DECISION **2023 NSUARB 17**
M10874

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **UNIFUND ASSURANCE COMPANY** for approval to change its rates and risk-classification system for private passenger vehicles

BEFORE: Jennifer L. Nicholson, CPA, CA, Member

APPLICANT: **UNIFUND ASSURANCE COMPANY**

FINAL SUBMISSIONS: December 13, 2022

DECISION DATE: **February 2, 2023**

DECISION: **Application is approved**

I INTRODUCTION

[1] Unifund Assurance Company 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 result in an overall increase of 8%. Unifund also proposed changes to its credit-based rating variable, Quality Rating Factor. The company will adopt the 2022 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 Unifund's application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

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

[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 certain

issues. Board staff consider that Unifund 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 trend selections;
- COVID-19 considerations;
- Proposed rate changes;
- Proposed adoption of 2022 CLEAR table; and
- Proposed changes to Quality Rating Factor.

Loss Trends

[6] Unifund adopted the loss trends selected by the Board's consulting actuaries, Oliver Wyman Limited, in its report based on data through December 31, 2021. In developing the selections, Oliver Wyman noted the recent increase in inflation. Oliver Wyman recommended adjusting future physical damage trend rates to reflect the actuary's view of inflation, as well as the recent CPI, for vehicle maintenance and repair costs in Nova Scotia.

[7] To account for expected higher inflation, Unifund added an amount to the base future trend for physical damage coverages (i.e., PD-Tort, DCPD, Collision, Comprehensive, Specified Perils and All Perils). This reflects the excess of the expected inflation over the country-wide severity trend. The company selected this assumed inflation amount, which is lower than what is currently being experienced, to reflect its belief that inflation levels will abate in the future.

[8] This inflation adjustment is consistent with that used by Intact Insurance Company in a recent filing. Intact acquired the Unifund business effective June 1, 2021, making the Intact assumption appropriate in these circumstances.

[9] Board staff recommends the Board accept the company's use of the Oliver Wyman December 2021 loss trends, with future physical damage coverage loss trends adjusted for expected higher inflation, used as the target indications to assess the appropriateness of the Unifund proposal. The Board agrees.

COVID-19 Considerations

[10] In developing the indications, Unifund used loss experience for the last five years ending June 30, 2022. With the inclusion of 2020 and 2021 data, the experience used includes pandemic data. Unifund made no adjustments to that pandemic data to bring it to a "pre-pandemic" level. Unifund believed the higher uncertainty surrounding the data in those years, arising in part due to the immature stage of the claims, made it difficult to determine appropriate adjustments. Instead, Unifund chose to lower the weights applied to the pandemic years to reduce the impact those years would have on the indication. Unifund also did not assume any lingering impacts from the pandemic on claims experience.

[11] Unifund supported its decision not to adjust the loss data used in the indications, but instead to alter the weights applied to the pandemic years. Board staff recommends the Board not require Unifund to make any adjustments. The Board agrees.

Staff Indications

[12] Based upon these recommendations, Board staff recommends the Board use the Unifund indications as the appropriate target against which to assess the reasonableness of the Unifund proposal. The Board agrees.

Comparison of Proposed Rates to Indicated Rates

[13] For all coverages where changes are proposed, the proposal moves in the direction of the indications. The size of the proposed change, however, differs from the indicated change.

[14] The proposal for Bodily Injury and Accident Benefits results in mandatory coverage rates exceeding the indicated rates. While the indicated Bodily Injury decrease is small, the indicated decrease for Accident Benefits is much larger. Unifund explained that Accident Benefits has a +1.5% annual loss cost trend and lowering rates may not be prudent. The company chose not to change these coverages to maintain rate stability and to avoid premium swings.

[15] For optional coverages, Unifund proposed lower than indicated rates. The lower than indicated optional coverage rates offset the mandatory coverage result leading to an overall all-coverages combined increase that is lower than indicated. Because a high percentage of Unifund policies carry optional coverages, most policies will benefit from this subsidy. This mitigates concerns about cross-subsidization of rates.

[16] The proposed rates result in a return on equity of 9.34%, which is below the Unifund target and the low end of the Board range for reasonable levels of 10%. While below the target, the proposed return on equity is much closer to target than observed in previous Unifund applications.

[17] While the Board has concerns about companies not taking their full indicated rate changes and the potential this approach creates for large future increases, the change proposed by Unifund is almost 90% of the indication. Given this observation,

Board staff recommends the Board approve the Unifund proposed rate changes for all coverages. The Board agrees.

Other Proposed Changes

Territorial Differentials

[18] The company proposed no changes to territories. In such circumstances, the Board does not require an analysis of territorial differentials, nor did Unifund provide such an analysis.

Adoption of 2022 CLEAR Tables

[19] Unifund uses the 2021 CLEAR table to assign rating groups for physical damage coverages. Unifund uses the CLEAR (AB Alberta & Atlantic) - Collison, DCPD, and Comprehensive Separated version. Unifund does not use CLEAR for rating Accident Benefits.

[20] Unifund proposed the adoption of the 2022 version of this table, which the Board approved for use early in 2022. When asked if the company wanted to amend the filing to use the 2023 CLEAR table, which the Board recently approved, Unifund indicated it wanted to stay with the 2022 table due to systems constraints. Unifund off-balanced the impact of the switch to the new table to make the table change revenue-neutral.

[21] Board staff recommends the Board approve the proposed adoption of the 2022 CLEAR table. The Board agrees.

Changes to Quality Rating Factor

[22] Unifund received approval for its credit-based rating variable, Quality Rating Factor, for new business only in 2021 [2021 NSUARB 27]. In a later application [2022 NSUARB 43], Unifund received approval to align its credit-based discounts with the

discounts that Intact uses for its own credit-based rating variable and to extend the use of the rating variable to renewal business as well as new business. Clients still must provide consent for Unifund to undertake a credit-check in order to provide a discount.

[23] In a recent application, Intact proposed changes to its own credit-based rating variable [2023 NSUARB 11]. The Board approved these changes, Unifund's current proposal is based on these changes.

[24] Unifund proposed to align its discounts with those proposed by Intact. To do so, the company used the same approach the Board approved in the previous Intact application. Unifund off-balanced the impact of the change to make it revenue-neutral.

[25] Board staff recommends the Board approve the proposed changes to the credit-based rating variable, Quality Rating Factor. The Board agrees.

Other Observations on the Application

Automobile Insurance Manual Review

[26] The company proposed no changes to its automobile insurance manual. Board staff reviewed the manual on file and found no areas where Unifund appears to violate the Insurance Act or its Regulations.

[27] Because the automobile insurance manual does not include rates or CLEAR tables, nor does it mention Quality Rating Factor, the proposed changes would not impact the manual. The Board, therefore, does not require Unifund to provide an updated manual for this matter.

Effective Dates

[28] Unifund proposed effective dates of April 1, 2023, for new business and May 1, 2023, for renewal business. Board staff recommends that the Board approve these effective dates. The Board agrees.

III SUMMARY

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

[30] The Board approves the following:

a) The proposed changes to base rates;
b) the adoption of the 2022 CLEAR tables; and
c) the differential changes for the credit-based rating variable, Quality Rating Factor.

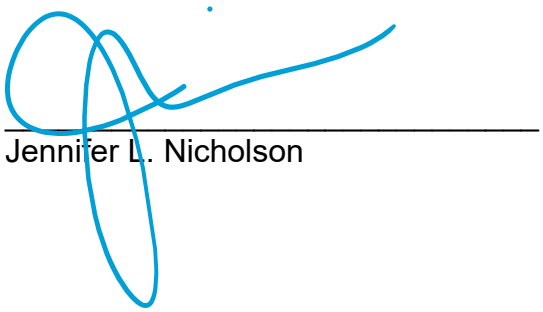
[31] The Board finds the proposed rates and risk-classification systems are just and reasonable, and approves the changes effective April 1, 2023, for new business and May 1, 2023, for renewal business.

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

[33] 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 Unifund for private passenger vehicles is November 1, 2024.

[34] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 2nd day of February, 2023.



Jennifer L. Nicholson