DECISION **2024 NSUARB 52**
M11486

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **CO-OPERATORS GENERAL INSURANCE COMPANY**

FINAL SUBMISSIONS: January 25, 2024

DECISION DATE: **March 14, 2024**

DECISION: **Application is approved**

I INTRODUCTION

[1] Co-operators General Insurance Company (Co-operators) 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 territory, and result in an overall increase of 8.5%. Co-operators provided indications that suggest rates should increase, on an all-coverages combined basis, by a higher amount.

[2] In addition to changes to rates, the company also asks the Board to approve changes to several of its rating variables. The company proposed to update the previously approved Gradient Boosting Machine (GBM) model to reflect the 2023 Canadian Loss Experience Automobile Rating (CLEAR) table. In addition, Co-operators proposes some changes to its discounts and endorsement offerings, and modifications to its renewal premium dislocation Gap Factor capping mechanism.

[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 Co-operators' application meets these requirements and approves the company's proposed rates and risk-classification system with the changes requested.

II ANALYSIS

[4] Co-operators applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Co-operators 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 Co-operators. The company reviewed the report and informed Board staff that it agreed with the recommendations with only one comment related to the Gap Factor Capping approach.

[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 Co-operators' profit provision. Board staff consider that Co-operators 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;
- Proposed rates for Other Operators;
- Changes to Territorial Differentials;
- Changes to Existing Rating Variables;
- Update to 2023 CLEAR Table for GBM (Vehicle Differential Variable);
- Changes to Discounts;
- Changes to Endorsements; and
- Revisions to Renewal Premium Dislocation Gap Factor Capping.

<u>Profit Provision</u>

[7] Co-operators used a target return on equity of 12%, consistent with its most recent application. However, Co-operators changed how they 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. Coupled with the assumption for investment return on surplus, these assumptions produce a profit provision of 5.6% of premium.

[8] The Board grew concerned over the level of profit observed in the industry shown by the 2012 and 2013 General Insurance Statistical Agency (GISA) Financial Information Reports. The high returns arose despite the Board approving a return on equity of around 12%. To address this concern, the Board ordered some companies to lower the target return on equity to 10%.

[9] The 2014 to 2019 versions of the GISA report showed negative returns on equity for the industry. The Board believes this is due to many companies not taking full indicated rate changes along with deteriorating experience rather than the Board's direction that companies target the lower end of their profit range. The Board requires a 10% target return on equity unless the company can demonstrate it differs from the industry. 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 Co-operators to use a 12% return on equity based on the evidence demonstrating Co-operator's experience differed from the industry. The financial information in this filing continues to support this result, with only the years 2020-2022 showing a return of more than 12%. For these years, it is generally accepted that the COVID-19 pandemic's impact on driving experience contributed significantly to higher profits.

[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 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. The company demonstrated that its results are different than the

industry and the Board allows Co-operators' use of the 12% return on equity in this application.

[12] Based on this recommendation, the Board will use the Co-operators indications with no changes, as the target to assess whether the Co-operators proposal is reasonable.

Proposed Rate Changes

[13] Co-operators proposed increases for Bodily Injury, DCPD, Collision, and Comprehensive & Specified Perils, and no changes to other coverages. These proposed increases were in the direction of the Staff-indicated changes. For all coverages except Accident Benefits and Family Protection Endorsement (SEF#44) (where the company proposed no change despite indications for decreases), the proposed rates were lower than indicated. For Accident Benefits, the indications were for a very small decrease. Proposing no change to rates is reasonable in this circumstance. The indicated decrease for SEF#44 was larger; however, the company's average premium for this coverage is already below the industry average.

[14] The proposal for an overall all-coverages combined increase that is smaller than called for by the indications produces a return on equity of 7.0%, which is well below the allowed 12%. Co-operators noted that it selected the proposed rate level change to balance profitability and rate impact on its clients. The company will conduct further analysis in 2024 to determine if another rate increase is necessary.

[15] Co-operators supported its proposed changes, and Board staff recommended their approval. The Board approves the changes to base rates as proposed.

Proposed Rates for Other Operators

[16] Co-operators used the indicated rate changes for principal operators weighted by the other operators' premium by coverage to produce an indicated rate change for other vehicle operators. This approach, which is consistent with what the company has done in previous applications, produced an indicated 12.3% increase. The company selected a rate increase of slightly less than the indication for other (not principal) operators.

[17] The Board approves the proposed change to other operators' premiums.

Territorial Differentials

[18] Co-operators undertook a generalized linear model (GLM) analysis that included its territorial differentials. From this analysis, Co-operators determined credibility weighted indicated changes for each of its territory differentials for those coverages where rates vary by territory. Co-operators proposed changes to the territorial differentials that followed the indications.

[19] Co-operators determined the impact the territorial differential changes would have on the premium collected. Co-operators 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.

[20] Board staff recommended the Board approve the proposed territorial differentials. The Board agrees.

Changes to Existing Rating Variables

[21] As in its 2023 private passenger vehicle application (Board Matter M10970) Co-operators used the GLM analysis to determine the indicated differentials for these variables:

- Use;
- Exposure;
- Vehicle Age;
- Vehicle Age When Purchased;
- Body Style;
- Years Licensed/Gender Interaction;
- Non-Sufficient Funds;
- Number of Years as Owner of the Vehicle; and
- Insurance Score (Co-operators credit-based rating variable).

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

[23] Co-operators held most discounts fixed at the current level in the GLM model. The company is comfortable that the modelling ensures insureds will pay an adequate premium for the risk they pose while maintaining the discounts.

[24] For the Use variable, Co-operators made some structural changes to allow more segmentation for Bodily Injury & Property Damage and Collision. The company selected the indicated changes with some adjustments for rational transitions between the groups.

[25] For Exposure, the GLM suggested this variable remained predictive for Collision and Comprehensive. Co-operators made a minor change to the groupings used for Comprehensive. The dislocation was minimal. The company adopted differentials that align with the indications.

[26] For Vehicle Age, Co-operators proposed differentials aligned with the indicated level with some minor adjustments to keep the progression logical.

[27] For Vehicle Age When Purchased, the GLM suggested the variable was not predictive for Comprehensive, so the company opted to remove it. For Collision, Co-operators selected changes that followed the model's indications.

[28] The GLM model (Vehicle Differential Variable) now captures the predictive value that the Body Style variable once did for Bodily Injury & Property Damage. Co-operators made changes to fully remove it from the algorithm for this coverage (i.e., set differentials to 1.00). The variable remained predictive for Comprehensive and was maintained for that coverage. After making minor changes to groupings, Co-operators selected differentials that matched the indicated differentials.

[29] For the Years Licensed/Gender Interaction variable, Co-operators continued its previous methodology that used splines, or curves, within the GLM. Co-operators creates separate splines for males and females and then uses these curves within its GLM model to produce differentials. The company capped the differential changes to limit dislocation.

[30] In a previous filing, Co-operators removed its Years Claims Free variable and introduced its Bonus-Malus rating variable. Co-operators noted that the Bonus Malus is not as correlated with years licensed as the old Years Claims Free variable was. To

recognize this, Co-operators manually adjusted the differentials for years licensed 0-5 for DCPD and Collision to collect the same premium until the model fully reflects the introduction of the Bonus-Malus variable. The same adjustments were not required for Comprehensive as the old algorithm for this coverage did not use the Years Claims Free variable. The company also made some changes to smooth the progression between segments for Accident Benefits.

[31] The Non-Sufficient Funds variable reflects the number of non-sufficient funds (NSF) occurrences over the past three years. Based on the model results, Co-operators proposed differentials that were the same for all five coverages to which the variable applies.

[32] For Number of Years as Owner of Vehicle, which Co-operators applies to Bodily Injury, Property Damage-Tort and Accident Benefits, the company selected changes that align with the model-indicated changes, although decreases were capped at -5%.

[33] Insurance Score is the company's credit-based rating variable, which may result in a discount for those customers who provide consent for the company to do a credit check. Co-operators proposed changes to this variable that align generally with the GLM indications but made some adjustments to maintain a reasonable progression. Co-operators proposed changes to differentials that were aligned with the model indications. To limit dislocation, the company limited increases and decreases in the differentials to +/-15% for all coverages except Accident Benefits, where a -17% decrease was allowed. The company also made manual adjustments for those credit bands that do not rely on an explicit score.

[34] Co-operators combined the impact of the differential changes for these existing variables with the impact of the territorial differential changes and other changes, and off-balanced the total amount by coverage, making the combined changes revenue neutral. The Board approves the differential changes as proposed.

Update to 2023 CLEAR Table for GBM (Vehicle Differential Variable)

[35] In a previous application, the Board approved Co-operators proposal to use a GBM model to score vehicles to assign differentials for Accident Benefits and physical damage coverages. The GBM model and its differentials replaced the company's use of the CLEAR tables. The original GBM model used the 2021 CLEAR table as input. The Board required Co-operators to seek approval when updating the underlying CLEAR table reflected in the GBM model.

[36] In the previous application, the company updated the GBM model to reflect the 2022 CLEAR table, which the Board approved for use in early 2022. In this application, Co-operators proposed updating the model to use the 2023 CLEAR table, which the Board approved in December 2022. While the Board approved the 2024 CLEAR table in December 2023, the company was too far advanced in its modelling to adopt the newer table for this application.

[37] The methodology used to develop the proposed GBM model is consistent with that used in the previous matters.

[38] Co-operators included the impact of the use of the updated CLEAR table in the GBM with the impacts of all changes and off-balanced the combined total to make all changes revenue-neutral.

[39] Board staff recommended the Board approve the proposed GBM model, which will use the 2023 CLEAR table as input to provide relativities by vehicle code and model year. The Board again notes that the company must apply for approval of a new GBM, should the company wish to update the CLEAR table used as an input to that model.

Changes to Discounts

[40] The company proposed changes to three of its discounts. The company will extend its Co-operators Blue Discount and Hybrid/Electric Vehicle Discount to Physical Damage coverages to align with recent changes to its New Brunswick discount offerings.

[41] Co-operators proposed changes to its Multi-Vehicle Discount, which currently provides a discount when a client with a private passenger vehicle on a policy also has another private passenger vehicle, motorhome, motorcycle, or light farm vehicle insured on the policy. The company proposed to allow a discount if the other vehicle on the policy is an all-terrain vehicle or a snow vehicle.

[42] The average premiums for snowmobiles and all-terrain vehicles are lower than the other types of vehicles, so Co-operators will apply a smaller discount. The justification for the multi-vehicle discount is, in part, to recognize the private passenger vehicle would be driven less. This may not be the case with an all-terrain vehicle or snowmobile, which are vehicles typically used for recreation rather than road travel. Therefore, the company chose the lower discount.

[43] The company lacked sufficient data to generate a credible indicated discount but made its selection to reflect the premium level and competitive concerns.

[44] Finally, the company changed the eligibility criteria for its More Vehicles Than Drivers Discount. Rather than applying the discount when the number of vehicles *in the household* is greater than the number of drivers, the discount will apply when the number of vehicles *on the policy* is greater than the number of drivers. The company proposed the change to align the Nova Scotia discount with its approach in other provinces. Co-operators noted no current client will be impacted by this change.

[45] Board staff noted the company supported the proposed changes to discounts and recommended approval. The Board agrees.

Changes to Endorsements

NSEF#20 – Loss of Use Endorsement

[46] Co-operators proposed changes to its NSEF#20 – Loss of Use endorsement, which provides coverage for expenses for rental vehicles (including taxis and public transportation) when an insured loses the use of their vehicle due to collision or other insured peril.

[47] The company currently provides coverage limits that start at $100 and increase in increments of $100. Co-operators proposed a minimum coverage level of $500 to ensure clients are accommodated and adequately covered if they have a claim and require a rental vehicle. Low limits are often not sufficient to cover the costs of a rental vehicle, resulting in additional out-of-pocket expenses for the insured. The company said very few customers would be impacted by the change.

[48] The Board approves the proposed $500 minimum coverage level for NSEF#20.

NSEF#1-45 Restricted Permission to Drive for an Insurance Transportation Network Endorsement

[49] Co-operators proposed the introduction of a 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.

[50] The endorsement provides coverage under the policy, for the coverages included on the policy, while the driver has logged onto a TNC platform, (e.g., Uber, Lyft), for the purpose of providing transportation services but has not accepted a ride request (Period 1). Any claims while the insured is driving 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).

[51] Co-operators explained that this endorsement will close a gap for Period 1, providing better coverage for those clients. The company will offer the endorsement with no restrictions on the type of vehicle or coverages carried on the vehicle policy. The coverages extended under the endorsement will be the coverages already carried on the vehicle.

[52] The company believes the premium should vary in relation to the risk characteristics (e.g., vehicle value, driving record components, etc.) of the insured vehicle. That is, an insured vehicle and driver that poses more risk to the company should pay a higher premium. To accomplish this, Co-operators 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 by the risk posed by the insured vehicle and

driver. Using a percentage will ensure the endorsement premium also varies in relation to the risk.

[53] The company did not have any historical claims experience upon which to base its selection for the endorsement premium. Co-operators relied on limited competitor information it had obtained to set this amount. The company chose its level to provide a relatively similar average premium for the endorsement to that charged by competitors. 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.

[54] The Board approves the proposed introduction of the NSEF#1-45 and approves the premium formula.

Revisions to Renewal Premium Dislocation Gap Factor Capping

[55] In its previous decision (2023 NSUARB 61), the Board approved Co-operators' proposal for its current Gap Factor Capping method. This form of capping sees the company take more rate for cases that are farther away from the uncapped premium, rather than applying a set cap on increases for all policies.

[56] Co-operators noted that revised capping boundaries for increases between 10% to 35% were needed to ensure most of the selected rate increase would be realized under the overall 8.5% increase. The overall capped increase under the proposed factors is 8.1%. Had Co-operators used its current factors, the capped increase would only have been 7.2%. This result confirms the company's assertion that the changes were needed to achieve the bulk of its overall increase.

[57] The company confirmed that the premium foregone under the cap on increases (positive cap) exceeds the extra premium collected from the cap on decreases (negative cap). The overall capped impact of 8.1% is lower than the uncapped overall increase of 8.5%. This result satisfies the Board's requirement for the use of negative capping.

[58] The company noted that the few conditions where the cap does not apply in its current program will continue. For example, if a client adds a new coverage mid-term, the cap will not apply to that additional coverage. Another example would be when the client reaches the fourth year of the Safe Driving Reward Program. If the cap applied, the fourth-year premium would not get to zero as that program provides. The full increase back to the true fifth-year premium (after the free fourth year) also would not be allowed if the cap were applied.

[59] The company indicated in its last application that it expected the cap to be in place for one year and then re-evaluated. After determining the cap should be altered in this application, the company proposes to maintain the new cap mechanism for another year. The company will re-evaluate the capping program and determine in its next rate review whether it should be continued, removed, or altered again.

[60] The Board approves the proposed changes to the Gap Factor Capping mechanism.

Automobile Insurance Manual Review

[61] In addition to revisions required to implement the changes noted, the company modified some wording and rating rules in its automobile insurance manual. Board staff reviewed the proposed changes and the automobile insurance manual on file

and uncovered no areas where the company appears to be in violation of the *Insurance Act* or its *Regulations*.

[62] The Board approves the changes to underwriting and rating rules.

III SUMMARY

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

[64] The Board finds the proposed rates are just and reasonable, and approves the changes effective June 5, 2024, for new business and July 5, 2024, for renewal business.

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

[66] 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 Co-operators for private passenger vehicles is December 1, 2025.

[67] The Board requires Co-operators to file an electronic version of its Automobile Insurance Manual, updated for the changes approved in this decision, within 30 days of the issuance of the order in this matter.

[68] An order will issue accordingly.

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

Julia E. Clark