DECISION **2024 NSUARB 210**
M11898

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

BEFORE: Bruce H. Fisher, MPA, CPA, CMA, Member

APPLICANT: **The Dominion of Canada General Insurance Company**

FINAL SUBMISSIONS: October 29, 2024

DECISION DATE: **December 18, 2024**

DECISION: **This application is approved.**

I INTRODUCTION

[1] The Dominion of Canada General Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. Dominion proposed base rate changes that vary by coverage and result in an overall increase of 10.0%. In addition to changes to rates, the company also asked the Board to approve changes to at-fault incident surcharge tables and to adopt the 2024 Canadian Loss Experience Automobile Rating (CLEAR) table.

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

II ANALYSIS

[3] Dominion applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval.* Since the filing of this application, Dominion 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 Dominion. The company reviewed the report and informed Board staff that it had no further comments.

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

a. Proposed rate level change;
b. Adoption of 2024 CLEAR Table; and,
c. Incident Surcharge Table

Proposed Rate Level Change

[5] Dominion proposed changes to its current base rates that vary by coverage. The changes result in an overall rate level increase of 10.0%. Dominion based the changes on indications that suggest a significantly higher all-coverage combined increase should be taken. However, Dominion chose not to take its full indicated increases, preferring instead to take a lower rate level increase.

[6] Board staff have reviewed the Dominion indicated rate level changes and examined all aspects of the proposed rate level change including:

- Loss trends and reform effects (based on Board consultant June 2023 based selections);
- Loss development;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Experience period and weights;
- Credibility standards and complement of credibility;
- Premium to surplus leverage ratio; and
- Target and proposed Return on Equity (ROE).

The issues that arose surrounding the Dominion analysis of its rate level needs that warrant further discussion are (a) loss trends, and (b) profit provision.

Loss Trends

[7] Dominion analyzed its own experience data and found it aligned with that of the industry. Based on this information, Dominion chose to base its trends, except for Comprehensive, on those selected by the Board consulting actuaries, Oliver Wyman, in their report based on data through June 2023. In its own indications, Dominion excluded the one-time severity increase for physical damage coverages recommended by Oliver Wyman as part of its loss trend selections.

[8] For Comprehensive, Dominion observed an increasing loss trend and a steep rise in claims costs starting in the second half of 2022. This rise was coincident with the rise in inflation for repair costs, rental vehicles and replacement parts. Dominion also noted a steep rise in automobile theft as evidenced by a report on theft by the company Équité. Thefts in Atlantic Canada rose 11% year-over-year.

[9] Dominion stated the one-time severity adjustment suggested by Oliver Wyman recognized inflation but not necessarily the growth in automobile theft. The company believes its approach is more reflective of the company's own experience. Comparisons were done between the Dominion and Oliver Wyman selections, which show the differences are not very large, as expected for most coverages, and the overall Dominion indication is less that the Oliver Wyman indication. Board staff recommend the Board accept the use of the Dominion selected loss trends. The Board agrees.

Profit Provision

[10] Dominion used an after-tax return on equity of 12% per annum, a premium to surplus ratio consistent with the previous filing, and an investment return on surplus assets based on historical returns. The investment return follows a previous Board Order for the company and the premium to surplus ratio is the same as used, and approved by the Board, in the last filing. However, the use of 12% for return on equity represents an increase from the 10% level the Board required of Dominion in earlier applications.

[11] The Dominion assumptions produce a profit provision higher than the top end of a range that reflects the Board's 10-12% range for a reasonable return on equity and a 2:1 premium to surplus ratio along with Dominion's investment income on surplus assumption.

[12] The Board, in past decisions, expressed concern that the industry was earning profits above the level the Board approved. Both the 2012 and 2013 GISA Financial Information Reports echoed this concern. To address this concern, in decisions since 2014, the Board generally required companies to use 10%.

[13] The 2014-2019 versions of the GISA report show negative ROEs for the industry. The Board attributes this result to many companies not taking full indicated rate changes along with deteriorating experience. This deterioration in experience includes the impact of inclement weather at the start of 2015. The Board does not believe the result arises from requiring companies to use the lower end of the Board's profit range. The Board still requires the use of a 10% return on equity for companies unless the company can demonstrate it is different from the industry. While the 2020-2022 versions of the report showed positive returns, likely favourably impacted by the pandemic, this result should not impact the Board's 10% requirement.

[14] The Board will allow a company to use a return on equity of more than 10% if the company can demonstrate it is different from the industry. Dominion explained that it chose the 12% instead of the 10% because it wants to ensure it achieves adequate returns over time. Dominion offered this explanation in past applications. However, the Board required the company to use 10%. Dominion also selected a premium to surplus ratio lower than the standard 2:1. This element also serves to increase the profit provision. The Board does not accept that Dominion requires both a higher return on equity and a lower premium to surplus ratio, to address this concern.

[15] Previously, the Board allowed Dominion to use 10% along with the lower premium to surplus ratio included in this filing. Board staff recommend the Board again

require Dominion to use a 10% ROE, instead of 12%, when determining its rate level need. This leaves all other elements comprising the profit provision (i.e., investment return on surplus assets, premium to surplus ratio, and tax rate) unchanged. The Board agrees.

Staff Indications

[16] Based upon the recommendations, the Staff indications become those calculated using a 10% return on equity with all other Dominion assumptions unchanged.

[17] For those coverages where Dominion proposed changes, the change was in the direction of the indications, but the size of the change was smaller. In all cases except for Property Damage-Tort, Dominion's proposed rates are lower than indicated. For Property Damage-Tort, the company proposed no change despite an indicated decrease. Given the proposed change for all mandatory coverages is well below indication, the Board need not intervene for this coverage. The proposed overall increase is about half of the staff indicated increase.

[18] In its rate filings after 2017, Dominion determined large rate increase needs but only took a fraction of that indicated increase. The company took a larger step towards the indications in this filing but continues to balance rate stability and profitability by taking less than indicated rate changes. Given the proposed rates are for a smaller increase than indicated, the proposed return on equity is well below the target 10% but is up from the negative value observed in the last application.

[19] Board Staff recommend the Board approve the proposed rate changes. The Board agrees.

Adoption of 2024 CLEAR Table

[20] Dominion currently uses the 2023 CLEAR table to assign rating groups for Accident Benefits and physical damage coverages. The company uses the CLEAR (AB Alberta & Atlantics) - Collison, DCPD and Comprehensive Separated version of the table.

[21] In this application, Dominion proposed the adoption of the 2024 version of this table, which the Board approved for use late last year. Dominion off-balanced the impact of the change of table together with other proposed changes to make them revenue-neutral at the coverage level. Board Staff recommend the Board approve the use of the 2024 CLEAR table. The Board agrees.

Incident Surcharge Table

[22] In 2017, the Board approved Dominion's initial use of its Optima Rating Program. The Nova Scotia version was based upon a similar rating program that Dominion used in Ontario, which reflects the claims costs of the household based upon all drivers in that household using the same driver attributes and vehicle information that is currently used for rating on a vehicle-by-vehicle basis.

[23] Dominion proposed changes to its Optima program, specifically to the differentials for its Single Incident, Multi-Incident, and the Four-to-Six Year Incident Surcharge tables. These factors recognize the predictiveness of past at-fault accidents of the risk of a future at-fault accident claim. Dominion observed that its closing ratio, or win rates, for quotes on vehicles with at-fault accidents was higher than average. Dominion believes that its surcharges are lower than those used by other companies, leading people with at-fault accidents to find Dominion's rates more attractive and placing their business there.

[24] The Nova Scotia surcharges tables differ from those used in other Atlantic provinces. With a goal of more closely aligning the surcharge tables across these provinces and addressing the higher-than-average win rates for business with at-fault accidents, Dominion proposed increasing the factors for one at-fault accident and for two or more at-fault accidents by different amounts.

[25] Dominion included the impact of these changes when determining the off-balancing adjustments intended to make all the proposed changes revenue neutral.

[26] Board Staff recommend the Board approve the proposed changes to the incident surcharge tables, to address the consistency and win-rate concerns raised by the company.

Automobile Insurance Manual Review

[27] Dominion proposed no changes to the Automobile Insurance Manual. Staff reviewed the manual on file and uncovered no areas where the company appears to be in violation of the *Regulations*. Given the manual is not changing, the Board does not require Dominion to file an updated manual.

III SUMMARY

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

[29] The financial information included provides comfort that, under Section 155I(1)(c) of the *Act,* the changes proposed by Dominion are unlikely to impair the solvency or financial well-being of the organization.

[30] Dominion proposed effective dates of January 14, 2025, and February 16, 2025, for new business and renewals, respectively. The Board approves these effective dates.

[31] 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 Dominion for private passenger vehicles is September 1, 2026.

[32] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 18 day of December 2024.

Bruce H. Fisher