DECISION **2020 NSUARB 49**
M09591

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

BEFORE: David J. Almon, LL.B., Member

APPLICANT: **Royal & Sun Alliance Insurance Company of Canada**

FINAL SUBMISSIONS: March 16, 2020

DECISION DATE: **March 30, 2020**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Royal & Sun Alliance Insurance Company of Canada (RSA) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposed rate changes that vary by coverage and territory and result in an overall all-coverages combined increase of 7.6%. The company based the proposal on indications from an all-coverages combined rate increase of 9.1%, that later was revised to 9.4%. The proposed rates were compared to the revised indications by coverage. In addition to changes to rates, the company proposed changes to its driving record differentials. The company will remove its Full Coverage Discount (FCD) and lower its Broker Loyalty Discount.

[2] The company proposed to adopt the 2020 version of the Canadian Loss Experience Automobile Rating (CLEAR) tables approved by the Board for use in Nova Scotia, earlier this year.

[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 RSA's application meets these requirements and approves the proposed changes.

II ANALYSIS

[4] RSA applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). RSA 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 RSA. The company reviewed the report and provided information that resulted in slightly revised indications. The Staff Report used the revised indications; however, the proposed rates did not change.

[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 one issue, namely the expense provision. Board staff consider that RSA satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

Expense Provision

[6] Board staff advised that in past applications, RSA relied upon an external consultant to file applications with the Board. However, beginning this year, RSA began to use its own resources to perform the actuarial analysis required to produce indications and to file applications.

[7] Board staff further advised that this change resulted in some minor differences in some assumptions, citing as an example, how General and Other expenses are allocated between variable and fixed expenses. In the previous filing, RSA allocated General expenses on a 30% / 70% basis to variable and fixed expenses, respectively. Other expenses were allocated on a 50% / 50% basis. In this application, RSA revised the allocation to 60% / 40% for both. RSA notes that this change aligns the Nova Scotia practice with what the company uses in other Atlantic jurisdictions.

[8] When asked to quantify the impact, RSA estimated the difference in the overall increase to be 0.2%, with the new allocation producing the smaller overall increase. Board staff notes that this small difference does not warrant a change to the

assumption. RSA does note, however, that it has no internal study to support the 40% allocation to fixed expenses. Board staff notes that while this may be acceptable in the current circumstances, future filings should include more support for this percentage.

[9] Board staff also compared the expenses presented for 2016-2018, with those the company submitted to the General Insurance Statistical Agency (GISA) for its Financial Information Report. For General and Other expenses, as well as Contingent Commissions, the numbers included in the application exceeded those reported to GISA for Nova Scotia. When questioned why, RSA offered that these categories of expenses are the sum of those allocated to RSA and to Western Assurance Company (WA). Board staff notes that because WA does not write in Nova Scotia, RSA stated it was appropriate to add other variable expenses into the RSA experience. If this adjustment were not made, the indicated rate level for the group, RSA and WA combined, would be underestimated.

[10] RSA provided additional information about the arrangements between WA, RSA and a third affiliated company, Quebec Assurance Company (QA) that better explained the reasons the expenses needed to be included. Board staff agrees that it is appropriate to include the WA and the QA expenses in the RSA indications given the arrangement.

[11] Board staff advised that RSA noted that the company had forgotten to include the portion of the expenses assigned to QA in its analysis. For the reasons that support the inclusion of the WA expenses, the Board staff advises that the QA expenses should also be included. RSA provided the revised indications with these expenses

included. Board staff notes that the indications were only slightly higher than those indications originally included in the application.

[12] Board staff recommends, and the Board allows, RSA to use its expenses provisions, revised to reflect the QA expenses that were originally omitted.

Staff Indications

[13] Based on the recommendations of Board staff, the Staff Indications, which represent the target the Board should use to assess the reasonableness of the RSA proposal, are the RSA indications, as revised.

Comparison of Proposed Rates to Recommended (Staff) Indications

[14] Board staff provided a table comparing the RSA proposal to the Staff Indications.

[15] In most cases, where RSA proposed changes, the proposed change follows the indications, but is smaller. The difference is small in most cases. In all cases but Direct Compensation Property Damage (DCPD), the proposal results in lower rates than indicated.

[16] For DCPD, RSA proposed no change despite a negative indication. The company chose to maintain rate stability, given the DCPD trend was positive. Because DPCD is a mandatory coverage and RSA proposed smaller than indicated increases for other mandatory coverages, Board staff suggested the Board not require a change to address this observation.

[17] Because the proposed rates are lower than indicated, Board staff advised that the rates would produce a return on equity that is lower than the target 10%. On the

original indication basis, the estimated return was 8.69%, but given the revision, this return will be slightly lower.

[18] Board staff advised that RSA supported its proposal and recommended the Board approve the proposed rates. The Board accepts the recommendation.

Other Proposed Changes

Territorial Differentials

[19] RSA conducted an analysis of its territorial differentials. Based upon the indicated changes that arose from that analysis, RSA proposed changes to its territorial differentials that matched the indicated differentials but capped any change in the differential to +/-5%. Board staff advised that the RSA analysis supports the proposed changes to territorial differentials.

[20] RSA included the impact of this change with the impacts of all changes and off-balanced the combined total to make all changes revenue-neutral.

[21] Board staff recommends the Board approve the proposed changes to territorial differentials. The Board accepts the recommendation.

Driving Record Differentials

[22] RSA also conducted an analysis of its driving record differentials. Based upon the indicated changes that arose from that analysis, RSA proposed changes to some differentials. Where RSA determined it has a credible volume of data, it selected a change that matched the indication capped at +/-10%. Where sufficient data did not exist, RSA proposed no change for that driving record.

[23] RSA included the impact of the driving record differential changes with the impacts of all changes and off-balanced the combined total to make all changes revenue-neutral.

[24] RSA supported its proposed differential changes.

[25] Board staff recommended approval of the proposal. The Board accepts the recommendation.

Adoption of 2020 CLEAR Table

[26] RSA currently uses the 2019 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. In this application, RSA proposed the adoption of the 2020 version of this table, which the Board approved for use earlier this year.

[27] RSA included the impact of the CLEAR table change with the impacts of all changes and off-balanced the combined total to make all changes revenue-neutral.

[28] Board staff recommended approval of the proposal. The Board accepts the recommendation.

Removal of Full Coverage Discount

[29] RSA provides a Full Coverage Discount for those clients who insure a vehicle for a minimum of $1,000,000 for Bodily Injury and PD-Tort, DCPD, Accident Benefits, Uninsured Automobile and either All Perils or Collision and either Comprehensive or Specified Perils. The discount provided is 5% off the premiums for Bodily Injury, PD-Tort, DCPD, Accident Benefits and Uninsured Automobile.

[30] RSA conducted an analysis of indicated changes to the discount, based upon claims experience for those who carry full coverage and those who do not. This analysis suggested that the premiums for those who carry full coverage should increase by an amount that would essentially remove the discount. Based on this evidence, RSA proposed the removal of this discount.

[31] RSA off-balanced the impact of the removal of the Full Coverage Discount as part of the off-balancing of the impact of all proposed changes.

[32] Board staff recommended approval of the proposal and the Board accepts that recommendation.

Changes to Broker Loyalty Discount

[33] RSA provides a 5% discount to those new business clients who have been continuously insured with their current broker for the past three years. The definition of continuously insured respects the *Regulations* surrounding lapses less than 24 months.

[34] RSA conducted an analysis of the claims experience for those who qualified for the discount and those who did not. This analysis suggested the premiums for those receiving the discount should be increased. In other words, the discount was too large. RSA proposed to reduce the discount from 5% to 3%. The reduction of the discount is close to the indicated increase.

[35] RSA included the impact of this change with the impacts of all changes and off-balanced the combined total to make all changes revenue-neutral.

[36] RSA supported the proposed reduction in the Broker Loyalty Discount.

[37] Board staff recommended approval of the proposal. The Board accepts the recommendation.

III SUMMARY

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

[39] The Board finds the proposed rates are just and reasonable, and approves the changes effective July 1, 2020, for both new and renewal business.

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

[41] 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 RSA for private passenger vehicles is February 1, 2022.

[42] Board staff reviewed RSA's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. RSA must file an electronic version of its Manual, within 30 days of the issuance of the order in this matter.

[43] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 30th day of March, 2020.

David J. Almon