DECISION **2025 NSRAB 13**
M12046

NOVA SCOTIA REGULATORY AND APPEALS 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 Commercial Vehicles and Interurban Trucks

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

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

FINAL SUBMISSIONS: March 3, 2025

DECISION DATE: **April 17, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Co-operators General Insurance Company applied to the Nova Scotia Regulatory and Appeals Board to change its rates and risk-classification system for Commercial Vehicles and Interurban Trucks, including private buses and school buses. The company proposes rate changes that vary by coverage and result in an overall combined increase of 3.6%. In addition to changes to rates, the company also asks the Board to approve changes to existing rating variables and endorsements; changes to Class Mapping; changes to its renewal premium dislocation capping mechanism; changes to rate funeral and driver training vehicles as commercial vehicles; changes to the rating of dependent vehicles (private and school buses); and the adoption of 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 Co-operators' application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

[3] 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 had no comments on the Staff report, apart from identifying a correction to the return on equity.

[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 Co-operators' Health Services Levy amount and the profit provision. Board staff consider that Co-operators satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR response.

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

- Health Services Levy;
- Profit Provision;
- Proposed Rate Changes;
- Adoption of 2024 CLEAR Table;
- Modifications to existing rating variables;
- Rating funeral vehicles as commercial vehicles;
- Rating Driver Training Vehicles as commercial vehicles;
- Proposed modification of Class Mapping;
- Proposed changes to endorsements;
- Proposed changes for dependent vehicles; and,
- Renewal Premium Dislocation Cap.

Health Services Levy

[6] In its indications, Co-operators used a Health Services Levy amount of $42.70 per vehicle. Co-operators obtained this number from exhibit AUTO1003-ATL_2023 published by the General Insurance Statistical Agency (GISA). The indicated effective date for that value in the GISA exhibit is January 1, 2023.

[7] Board staff notes that the invoiced Health Services Levy for 2024 was $49.58 per vehicle. Co-operators noted applying the higher 2024 value for the levy would increase the overall all-coverage combined indications by 1.3%

[8] Board staff recommend the Board require Co-operators to use the higher levy in its indications. The Board finds that using a lower value for the Health Services Levy is not justified when the Board has a more current estimate, even if it leads to indications for higher rates.

Profit Provision

[9] Co-operators used a target return on equity of 12%, consistent with its most recent application. However, it used a premium-to-surplus ratio higher than its last application and higher than the Board's recommended approach. The company's move to a portfolio with less investment risk resulted in the increase in the premium to surplus ratio*.* Coupled with the assumption for investment return on surplus, this application's assumptions produce a profit provision of 4.8% of premium, lower than the Board's target range and slightly lower than that approved by the Board in the last commercial vehicle filing for the company.

[10] In previous applications, the Board allowed Co-operators to use a 12% return on equity based on the evidence demonstrating Co-operators' experience differed from the industry. The financial information in this filing continues to support this result, with only the years 2020-2021 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. The company demonstrated that its results are different

than industry's, and the Board accepts the recommendation to continue to allow Co-operators' use of the 12% return on equity in this application.

[12] Based on Board staff's recommendation, other than using the higher value for the Health Services Levy, the Board will use Co-operators' indications as the target to assess whether the proposal is reasonable.

Proposed Rate Changes

[13] Co-operators proposed increases for Bodily Injury, Comprehensive & Specified Perils, Uninsured Automobile, but no increases to other coverages. These proposed increases were in the direction of the Staff-indicated changes but lower than indicated. For Property Damage-Tort, DPCD, Accident Benefits and Collision the company proposed decreased rates. For Family Protection Endorsement (SEF#44), the company proposed no change despite indications for a decrease. The decision to take lower than indicated increases was offset in part by decisions to take smaller than indicated decreases for the other coverages.

[14] The proposal for an overall all-coverages combined increase that is smaller than called for by the indications produces a return on equity well below the allowed 12%. Co-operators noted that it considered both profitability and the dislocation impact on clients. Given the low volume, and the resultant lack of credibility, for commercial vehicles, the company chose rate changes that moved towards the indicated rate changes. The company will continue to monitor the profitability of the portfolio in the future.

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

Adoption of 2024 CLEAR Table

[16] Co-operators currently uses the 2022 CLEAR tables to assign rate groups to light commercial vehicles for physical damage coverages. The company proposes adopting the 2024 version of these tables. When the company prepared this application, the Board had not yet approved the 2025 version of the table.

[17] Co-operators will also allow the use of the CLEAR rate groups for heavy commercial vehicles, if the vehicle can be found in the table. Otherwise, the company will continue to use vehicle value to determine rate group.

[18] Co-operators included the impact of these rating changes as part of the impact of the selected changes that it off-balanced to make the modifications as close to revenue-neutral as possible.

[19] Board staff recommended the Board approve the proposed use of the 2024 CLEAR tables, for light commercial vehicles and for those heavy commercial vehicles that can be found in the table, along with the off-balancing of the impact as part of the overall off-balancing of the proposed changes. The Board agrees.

Modifications to existing rating variables

[20] Co-operators conducted an analysis of its national experience data using a Province variable to control for differences between Nova Scotia and the other provinces. The company analyzed several existing rating variables and proposed changes. The changes to these variables are briefly discussed below. The impact of these changes formed part of the impact that was off-balanced using the extension of exposures to get close to revenue neutrality.

- *Class* - The Class variable maps gross vehicle weight, vehicle use, and radius of operation to a code that is used for rating. A re-mapping was done to align the code definitions with that expected for the period for which the rates will apply. Co-operators chose differentials that were within the indications to manage dislocation and to ensure a smooth progression toward the full indications over time.

- *Years Licensed* - The company currently uses factors for this variable that differentiate between the various years licensed from zero to forty years. Co-operators will expand the differentiation to fifty years licensed. The change to the differentials varied by vehicle type for some coverages.

- *Vehicle Rate Group* - The company currently uses the published CLEAR differentials to determine the premium for a given vehicle rate group. Co-operators added Vehicle Rate Group to their model with the goal of developing revised differentials reflecting its own internal experience. The company used national data to increase the credibility of the results. The company based its differentials on those indicated by the analysis with adjustments made to limit the dislocation impact on its clients or to remove anomalies. The company will include an interaction variable that results in differentials varying by whether the vehicle was rated using CLEAR table rate group or by vehicle value. The company found evidence that the Comprehensive differentials should vary by Urban versus Rural. While evidence only supported this distinction for Comprehensive, the company will create a rating structure to allow for the Urban versus Rural distinction to apply to other physical damage coverages in the future but will use a differential of 1.00 for both Urban and Rural making it have no impact. Should Co-operators want to make this interaction variable effective for these other coverages in the future, the company will be required to provide evidence supporting the use of this interaction for those coverages.

- *Vehicle Value* - The company currently uses this variable only for heavy commercial vehicles for physical damage coverages. With the proposal to allow heavy vehicles to use CLEAR rate groups where found, Co-operators proposes to use three differential curves for vehicle value. The first applies to those vehicles that are rated using CLEAR. The second curve is for those vehicles not rated using CLEAR. The third is a separate curve used for Trailers. The company deviated from the model results by making manual selections to help manage dislocation and to ensure a smooth progression toward the full model indications. For Trailers, however, Co-operators used the current differentials to avoid extreme dislocations that would have resulted from a change to the model indicated levels. Co-operators will also change the approach to determining vehicle value for Comprehensive coverage only, to add the Insurance Bureau of Canada (IBC) Price from the vehicle description table, which can only be found for vehicles in the CLEAR table The IBC Price will take the second priority after Appraisal Value.

- *Vehicle Age* - Co-operators defines Vehicle Age as the difference between year of policy issue and the model year of the vehicle. Trailers use their own vehicle age rather than that of the towing vehicle. The company uses this rating variable for physical damage coverages. With the extension of the use of the CLEAR table to vehicles beyond light commercial vehicles, the company proposed moving from a single differential curve to two differential curves. The first applies where the vehicle is rated by CLEAR and the second applies if the vehicle is not rated using CLEAR. For Comprehensive, Co-operators found there is an interaction with Urban/Rural as vehicles of certain ages were more likely to be prone to theft in Urban areas compared to rural areas. Theft is an insured peril under Comprehensive.

- *Maximum Radius of Operation* - Co-operators uses this variable to capture the length of the longest one-way trip for those Classes that do not already reflect this radius. The variable applies to most coverages. In the model, Co-operators narrowed the width of the radius bands to better match the premium to the radius differences. The selected differentials followed the indicated levels, with some deviations to manage dislocation and to ensure a smooth curve of results with no anomalies.

- Exposure - Exposure represents the annual kilometers driven. Co-operators uses this variable in conjunction with vehicle type to account for the differences in risk between low and high exposure levels. The company made manual adjustments to lower the impact on its customers, but the change in the differentials tended to follow the direction of the indication.

- Body Style - The company uses the IBC vehicle description table to map a Body Style to a vehicle. With the changes to existing variables (e.g., the inclusion of Vehicle Rate Group varying by Urban and Rural and the Vehicle Value variable), the model suggested the Body Style variable was no longer significant for Comprehensive and the company will remove it for this coverage.

[21] Board staff recommended the Board approve the proposed changes to these existing rating variables, including the new interaction variables noted for Comprehensive, while reflecting the caveat for the Urban/Rural interaction with Vehicle Rate Group. The Board agrees.

Rating Funeral Vehicles as Commercial Vehicles

[22] Co-operators rates funeral vehicles using private passenger vehicle rates. The company will change to use commercial vehicle rating for these vehicles. Funeral vehicles will be mapped to Class 35. Using commercial vehicle rating is more appropriate

given the commercial nature of the use of these vehicles. Because the company insures few of these vehicles, it did not determine the impact of this change.

[23] Board staff recommend the Board approve the switch to using the commercial rating algorithm for funeral vehicles, consistent with the commercial nature of such vehicles. The Board agrees.

Rating Driver Training Vehicles as Commercial

[24] Co-operators rates light and heavy commercial vehicles used for Driver Training using its private passenger vehicle rating algorithm. Given Driver Training is a commercial use, the company will streamline its internal process and rate these vehicles using the commercial vehicles rating algorithm. Light commercial Driver Training vehicles will be assigned Class 36, while heavy commercial Driver Training vehicles will be assigned Class 44. Co-operators does not insure any of these vehicles currently, so there is no impact from these changes.

[25] Board staff recommend the Board approve the switch to using the commercial rating algorithm for light and heavy commercial vehicles used for Driver Training, consistent with the commercial nature of such vehicles. The Board agrees.

Proposed Modification of Class Mapping

[26] Co-operators proposed some revised mapping of vehicles to Class, based on how the vehicles are used. The company will create a Farm Operations section, a Road Maintenance Operations section, a Snow Removal Operations section, and a Tractor section for tractors used for other than road haulage. Under each section, several categories are listed to assign a Class based on the tasks the vehicle is undertaking.

[27] The company noted the changes are to consolidate the vehicles into an easy-to-use section and the change has no impact. No vehicle will be assigned a different Class because of this change.

[28] Board staff recommend the Board approve the changes to the Class mapping for Operations Type Use and the vehicle use definition. The Board agrees.

Proposed Changes to Endorsements

[29] Co-operators offers its NSEF#20 – Loss of Use endorsement for private passenger vehicles and light commercial vehicles only. This endorsement provides for expenses incurred for renting a substitute vehicle because of loss of use of the insured vehicle arising from a collision or other insured peril. The expenses per occurrence are capped at level selected by the customer.

[30] With a greater willingness to write heavy commercial vehicles, Co-operators will offer this endorsement to heavy commercial vehicles. The company will offer $1,500, $2,000 and $2,500 limits, as well as higher limits in $500 increments. The company believes extending this coverage to heavy commercial vehicles will help it maintain its competitiveness for these vehicles.

[31] The company explained it calculated the expected loss cost based on five years of national data. The premium difference reflects the relationship between the observed loss costs for light and heavy commercial vehicles, as well as the observed prices in the market for the endorsement for these vehicles.

[32] Board staff recommend the Board approve the proposed changes to NSEF#20 – Loss of Use endorsement to allow it to apply to heavy commercial vehicles, including the proposed premiums. The Board agrees.

Proposed Changes for Dependent Vehicles

[33] Currently, private and school buses have independent rating approaches for some coverages and use the current commercial rating approach as a base for other coverages. Co-operators proposed to rate private buses and school buses under the proposed heavy commercial truck rating algorithm. Co-operators views buses like heavy commercial vehicles, warranting the use of that rating algorithm. The company will still use three bus-specific rating variables.

[34] Co-operators insures few private buses and no school buses. The impact of the change is a 19% increase in premium. The renewal premium dislocation capping mechanism will reduce the immediate impact of the changes where they apply.

[35] Board staff recommend the Board approve the proposed changes to the dependent categories of private buses and school buses. The Board agrees.

Renewal Premium Dislocation Capping

[36] In a previous decision, the Board approved Co-operators' use of its Gap Factor Capping mechanism, which allows the company to take more rates for cases that are farther away from the uncapped premium, rather than applying a set cap on increases for all policies. The company also caps rate decreases.

[37] Co-operators proposed to change the cap threshold to limit the decreases to 10% instead of the current 18%. All other capping thresholds remain unchanged. The company confirmed that the premium foregone under the cap on increases exceeds any extra premium collected on decreases, which satisfies the Board's requirement for capping rate decreases.

[38] The company proposed to maintain its previously approved conditions for the circumstances when the cap does not apply. Co-operators will re-evaluate the capping program in its next rate review. Board staff recommended the Board approve maintaining the Gap Factor Capping mechanism with the decrease limit change as proposed. The Board agrees.

III SUMMARY

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

[40] The Board finds the proposed rates are just and reasonable, and approves the changes effective July 16, 2025, for new business and August 15, 2025, for renewal business.

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

[42] 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 January 1, 2028.

[43] Board staff reviewed Co-operators' Automobile Insurance Manual filed with the Board and the proposed changes and did not find any instances where the Manual contravened the *Act* and *Regulations*. The Board requires Co-operators to provide an updated automobile insurance manual within 30 days of the date of the Board's Decision.

[44] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 17th day of April, 2025.

Bruce H. Fisher