicle values up to $150,000 instead of capping the limit at $100,000. CUMIS notes that vehicle values have increased, and it is common to see a vehicle valued at more than $100,000. The company wants to be able to write these higher-valued vehicles.

[41] CUMIS also proposed providing all international drivers with credit for driving experience and claims-free driving experience up to three years for driving and claims-free driving outside of Canada and the USA. CUMIS notes the change will allow the company to stay competitive within the industry. CUMIS believes the number of such clients will grow as demographic growth occurs and the company wants to be sensitive to people fleeing war or political upheaval.

[42] Board staff recommends that the Board approve the proposed changes to the underwriting and rating rules. The Board agrees.

Changes to Premium Dislocation Cap

[43] In its previous application, CUMIS received approval for a renewal premium dislocation capping mechanism that limited premium increases to 10% and premium decreases to 5%, at renewal. CUMIS proposed to increase the premium dislocation cap on renewal premium increases from +10% to +20%. That is, if the renewal premium results in an increase in excess of 20%, the cap acts to lower the increase to 20%. The cap that limits renewal premium decreases will change from 5% to 0%.

[44] CUMIS applies the cap on a per-vehicle basis. The cap will remain in place and apply as long as the renewal premium increases exceed 20%. Once the vehicle reaches its true premium; the cap is removed.

[45] The Board requires that the impact of negative capping on premium, that is limiting the reductions a policy should receive, must be less than or equal to the impact on premium of the positive capping. CUMIS has demonstrated that it complies with the Board requirement.

[46] Board staff recommends the Board approve the proposed changes to the premium dislocation cap. 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 that CUMIS' proposed rates and risk-classification system are just and reasonable, and approves the changes effective August 1, 2024, for new business and renewal business, the dates requested by CUMIS.

[49] The financial information supplied by CUMIS 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 CUMIS for private passenger vehicles is January 1, 2026.

[51] Board staff reviewed CUMIS's 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.

[52] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 8th day of March, 2024.

M. Kathleen McManus