DECISION **2025 NSUARB 23**
M11952

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **BELAIR INSURANCE COMPANY INC.** for approval to change its rates and risk-classification system for private passenger vehicles

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

APPLICANT: **BELAIR INSURANCE COMPANY INC.**

FINAL SUBMISSIONS: December 10, 2024

DECISION DATE: **January 31, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Belair Insurance Company Inc. applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposes changes to its base rates that vary by coverage but not by territory. The combined effect is an overall rate level increase of 7.8%. Belair based these changes on indications that suggest the rates should increase overall by a higher amount.

[2] The company also proposed the adoption of the 2024 Canadian Loss Experience Automobile Rating (CLEAR) Table, changes to the differentials for its credit-based rating variable, and changes to its discount and endorsement offerings. The company also proposed some revisions to its underwriting manual.

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

II ANALYSIS

[4] Belair applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Belair 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

Belair. The company reviewed the report and informed Board staff that it had no additional comments to provide.

[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 Belair's loss trends selections and profit provision. All other issues raised in the IR process were successfully resolved.

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

a. Loss trends;
b. Profit provision;
c. Proposed Rate Changes
d. Adoption of 2024 CLEAR;
e. Credit-based rating variable changes;
f. Endorsement changes;
g. Discount changes;
h. Renewal premium dislocation capping mechanism; and
i. Underwriting rule changes.

Loss Trends

[7] Belair was formed by merging the business of Trafalgar Insurance Company of Canada and Unifund Assurance Company. Intact Insurance, Belair's sister company, acquired Unifund as part of its acquisition of Royal & Sun Alliance Assurance Company. The Unifund portfolio was much larger than the Trafalgar portfolio in Nova Scotia.

[8] Belair based its selected loss trend rates primarily on a review of internal Unifund experience and supplemented this information with industry data where needed. Belair argued that internal data reflects prospective losses more than industry data would. Belair used Unifund data through December 2023.

[9] Belair examined frequency, severity and loss cost separately to make the loss trend selections. The company varied the experience period when making the loss trend selections, using more current data (e.g., 2018-2023) for short-tail coverages and a longer period (2011-2023) for longer tail coverages.

[10] Belair varied future trend rates from its past trend rates to reflect changes observed over the most recent data. For example, for Bodily Injury, Belair noted a positive trend in frequency from 2020-2023 and chose to go with a zero frequency instead of the negative value used in the past trend. The result was a higher future trend. For physical damage coverages, Belair excluded excess inflation years and based its severity future trend on data for 2014-2020. This approach resulted in a lower future trend.

[11] The Board asks Oliver Wyman to provide its loss trend selections twice a year for private passenger vehicles. For its report using industry experience through June 2023, Oliver Wyman reviewed data from 2003 through June 2023 but tended to rely on more current data when making its selections.

[12] Oliver Wyman developed its loss trends with the impact of the COVID-19 pandemic removed. As a result, Oliver Wyman excluded the 2020 and 2021 data points when making its selections for those coverages that experienced a significant change in claims costs due to the pandemic.

[13] Oliver Wyman examined trends for frequency, severity, and loss cost information. Oliver Wyman made its selections after examining both five and 10 years of data, on a half-yearly basis. For future trends, Oliver Wyman selected the most recent past trend, assuming it would continue.

[14] 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 one-time increase in severity for Direct Compensation - Property Damage (DCPD), Collision, and Comprehensive at the second half of 2021 by 11.3%, 8.9%, and 14%, respectively. The trends selected by Oliver Wyman would then apply to the "shocked" claims.

[15] In response to the IRs, Belair provided indications using the Oliver Wyman trends with the inflation shock parameters for DCPD and Collision, as noted. The overall indications were lower than the Belair indications. The overall increase under the Oliver Wyman trends was lower than the increase using the Belair indications.

[16] The June 2023-based Oliver Wyman report was the only report available when Belair prepared its application. Since that time, Oliver Wyman provided the Board with its December 2023-based selections. Board staff asked Belair to provide indications using the December 2023-based selections. The overall increase was higher than the Belair indications.

[17] Given the Board has more recent advice from Oliver Wyman, the Board believes it is inappropriate to use the June 2023 trend report as a standard especially given the newer report would produce larger indicated rates.

[18] Because the Belair indications fall within the range created by the June 2023 and December 2023 Oliver Wyman based indications, Board staff recommend the Board accept the Belair loss trends as the appropriate ones for use in determining the indications to be used as the target to assess the appropriateness of the company's

proposal. This recommendation applies in the circumstances of this application and may not be relied upon as a precedent for future filings. The Board agrees.

Profit Provision

[19] In the company's methodology, the underwriting profit margin, permissible loss ratio and premium to surplus ratio are not input variables but are outputs of the pricing model. Belair used a model that projects cash flow for a policy using assumptions about expenses, losses, investment income, etc. It also has, as model inputs, a target return on equity (ROE) (Belair uses 11%), and the Office of the Superintendent of Financial Institutions (OSFI) minimum capital test percentage that the company desires to hold.

[20] While the OSFI test is a minimum capital test, OSFI requires companies to hold an even higher percentage. To stay above this regulatory level, Belair notes that Intact must plan and price for an even higher ratio. For its model, Belair used 200%. This level is consistent with past Intact applications. The Belair model, for each coverage, solves for the permissible loss ratio, which results in the net present value of the cash flows being zero. If the company experiences loss ratios at this level (assuming all other assumptions are met), the company will achieve its 11% target ROE. The model produces a premium to surplus ratio of 2.09:1 and profit provision expressed as a percentage of premium of 5.8%.

[21] The Board has required companies, including Intact, to lower the target return on equity to 10%. This action was taken as a result of Board concerns that, as evidenced in part by the release of the 2012 and 2013 General Insurance Statistical Agency Financial Information Reports, the industry appeared to be earning returns on equity well in excess of the 12% the Board believed it was approving.

[22] The 2014-2019 versions of these reports show negative return on equity for the industry. The Board believes this is a result of many companies not taking full indicated rates coupled with some deteriorating experience, possibly related to inclement weather at the start of 2015. The Board does not believe it is a result of the Board directing companies to the lower end of their profit range. As such, the Board has continued to require a 10% ROE for most companies.

[23] The 2020, 2021 and 2022 versions of the report show positive returns. These results may be driven by the reduced claims resulting from lower driving observed during the pandemic combined with a move by companies to take premium increases. General Insurance Statistical Agency (GISA) did not publish a 2023 report due to a change in accounting standards.

[24] Belair noted the Board filing requirements state a reasonable return as a percentage of premium basis is 5.5%-7.0%, assuming a 2:1 premium to surplus ratio. The company chose its 200% MCT and 11% ROE to get a return on premium (5.8%) that falls within the range.

[25] While the 5.8% under the Belair assumptions falls within this range, Board staff does not believe that necessarily makes the Belair assumptions appropriate. As noted, the Board ordered Intact and other companies to use a 10% ROE and thus the low end of the profit provision range. Belair provided no evidence to show it is different than the industry, so the 10% remains appropriate for use.

[26] Belair provided indications using the 10% ROE and all other Belair assumptions unchanged. These indications were slightly lower than the Belair indications.

[27] Despite the small difference, Board staff recommends, as it did with Intact, the Board allow Belair to use its 200% of MCT but use a 10% ROE instead of 11%. These assumptions produce a premium to surplus ratio of 2.06:1, close to the common 2:1, and a profit provision of about 5.2%, Just below the bottom of the revised Board range. The Board agrees.

Staff Indications

[28] Based on the approved recommendations, the Staff Indications are calculated using all Intact assumptions except a 10% ROE. Board staff recommends the Board use Staff Indications as the appropriate target to assess the reasonability of the Intact proposal. The Board agrees.

Proposed Rate Changes

[29] For coverages other than Collision and All Perils, the proposed rate changes follow the direction of Staff Indications, but the size of the changes is different. For Collision, and All Perils, the proposed rates are higher than the indicated rates, while the opposite is true for other coverages. The result is a small subsidy but one which is not large enough to warrant Board intervention.

[30] Because the overall proposed change is lower than indicated, the proposed rates would produce a ROE that is lower than the allowed 10%. Belair estimates this proposed ROE to be 7.35%.

[31] Belair supported its proposed rate changes. The Board approves the proposed rate changes.

Adoption of 2024 CLEAR Table

[32] To assign rate groups for physical damage coverages and Accident Benefits, Belair uses the 2023 CLEAR (Canada, Collision and DCPD Combined, with extended Vehicle Code (21 years) for Alberta & Atlantic Canada). Belair proposed the adoption of the 2024 version of the CLEAR table. Belair off-balanced the impact of the adoption of the table to make the change revenue-neutral.

[33] Board staff recommends the Board approve the proposed adoption of the 2024 CLEAR table and the associated off-balancing for both companies. The Board agrees.

Credit-Based Rating Variable Changes

[34] In *Belair Insurance Company (Re)*, 2023 NSUARB 179, the Board approved Belair's credit-based rating variable. The variable provides a discount for better credit scores for those policies where the insured provided consent to the company to do a credit check. Belair adopted the Trafalgar credit-based rating variable that was the same as the one used by Intact.

[35] Because Intact has much more data than Belair, the company relied on a one-way analysis of Intact data to examine the relative loss costs between the various levels of each of the variables being changed. Where the data was not fully credible, Belair used the current relativities as the complement of credibility. Belair off-balanced the impacts of the differentials changes through base rates to make them revenue-neutral.

[36] Belair applied the variable to most coverages. As a result of the Intact analysis, Belair proposed changes to the credit score where the discounts begin and to

its discount levels offered (i.e., differentials) that reflected the indications with some adjustments to maintain the smoothness of the differential curve.

[37] Board staff recommends the Board approve the proposed changes to Belair's credit-based rating variable. The Board agrees.

Endorsement Changes

[38] Belair offers a Roadside Assistance Endorsement. Under the endorsement, Belair arranges for and covers the costs of the roadside assistance services (i.e., battery boosting, towing due to mechanical breakdown, gas delivery, tire change, lockout assistance, extraction of stuck automobile). The company limits reimbursements to $100 per event and $400 annually.

[39] Belair proposed a premium increase based on the increased cost of towing services, and the expected increases as the company revises its contract with its external roadside assistance provider. The company believes the increase will allow it to continue to provide the benefits under the endorsement. The revised premium aligns with other provinces.

[40] Board staff recommends the Board approve the proposed increase to the premium for the Roadside Assistance Endorsement. The Board agrees.

Discount Changes

[41] Belair proposed changes to its Hybrid and Electric Discount, which provides a discount for electric and hybrid vehicles. Belair proposed to vary the discount for electric vehicles (EV) based on the vehicle price (i.e., manufacturer's suggested retail price plus GST) band in which the vehicle falls. The proposed changes match those approved by

the Board for Intact earlier this year, in *Intact Insurance Company (Re)*, 2024 NSUARB 53.

[42] Belair relied on the analysis Intact provided to the Board in a recent application. Intact noted, from its own Ontario and Quebec experience, that EVs within the zero to $30,000 price range have a higher frequency of claims but lower severity of claims than non-EVs within the same price range. EVs within a price range of $50,000 and up experience higher frequency and higher severity than non-EVs with the same price range. Claims should, therefore, increase as price ranges increase. Experience in the United States showed Tesla cars have higher claims than gas-powered luxury cars. This result also supports a declining discount as the vehicle price band increases. The Belair proposal recognizes these observations.

[43] Belair, like Intact, also proposed lowering the discount for hybrid vehicles from 5% to 3% regardless of vehicle value. Both changes are part of a nationwide initiative to position the company as climate conscious while recognizing, in part, the realities of claims experience for these vehicles.

[44] Board staff recommends the Board approve the proposed changes to the Hybrid and Electric Discounts. The Board agrees.

Renewal Premium Dislocation Capping Mechanism

[45] To manage the dislocation experienced by their clients, Belair received approval for its current renewal premium dislocation capping mechanism. The cap acts to limit renewal premium increases to 12% and renewal premium decreases to 8%. Belair proposes to continue to use this renewal premium capping mechanism but with revised capping limits. The cap on renewal premium increases will rise from 12% to 18%, while

the cap on renewal premium decreases will move from 8% to 10%. All other aspects of the mechanism will remain unchanged.

[46] To use a cap on renewal premium decrease (i.e., a negative cap), the Board requires companies to demonstrate the premium forgone from the cap on renewal increases will exceed the extra premium collected from the cap on renewal decreases. Belair provided the required evidence to confirm it met this requirement. Belair believes the cap will be in effect on average for one year, but some policies may be subject to the cap for longer. Board staff recommends the Board approve continued use of the renewal premium dislocation capping mechanism with the revised capping limits. The Board agrees.

Underwriting Rule Changes

[47] In addition to the revisions required to reflect the changes in this Decision, Belair proposed a change to the wording around its Non-Payment Cancellation Surcharge. Because the company is willing to accept risks with one non-payment cancellation, the reference to an exception is not required. The change does not alter how the surcharge applies but simply recognizes the change in the company's willingness to write risks with one non-payment cancellation.

[48] The change does not violate the *Insurance Act* or its *Regulations*. Board staff recommends approval of the changes. The Board agrees.

III SUMMARY

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

[50] The Board finds the proposed rates are just and reasonable and approves all changes other than the adoption of the 2025 CLEAR table to be effective February 20, 2025, for new business and April 21, 2025, for renewal business. Due to administrative systems constraints, Belair will adopt the 2025 CLEAR table effective on March 16, 2025, for new business and May 15, 2025, for renewal business.

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

[52] 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 Belair Insurance Company Inc. for private passenger vehicles is November 1, 2026.

[53] The company must file an electronic version of its Automobile Insurance Manual, updated for the changes approved in this decision, within 30 days of the issuance of the order in this matter.

[54] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 31st day of January, 2025.

Jennifer L. Nicholson