

DECISION

**2024 NSUARB 74
M11629**

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 risk-classification system for commercial automobiles

BEFORE: Julia E. Clark, LL.B., Member

APPLICANT: **DEFINITY INSURANCE COMPANY**

FINAL SUBMISSIONS: April 10, 2024

DECISION DATE: April 25, 2024

DECISION: **Application is approved**

I INTRODUCTION

[1] Definity Insurance Company applied to the Nova Scotia Utility and Review Board to change its underwriting and rating rules for individually related commercial vehicles (IRCA). The changes result in no overall impact on rates.

[2] The Board must consider whether the proposed changes 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 proposed risk classification system.

II ANALYSIS

[3] Definity applied under a simplified version of 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 then 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 had no changes.

[4] The only issues to address in the application are Definity's proposed changes to its underwriting and rating rules, some of which represent risk-classification changes requiring Board approval.

Binding Authority

[5] Definity's binding authority rules set out when a broker may bind a type of risk (thereby committing the company to write the policy), and when further underwriter

review is required. Definity proposed changes to its rules to require that a broker refer the following types of risks to an underwriter:

- risks insuring heavy and/or superheavy commercial vehicles;
- types of uses that are not specifically listed in the Definity manual; and
- submissions with five or more commercial self-powered units (these may be eligible for fleet rating, rather than individual rating).

[6] Referring a risk for further review ensures proper assessment before a policy is issued. Board staff recommended that the Board approve Definity's proposed changes to the binding authority rules. The Board agrees.

Accident Rating Rules and Eligibility

[7] Definity currently considers only chargeable commercial automobile accidents when determining rating and eligibility for IRCAs. If a customer had a chargeable accident on a private passenger vehicle, that accident would not impact the rating or eligibility of any commercial vehicle.

[8] Definity proposed to change its rules so that chargeable private passenger vehicle accidents can be used to determine the rating or eligibility under a commercial vehicle policy. However, it will do so only where the chargeable accident is not already used for rating another policy, whether or not that policy is with Definity. This approach avoids a single accident impacting the rating or eligibility of more than one insurance policy.

[9] The use of personal automobile chargeable accidents, subject to the exceptions noted, will apply to the following new and renewal businesses:

- new business policies written on and after the effective date of the rule changes;
- business renewing after the effective dates (only new personal automobile chargeable losses considered);

- business renewing before the effective date, only if a new driver is added to the policy on or after the effective date.

[10] Chargeable losses on a driver's personal automobile may suggest a higher risk of another accident, including commercial vehicle accidents, involving that driver than for a driver without that accident history. Where a chargeable loss is already used for rating a private passenger policy, that policy has a higher premium to address the additional risk posed by the driver. Where there is no other policy, Definity will rate the commercial vehicle using that chargeable loss. By only using a loss to rate commercial vehicles when there is no private passenger vehicle policy already using that loss for rating, Definity will avoid double counting the chargeable loss for rating purposes. As such, the Board agrees with Board staff's recommendation to approve the proposed amendments to the rating rules and eligibility provisions.

New Definitions

[11] Definity proposed changes to its definition of Driving Records 0-2 to reflect that all assigned operators of heavy to superheavy vehicles must have three or more years of experience. The changes will be effective on new business or the addition of new vehicles. These changes are required to reflect Definity's risk tolerance and its intention not to write drivers of heavy and superheavy commercial vehicles with less than three years of experience.

[12] Definity will also update the definition of Years of Experience to clarify what a "similar type" vehicle is. The change will align the Nova Scotia definition with the definition used by the company in Alberta and Ontario.

[13] Definity will introduce the following three new definitions within the IRCA product manual under Type of Use:

- Artisan;
- Commercial Use;
- Business Use (using the definition included in the company's personal insurance product manual)

[14] The company noted the introduction of these definitions does not impact the classification or rating of the associated risks. Instead, the definitions will assist front-line staff in addressing the proper rating of vehicles. The changes also align with the Ontario IRCA manual.

[15] Board staff recommended the Board approve the proposed definitions. The Board agrees.

Underwriting Rules Changes

[16] Definity revised several of its declination rules, i.e. the rules by which the company will decline to write a policy or coverage, for certain risks. First, Definity removed three Types of Use from the eligible types. The company will no longer write vehicles used for:

- Courier/message service/mail delivery, where routes are not pre-established;
- Fast food or meal delivery; and
- Sand, gravel, earth, stone or snow haulage, where the remuneration for the delivery or haulage is on a pay-per-load basis.

[17] The company will not cancel coverage for existing insured vehicles of these types of use. Only new business or new vehicles added to a policy will be subject to the change and there is no impact on existing risk. The removal of these types of risks aligns with the company's approach in Ontario and Alberta.

[18] Definity will also stop writing vehicles for use or operation on airport tarmacs or runways.

[19] Definity proposed changes to its underwriting rules for declining to issue, terminating or refusing to renew a contract. These changes reduce the number of minor, major and serious convictions and chargeable accidents it will allow when deciding whether to write or continue to write a policy, as follows:

- four minor convictions (instead of eight) in the past three years;
- two major convictions (instead of three) in the past three years;
- one serious conviction (instead of three) in the past three years;
- combined one major and two convictions (from two major and five minor) in the past three years;
- one minor conviction when there is a non-payment cancellation (from two minor convictions and one non-payment cancellation);
- two chargeable accidents (from four) in the past six years;

[20] Definity noted that only a few risks will no longer be written under the new criteria. These changes will result in the removal of other rules that become redundant once the changes are made. The company also proposed some changes to clarify wording.

[21] Board staff recommended the Board approve all proposed changes to the underwriting rules as resubmitted by Definity following the IR process. The Board agrees.

III SUMMARY

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

[23] The Board finds the proposed risk classifications are just and reasonable, and approves the changes effective August 1, 2024, for new business and October 5, 2024, for renewal business.

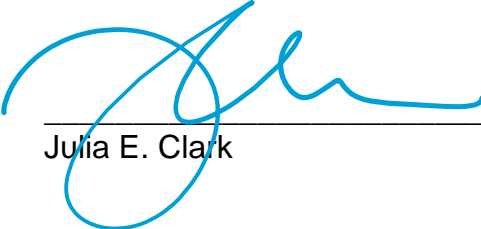
[24] The simplified filing process does not require filing financial information. The financial information supplied by Definity in its recent application satisfies the Board, under Section 155I(1)(c) of the *Act*, that these proposed changes are unlikely to impair the solvency of the company.

[25] The application does not qualify to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*.

[26] Board staff reviewed Definity's Automobile Insurance Manual filed with the Board, including the proposed changes. After questions from Board Staff, Definity submitted a revised version of the Manual. Board staff did not find any instances where the revised Manual contravened the *Act* and *Regulations*. The company must file an electronic version of its Manual, updated for the changes approved in this decision, within 30 days of the issuance of the order in this matter.

[27] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 25th day of April, 2024.



Julia E. Clark