DECISION **2024 NSUARB 172**
M11834

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **THE WAWANESA MUTUAL 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: **THE WAWANESA MUTUAL INSURANCE COMPANY**

FINAL SUBMISSIONS: October 1, 2024

DECISION DATE: **October 15, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On August 8, 2024, The Wawanesa Mutual Insurance Company (Wawanesa) 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 uncapped increase of 13.6%. In addition to changes to rates, the company also seeks to: change territorial base rates; unbundle the Class rating variable into its component rating variables (i.e., Annual Mileage, Vehicle Use, Distance to Work and Gender); change existing rating variables; introduce the new rating variable, Number of Non-Payment Cancellations; remove the Autonomous Emergency Braking Discount; change discounts; change surcharges; change underwriting and rating rules; and, change the automated premium dislocation capping process.

[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 Wawanesa's application meets these requirements and approves the company's proposed rates and risk-classification system. The Board also approves: Wawanesa's changes to territorial base rates; unbundling the Class rating variable into its component rating variables; changes to existing rating variables; the introduction of the new rating variable, Number of Non-Payment Cancellations; removal of the Autonomous Emergency Braking Discount; changes to discounts; changes to surcharges; changes to underwriting and rating rules; and changes to the automated premium dislocation capping process.

II ANALYSIS

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

[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 Wawanesa's loss trends, profit provision and the comparison of proposed rates to indications. Board staff considers that Wawanesa 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;
- Profit provision;
- Proposed rate changes;
- Changes to territorial differentials;
- Unbundling of Class rating variable;
- Changes to existing rating variables;
- New rating variable: Number of Non-Payment Cancellations;
- Removal of Autonomous Emergency Braking Discount;
- Other discount changes;
- Changes to surcharges;
- Changes to underwriting and rating rules; and,
- Changes to Premium Dislocation Capping Process.

Loss Trends

[6] With the release of the industry claims experience data through June 2023, Oliver Wyman, the Board's consulting actuaries, developed assumptions for loss trends for private passenger vehicles. Oliver Wyman reviewed data from 2003 through 2023 but tended to rely on more current data when making its selection.

[7] Oliver Wyman developed its loss trends with the impact of COVID-19 removed. Oliver Wyman examined trends for frequency, severity, and loss cost information. Oliver Wyman made its selections after examining both five and ten years of data, on a half-yearly basis. For future trends, Oliver Wyman selected the most recent past trend, assuming it would continue.

[8] In developing the selections, Oliver Wyman noted the recent increase in inflation. Rather than recognizing the inflation in the loss trends, Oliver Wyman chose to include a scalar or level parameter that would increase severity for Direct Compensation Property Damage (DCPD), Collision and Comprehensive in 2021-22 by 11.3%, 8.9%, and 14.0%, respectively, as that point was viewed as coincident with the rise in inflation. The trends selected by Oliver Wyman would then apply to the "shocked" claims.

[9] Wawanesa based their selected loss trends primarily on a review of the company's own experience in Nova Scotia through December 31, 2023. Wawanesa believes that trends based upon the experience of its own book are more appropriate. Wawanesa used an internally created program that will model any combination of monthly, quarterly, semi-annual, and annual data from 2004-2023. The model also considers seasonality of the data. The company analyzed trends for frequency, severity, and loss cost over a variety of time periods within the selected period.

[10] Given the impacts that COVID-19 appeared to have on claim frequency, when making its selections, Wawanesa observed lower losses in 2020 and 2021 accident years as frequency decreased resulting from changed driving behaviour during the pandemic. Wawanesa chose to use 2021-2023 data as the experience period, believing that it would be more predictive of post-pandemic driving behaviour. Wawanesa adjusted 2021 data based on the ratio of 2022 frequency to 2021 frequency to bring the data to post-pandemic levels.

[11] Wawanesa selected future trends that differed from the selected past trends. These trends did not include any specific adjustment for COVID-19. Instead, Wawanesa used the average of pre-pandemic and post-pandemic trends or judgmentally selected an appropriate trend. The Wawanesa trends for all coverages would produce higher indicated rates than the Oliver Wyman selections, including the one-time severity adjustments, would produce. The Board, in past filings, has expressed concerns regarding companies being of sufficient size to warrant the use of trends based on its own data. That is, the Board is not necessarily convinced that any company operating in Nova Scotia is large enough to warrant the use of its own data. However, the Board allowed Wawanesa to use trends based on its own data in past applications because the differences were not that large. The circumstances in this application seem to suggest a similar treatment would be appropriate.

[12] Board staff recommends the Board allow Wawanesa to use its loss trends in developing the indications against which to assess the appropriateness of the proposed changes. The Board agrees with this recommendation but only in the circumstances of

this application. The Board's approval should not be viewed as a precedent for any future applications as these will be judged on their own merit.

Profit Provision

[13] 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 4.8% to 6.2% as reasonable.

[14] Wawanesa proposed a rate of return on equity of 12% in its indications. The resulting profit provision is about 6.2%. The company's proposed profit provision is at the top of the Board's range.

[15] Beginning in 2014, in most 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 level 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 requiring companies to move to the lower end of their profit range. The negative returns are more likely because many companies did not increase rates as much as their actuarial studies suggested 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.

[16] As observed in previous applications, Wawanesa's experience on loss ratios appears different from the industry and the Board should not require the company to have a return on equity lower than the 12% target Wawanesa used.

[17] Board staff recommends the Board accept the profit provision included in the Wawanesa indications. The Board agrees.

Staff Indications

[18] Based upon the recommendation to accept Wawanesa's assumptions, the Staff Indications would equal the company's indications. Board staff recommends, therefore, that the Board use the company's indications as the target against which the Wawanesa proposal should be assessed for reasonableness. The Board agrees.

Proposed Rate Changes

[19] For all coverages, except Property Damage – Tort, Wawanesa proposed rate changes that follow the direction of the indications but were lower. For Property Damage – Tort, the company proposed an increase, while the indication was for a small reduction.

[20] Wawanesa proposes an overall rate change that is well-below the indicated level, and this continues a pattern for the company that goes back to 2017. In past years, Wawanesa needed large increases, but the company chose smaller increases. When asked about the much smaller than indicated proposal, Wawanesa states that it selected its proposal to remain aligned with the market, where the company average quoted premium exceeds its competitors. The company is phasing in its rate need by taking only a portion of its indicated need, instead of the full need, to avoid large dislocations for

clients. This filing also includes segmentation changes that will need time to determine if they are effective at properly assigning premium to risk.

[21] Board staff noted that while the Board should be concerned about the size of the proposal considering the indicated change, it recommends the Board approve the proposed rate change. The Board agrees with the recommendation but cautions Wawanesa that if the indications remain high, the Board will consider requiring Wawanesa to address its profitability concerns with more earnest action.

Territorial Differentials Changes

[22] Wawanesa conducted an analysis of its territorial base rates. The company used a Generalized Linear Models (GLM) analysis with only accident year and territory used to train the model. This model produced indicated territorial relativities, which Wawanesa adopted to produce its proposed territorial base rates.

[23] Board staff recommends the Board approve the proposed territorial base rates. The Board agrees.

Unbundling of Class Rating Variable

[24] Wawanesa currently uses Class as a rating variable. To determine Class, the company identifies a number or risk characteristics and combines them in a single variable. Wawanesa proposed removing the impact of the Class variable by setting the differentials for all classes, except Class 6, to the value of 1.00. Class 6 is the inexperienced occasional operator class, and its differential will remain at 0.10 so the relationship between principal and occasional operator will be maintained.

[25] Wawanesa then proposed adding the component variables (i.e., Annual Mileage, Vehicle Use, Distance to Work, and Gender) to its algorithm. Wawanesa

believes this unbundled approach will allow for a better assignment of premiums to the risk a client poses.

[26] In part, Wawanesa relied on a GLM analysis to establish differentials for the new variables. Based on an analysis of data for private passenger automobile risks for 2014-2023 for Nova Scotia and New Brunswick combined, the company developed a GLM model. The company validated the model and reconciled it with other data sources. Using an iterative approach, Wawanesa was able to determine indicated differentials for each of these new variables, as well as for several existing rating variables. Wawanesa conducted various validation procedures to determine the credibility and appropriateness of the indicated differentials. Based on these differentials, the company selected its proposed differentials for the new variables. The company also took care to ensure the new variables were not prohibited.

[27] For Annual Mileage, the company selected differentials for DCPD and Comprehensive, leaving all other coverage differentials at 1.000 and having no impact on rates. While the company chose differentials for Comprehensive based on the indications with some adjustments made after other variables were included in the model, DCPD was not included in the GLM model. Instead, the company chose differentials that it approximated from the current Class variable.

[28] Wawanesa did not include Distance to Work (otherwise known as commute distance), in its GLM model but instead chose approximate factors based upon the existing Class differentials.

[29] Wawanesa did include Vehicle Use in the GLM analysis to develop indicated differentials. The model suggested the variable was predictive for Property

Damage - Tort, DCPD and Collision. The company examined the indicated differentials and made some adjustments to avoid some counter-intuitive results (e.g., indications suggested pleasure differentials should have higher relativities to other levels, when this would be the least amount of driving) and to reflect adjustments necessitated when other variables were added to the GLM analysis. Wawanesa set the differentials to a value of 1.000 for Bodily Injury, Accident Benefits, and Collision, as well as the Farm differentials for all coverages to avoid conflict with the Farm Discount, so they had no impact on premium.

[30] For Gender, the GLM model only showed the variable was predictive for Collision. After examining the GLM indications and after reflecting on the impact of other variables when added to the model, Wawanesa adjusted the differentials for this coverage and set male rates as the base rate. According to its approved approach, Wawanesa set the differentials for gender X equal to the differential for females.

[31] Wawanesa included the impact of the differential changes in the amount the company off-balanced to make the proposed changes revenue-neutral.

[32] Board staff recommends the Board approve the proposed unbundling of the Class rating variable and the creation of the component rating variables. The Board agrees.

Changes to Existing Rating Variables

[33] Using the GLM model analysis approach discussed in the previous section, Wawanesa proposed changes to the several existing rating variables which are described as follows.

Deductible

[34] Wawanesa proposed the removal of its $100 deductible and revised the differentials based on a separate deductible analysis. Using data from 2017-2023 for Nova Scotia and New Brunswick combined, Wawanesa used a deductible analysis to develop indicated differentials. The company then selected the proposed differentials based on these indications.

Liability Limit

[35] Wawanesa uses the Liability Limit rating variable for Bodily Injury and Property Damage - Tort. The company proposed revisions to its limit differentials based on a separate limit analysis, using data from 2017-2023 for Nova Scotia and New Brunswick combined. After developing indicated limit differentials, Wawanesa selected the proposed differentials based on these indications.

Driver Record

[36] Wawanesa made some changes to the differentials for Bodily Injury and DCPD. While the GLM model showed the Driver Record rating variable was not statistically significant for these coverages, Wawanesa included them in the pricing model using current differentials and then made some minor adjustments after considering its competitive position for certain segments.

Rate Group

[37] Wawanesa uses the Rate Group variable for Accident Benefits, DCPD, Collision and Comprehensive. The current differentials are the same for the physical damage coverage, but the proposed differentials will vary by coverage. Wawanesa used the GLM model to determine indicated differentials for Collision and Comprehensive, as

well as for Accident Benefits. Once the company determined the indicated differentials for these coverages, Wawanesa made adjustments to smooth the differentials, to ungroup the rate groups used in the model to get a unique value for each rate group, or to reflect the results of a refitting of the model after other variables were included.

Primary Years Licensed

[38] Wawanesa uses the Primary Years Licensed rating variable for all the major coverages. The company selected the proposed differentials based on the indicated differentials from the GLM model and adjusted them to reflect the impact of including other variables in the model and to address some concerns about the smoothness of the differentials and issues around the low credibility of inexperienced drivers and competitive concerns.

Minimum Years Licensed

[39] Due to low credibility, Wawanesa left most of the differentials unchanged for the Minimum Years Licensed rating variable. However, for Comprehensive, the company did make some adjustments, which lowered the differentials, based on the GLM output.

Body Code

[40] Wawanesa uses the Body Code rating variable for Accident Benefits and physical damage coverages. The company updated the differentials for several coverages to reflect the results of the GLM analysis, with some adjustments made after other variables were introduced in the model.

Years Owned

[41] This variable reflects the time the insured has owned the insured vehicle. Wawanesa made some minor changes to the differentials for Bodily Injury and Comprehensive based on the GLM output. These changes reduced the discount Wawanesa provides as the number of years owned increases.

Vehicle Age

[42] Wawanesa uses the Vehicle Age variable for all major coverages except Property Damage - Tort. The GLM model suggested the variable was not statistically significant (i.e., was not predictive) for Bodily Injury and Accident Benefit, so Wawanesa removed it by setting the differentials to 1.000 for these coverages. Wawanesa altered the differentials for the other coverages based on the GLM output.

Loyalty

[43] Wawanesa provides a small discount based upon how long the insured has been with the company. The discount increases each year until the five-year point is reached, at which time the discount remains at that level. Wawanesa made changes to the differentials for Property Damage - Tort, Accident Benefits, DCPD and Collision based on the GLM output. The changes remove the discount from Property Damage - Tort as the model suggested the variable was not predictive for this coverage.

Credit Score

[44] Wawanesa had its credit-based rating variable approved by the Board in 2020 NSUARB 151. In the last application, Wawanesa made changes to remove the discount for some coverages. The GLM analysis at that time suggested the variable was not statistically significant.

[45] The GLM analysis performed for this application suggested the variable was predictive for these coverages. Wawanesa proposed adding the variable back for those coverages, as well as altering the differentials to reflect the GLM output with some modifications to reflect the inclusion of other variables in the model.

Off-Balancing

[46] Wawanesa included the impacts of these variable changes along with all other changes in the application, and off-balanced the total impact to make them revenue neutral.

[47] Board staff recommends the Board approve the proposed changes to existing rating variables. The Board agrees.

New Rating Variable: Number of Non-Payment Cancellations

[48] Wawanesa proposed the introduction of this rating variable which examines the number of cancellations for non-payment of premium that the insured had in the prior three years. The variable only examines these cancellations on personal use private passenger vehicle policies.

[49] Previously, the company had a rating variable Number of Not Sufficient Funds that, while very predictive of risk, was unreliable given how Wawanesa calculated it. The company removed that variable in a previous application for these reasons. Because the number of non-payment cancellations is included in Autoplus, the proposed variable is more reliable. While the data in the Maritimes is not credible, the GLM model in other provinces (e.g., Ontario) showed it to be very predictive.

[50] The proposed differentials will see the surcharge increase for each non-payment cancellation in the prior three years until it remains flat at six or more. The

surcharge at six or more is very large, however, Wawanesa has a decline rule that limits the number of non-payment cancellations the company will allow before the risk is declined. This level is well below six, so it is unlikely that level of surcharge would be applied. Wawanesa included the impact of the introduction of this variable in the total impacts off-balanced to make them revenue neutral.

[51] Board staff recommends the Board approve the introduction of the new rating variable, Number of Non-Payment Cancellations. The Board agrees.

Removal of Autonomous Emergency Braking Discount

[52] Wawanesa offers a discount for vehicles with a model year of 2010 or higher that have a factory installed system that applies the brakes, independently of the driver, to avoid or mitigate accidents (i.e. autonomous emergency braking systems). The discount applies to Bodily Injury and Accident Benefits. The company proposed the removal of this discount.

[53] Wawanesa explained its GLM model suggested the discount was not warranted. Also, only a small percentage of its portfolio of risks have the discount. Because the discount requires manual input from brokers, the removal will simplify the broker process and make the rate segmentation more appropriate.

[54] Board staff recommends the Board approve the removal of the Autonomous Emergency Braking Discount. The Board agrees.

Other Discount Changes

[55] Wawanesa offers a New Business Discount that reduces each year until it vanishes after three years of loyalty. Wawanesa proposed leaving the discount in place for three years, without reduction. The discount would then disappear after three years of

loyalty. The company wants to retain more business and by removing the reduction in this discount, it hopes to accomplish that desire.

[56] Based on its GLM output, Wawanesa also proposed increasing its Multi-Product Discount and varying the discount level for all coverages except Accident Benefits, which remains unchanged. This discount applies when the insured has more than one type of insurance policy (e.g., homeowners and automobile).

[57] Wawanesa will also alter the discount provided where the insured has multiple vehicles insured with the company. The current discount varies by coverage and will continue to do so. For coverages other than Property Damage - Tort and DCPD, Wawanesa will provide a larger discount. For Property Damage - Tort, the discount will be unchanged, while the company will reduce the DCPD discount. The changes reflect the results of the GLM model.

[58] The changes will only impact new business as Wawanesa will extend the current benefit to those who currently receive it. The company included the impact of these discount changes in the total amount off-balanced to make the changes revenue-neutral.

[59] Board staff recommends the Board approve the proposed changes to its New Business Discount, Multi-Product Discount, and Multi-Vehicle Discount. The Board agrees.

Changes to Surcharges

[60] Wawanesa uses a rating variable that counts the number of minor convictions in the past three years. If there are no such convictions, the differential provides a discount. With the first minor conviction, the differential goes to one, resulting

in the loss of the discount. For each additional conviction, the surcharge increases. Based on the GLM output, Wawanesa proposed changes that would increase the conviction-free discount for all coverages (except Property Damage - Tort, where the discount would decrease). As well, for most coverages, the surcharges that apply for more minor convictions will increase.

[61] Wawanesa also uses the number of major convictions in the past three years as a rating variable. The variable applies a surcharge on the first major conviction and that surcharge increases for each additional such conviction. Based on the GLM analysis and with some consideration for competitiveness, Wawanesa will increase the surcharge that applied for three or more such convictions.

[62] Wawanesa also uses the number of chargeable accidents in the last three years as a rating variable for all major coverages except Comprehensive and Specified Perils. The surcharge increases as the number of chargeable accidents increases. Wawanesa reduces the surcharge as the number of renewals with Wawanesa grows. At the fourth renewal, the surcharge no longer applies. Based on the GLM analysis and consideration for competitiveness, Wawanesa proposed to increase the surcharges that apply to second and third renewal to the same level used at first renewal. The surcharge will continue to drop off at the fourth renewal.

[63] Board staff recommends the Board approve the proposed changes to the Number of Minor Convictions, Number of Major Convictions, and Number of Chargeable Accidents rating variables. The Board agrees.

Underwriting and Rating Rule Changes

[64] Wawanesa proposed several changes to its underwriting and rating rules. Most changes clarify current practices. Several changes address, or clarify, how Wawanesa will handle price-rated vehicles, that is those vehicles which are not found within the CLEAR (Canada, Collision and DCPD Combined, for Alberta & Atlantic Canada) table, so the company assigns rates by price. For example, Wawanesa will require price-rated vehicles to be referred before binding to make sure the underwriting is properly done. Also, price-rated vehicles must carry NSEF#19 Limitation of Amount and NSEF#40 Fire and Theft Deductible endorsements, when optional physical damage coverage is present or added to the risk. These changes clarify the current rules.

[65] To make insurance more available to newcomers, Wawanesa will consider the date first licensed and insurance experience from countries with a Reciprocal Licence Exchange Agreement with Nova Scotia, when rating the risk. Currently, Wawanesa does not recognize experience from outside of Canada or the USA. The company made a change to the definition of continuously licensed to accommodate the consideration of this experience. Wawanesa notes that this change will also apply to motorhomes and miscellaneous vehicles.

[66] A review of the proposed changes showed they do not violate the *Insurance Act* or its *Regulations*.

[67] Board staff recommends the Board approve the proposed underwriting and rating rule changes. The Board agrees.

<u>Premium Dislocation Capping Process</u>

[68] Wawanesa currently uses an approved automated premium dislocation capping process that applies at the risk level. The magnitude of the cap varies by the difference between the current premium and the true renewal premium.

[69] Wawanesa proposed changes to the capping bounds (or the maximum change) used. When the renewal premium is expected to decrease, Wawanesa will let a smaller amount of the decrease apply. When the renewal premium is expected to increase, Wawanesa will let more of the increase apply to allow the premium to move closer to the true premium. To use negative capping, the Board requires the extra premium collected from the negative cap to be less than or equal to the premium foregone on the upper cap. This requirement is met because the uncapped change was higher than the capped change.

[70] Board staff recommends the Board approve the proposed changes to the automated premium capping process. The Board agrees.

III SUMMARY

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

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

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

[74] 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 Wawanesa for private passenger vehicles is August 1, 2026.

[75] Board staff reviewed Wawanesa's Automobile Insurance Manual filed with the Board and the proposed revisions, 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.

[76] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 15th day of October, 2024.

M. Kathleen McManus