DECISION | **2024 NSUARB 35**
M11493

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **DEFINITY INSURANCE COMPANY** for approval to change its rates and risk-classification system for commercial vehicles

BEFORE: M. Kathleen McManus, K.C., Ph.D., Member

APPLICANT: **DEFINITY INSURANCE COMPANY**

FINAL SUBMISSIONS: February 1, 2024

DECISION DATE: **February 22, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On December 22, 2023, Definity Insurance Company (Definity) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for individually rated commercial vehicles. The company proposes rate changes that vary by coverage and result in an overall increase of 15.1%. In addition to changes to rates, the company also asked the Board to approve the adoption of new tables, to assign rate groups, to introduce a service fee for monthly payment plans, and a renewal premium dislocation capping mechanism.

[2] Definity had a mandatory filing date of December 1, 2023, but the Board extended the deadline to December 22, 2023, at the request of the company.

[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 Definity's application meets these requirements and approves the company's proposed rates and risk-classification system. The Board also approves: Definity's adoption of the IAO Commercial Auto Rate Group Tables I and II, published July 2023 and the proposed off-balancing of the table changes to make them revenue-neutral; changes to the expense factors and the health levy factors in the rating algorithm; and a service fee for monthly payment plans.

II ANALYSIS

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

[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 certain issues. Board staff considers that Definity satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

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

- Proposed rate changes;
- Rate Group Tables;
- Rating Algorithm Changes;
- Service Fee for Monthly Payment Plans; and
- Renewal Premium Dislocation Capping Mechanism.

Proposed Rate Changes

[7] Definity proposed changes to its rates and risk-classification systems that vary by coverage. The changes are uniform by territory and result in an overall rate level increase of 15.1%. Definity based its proposal on actuarial indications, which are calculations of the changes to the current premium that the company should make to achieve its target return on equity if its actuarial assumptions prove correct. These actuarial indications suggest Definity should take a higher increase in its rates overall.

Loss Trends

[8] Definity based its past or retrospective loss trend rates on a review of industry experience in Atlantic Canada from January 1, 2008 through December 31, 2022. Definity examined frequency and severity separately. Definity did not use the frequency

results and instead chose to use a zero-frequency trend for all coverages. The company then focused on severity models.

[9] Oliver Wyman, the Board's consulting actuaries, examined trends for frequency, severity, and loss cost information. Oliver Wyman made its loss trend selections after examining both 5 and 10 years of data, on a half-yearly basis. For future trends, Oliver Wyman selected the most recent past trends, assuming it would continue.

[10] Definity selected future trends equal to the Oliver Wyman trends. The company explained that after estimating the trends using industry data and internal data and comparing it to the Oliver Wyman results, its view of future trends aligned with that of Oliver Wyman. To simplify the process, Definity chose to use the Oliver Wyman selections for its future trends. This selection also recognizes that the higher inflation observed (which, in part, led to the higher past trends for physical damage coverages) will moderate in the near future.

[11] Board staff recommends the Board approve the Definity loss trends, as the appropriate ones to determine the target indications to be used to assess the appropriateness of the Definity proposal. The Board agrees.

COVID-19 Considerations

[12] Definity relied on claims experience through the end of 2022, which was the most recent complete accident year in its Corporate Data Warehouse. The inclusion of 2020 through 2022 data results reduced claims reported in the data as the pandemic changed driving behaviour. Definity developed factors using the industry data to adjust the pandemic data to a pre-pandemic level so that the analysis could be done on an apples-to-apples basis.

[13] The factors used for the accident years 2020 through 2022 decreased as the pandemic's impact on driving behaviour lessened. The 2022 data shows that claims have almost returned to pre-pandemic levels. Definity applies these factors to all coverages that appear to have been impacted by the pandemic. On this basis, Definity made no adjustment to Comprehensive as this coverage seemed to escape the influences of the pandemic.

[14] Board staff recommends the Board makes no adjustments to Definity's analysis for the impact of COVID-19. The Board agrees.

Staff Indications

[15] Staff indications, which are the recommended target against which the Board should assess the company's proposal, are the same as Definity's indications using the 10% return on equity as provided in the information request process, instead of the indications in the application which used a slightly higher (10.7%) return on equity.

[16] For coverages other than Direct Compensation Property Damage (DCPD), Accident Benefits and Specified perils, Definity selected rate changes that resulted in lower than indicated rates.

[17] For DCPD and Accident Benefits, Definity selected increases that were higher than indicated. The company noted it chose a 15% increase overall and attempted to apply it approximately to all coverages regardless of indications. The company viewed the overall indication as more credible than the individual coverages, as the coverage indications can be very volatile.

[18] DCPD and Accident Benefits are mandatory coverages. When all mandatory coverages are combined, Definity's increase is below the indication. As such,

no one is disadvantaged by this approach as everyone carries all coverages. For Specified Perils, Definity selected a change to match that proposed for Comprehensive. Definity's approach is similar to other companies.

[19] If the Definity proposal was to adopt the indicated rates, the proposed return on equity would be equal to the 10% target. However, the proposed overall all-coverages combined increase of 15% was below the indicated overall increase. As a result, the proposed rates will produce a return on equity that is below the target 10%.

[20] Board staff recommends that the Board approve the proposed changes to the base rates. The Board agrees.

Rate Group Tables

[21] Definity proposed the adoption of the July 2023 version of the Commercial Automobile Rate Group Table I and Table II published by IAO Actuarial Consulting Services, Inc. (IAO). These tables are newer versions of the tables that Definity currently uses (i.e., the company currently uses the October 2022 version). Definity proposed no changes to the published table.

[22] The adoption of the new table would result in changes in the premiums collected by coverage. The company off-balanced this impact of the adoption of the new tables to make the change revenue-neutral (i.e., the company would collect the same premium as if it had not changed the table).

[23] Board staff recommends the Board approve the proposed adoption of the July 2023 version of the IAO tables and the associated off-balance calculations. The Board agrees.

Rating Algorithm Changes

[24] While Definity proposed no changes to its rating algorithm, the company did update the expense factors and profit provisions that are included in that algorithm. While the expense factors are not impacted by the revisions made to the application during the information request process, the profit provision element did change.

[25] Board staff recommends the Board approve the updated expense, health levy factors and the revised profit provision component in the rating algorithm. The Board agrees.

Service Fee for Monthly Payment Plans

[26] Currently, Definity does not charge a financing or service fee for any of its payment methods. Recognizing that competitors do charge such fees and that there is a cost to offering monthly plans (i.e., additional administrative costs and delayed ability to earn investment income), Definity proposed to introduce a service fee for its Monthly Payment Plan and its Monthly Payment Plan with Down Payment methods of paying premiums. The company's proposed service fee is consistent with what other companies charge for service fees.

[27] The Board filing requirements state that a company must either include the premium finance or service fee revenue in the indications either by recognizing them as premium revenue or by reducing expenses. Definity will use its expected service fee revenue to reduce its expenses when determining its indicated rate level needs.

[28] Definity noted it would require a different effective date for this change, as compared to other changes in the application.

[29] Board staff recommends the Board approve the proposed service fee which will be effective on the dates noted in the Effective Dates section of this report.

Renewal Premium Dislocation Capping Mechanism

[30] To minimize the dislocation (i.e., significant premium impact) felt by its clients at renewal, Definity proposed to introduce a renewal premium dislocation capping mechanism. This mechanism will limit premium increases to 15% at renewal.

[31] Definity expects the renewal premium capping mechanism to be in place for two years. This timeframe is consistent with the Board's view that premium capping should resolve quickly.

[32] Board staff recommend the Board approve the proposed renewal premium dislocation capping mechanism. The Board agrees.

III SUMMARY

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

[34] The Board finds the proposed rates are just and reasonable, and approves the changes effective May 4, 2024, for new business and June 9, 2024, for renewal business for all elements except the new service fee. The Board approves the proposed service fee to be effective on August 1, 2024, and October 5, 2024, for new business and renewals, respectively, as requested.

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

[36] 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 Definity for commercial vehicles is December 1, 2026.

[37] Board staff reviewed Definity's Automobile Insurance Manual and noted it includes the current IAO Table II (List Price New Rate groups). If Definity includes the new table or the service fee in its manual, the company must file an electronic version of the revised Manual within 30 days of the issuance of the order in this matter.

[38] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 22nd day of February, 2024.

M. Kathleen McManus