DECISION **2024 NSUARB 82**
M11612

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 private passenger vehicles

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

APPLICANT: **DEFINITY INSURANCE COMPANY**

FINAL SUBMISSIONS: April 19, 2024

DECISION DATE: **May 13, 2024**

DECISION: **Application is approved**

I INTRODUCTION

[1] Definity Insurance Company applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles.

[2] The company proposes rate changes that vary by coverage and territory and result in an overall increase of 5%. Definity based the proposed changes on indications that suggested rates should increase by a slightly higher amount. Definity will adjust factors in its rating algorithm to reflect expense and profit loadings used in the indications. Definity proposed changes to the differentials for four rating variables and will introduce a new rating variable, as well as the adoption of the 2024 version of the Canadian Loss Experience Automobile Rating (CLEAR) Table. The company will also introduce Gender X rates, which will equal female rates, and will include a service fee for policies that have monthly payment plans. Definity also proposed changes to its underwriting or rating rules and will continue its current renewal premium dislocation capping.

[3] Definity had a mandatory filing deadline of May 1, 2025, for these vehicles. The application included the required actuarial indications and territorial analysis to qualify to reset the deadline.

[4] 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.

II ANALYSIS

[5] Definity Insurance Company applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*).

[6] 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. After receiving the original version of this report on April 15, 2024, Definity approached the Board to amend its filing to increase the proposed discount provided by the new rating variable. Board staff amended the Staff Report to recognize this change and shared a revised copy with Definity. The company reviewed the report and informed Board staff that it had no further comments.

[7] 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 Definity satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

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

- Calculation of Indicated Rate Level Change
  - Loss Trends
- Proposed Rate Changes
- Other Changes
  - Rating Algorithm Changes
  - Territorial Differentials
  - Adoption of 2024 CLEAR Table
  - Changes to Existing Rating Variables and Introduction of Gender X Rates
  - Introduction of Term with Company x Cancellations for Non-Payment Rating Variable

- Introduction of Service Fee for Monthly Payment Plans
- Renewal Premium Dislocation Capping, and
- Underwriting and Rating Rule Changes

Calculation of Indicated Rate Level Changes

[9] Board staff reviewed the Definity rate level indications and examined all aspects of the ratemaking procedures. The only issue about the company's analysis of its rate level needs that warranted further discussion was loss trends including the severity of inflation adjustments.

Loss Trends

[10] Definity based its selected loss trend rates on a review of its own claims experience in Nova Scotia through December 31, 2023. Definity argued that it represents a sizeable portion of the market in the province and that its short-tail coverages are fully credible. As a result, Definity believes its volume of vehicles is sufficiently large enough to warrant the use of its own data to determine loss trends. For long-tailed coverages (e.g., Bodily Injury and Accident Benefits), Definity also considered industry data when making its selections.

[11] Definity used a multivariate regression model to examine frequency and severity separately. The company based its loss trend selections on the best fit for these elements generated by regression results. Definity varies the experience period used, opting for more current data for some coverages, while using more data for others. The company excluded some of the data for the pandemic years 2020 and 2021.

[12] The Definity model included Google Mobility data as another explanatory variable aimed at assessing the COVID-19 impact. The model also includes a severity inflation factor designed to capture the sudden increase in physical damage costs in 2021

and 2022. The model provided severity inflation adjustment factors for physical damage coverage and COVID-19 multiplier adjustments for all coverages.

[13] With the release of the industry claims experience data through December 2022, Board staff requested Oliver Wyman (OW), the Board's consulting actuaries, to develop assumptions for loss trends for private passenger vehicles. Oliver Wyman reviewed data from 2003 through 2022 but tended to rely on more current data when making its selections.

[14] Oliver Wyman developed its loss trends with the impact of COVID-19 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.

[15] Oliver Wyman examined trends for frequency, severity, and loss cost information. Oliver Wyman made its 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 trend, assuming it would continue.

[16] 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 scalar or level parameter that would increase severity for DCPD and Collision beginning the second half of 2021 by 9% and 10%, respectively. The trends selected by Oliver Wyman would then apply to the "shocked" claims.

[17] Definity noted that Oliver Wyman did not include any severity "shock" for Comprehensive, while the company's analysis suggested one should exist. Board staff notes that a recent report from Oliver Wyman based on data through June 2023, does

include such an adjustment. Definity also noted that the data it used was more recent than that used by Oliver Wyman.

[18] Definity provided indications using the Oliver Wyman assumptions. Because the Oliver Wyman-based indications included in the application did not apply the severity "shock" for Collision and DCPD, despite removing Definity's own severity adjustment, the company provided revised Oliver Wyman indications during the information request process. The indication using Oliver Wyman trends, including the severity shock, is for a slightly smaller overall increase than that using Definity trends.

[19] The Board generally would not allow the use of only company data to develop trends, given that data may not be of sufficient size to discern credible trends. Because Definity represents about one-twelfth of the Nova Scotia market, its experience seems large enough to allow its use to develop trends. The Board allowed Definity to use its own data to develop trends in the past and sees no reason in this filing to change that determination for this application.

[20] Board staff recommends the Board accept the Definity loss trends, including its selected severity inflation adjustments and COVID-19 multipliers, as the appropriate ones for use in determining the indications to be used as the target to assess the reasonableness of the Definity proposal. The Board agrees.

[21] Based upon recommendations by Board staff the Board will use the Definity indications as the appropriate target to assess the reasonableness of the company's proposal.

Proposed Rate Changes

[22] Definity proposed changes that are lower than indicated for all coverages except Collision, Family Protection Endorsement (SEF#44), and Specified Perils. Rather than lowering Collision rates by the indicated level, Definity chose to leave the rates unchanged. The company explained that it took a rate increase of over 30% on Collision last year. Taking the indicated rate decrease would lead to premium rates “yo-yoing” back and forth. To ensure rate stability for its policyholders, Definity considered rates that were previously taken for all coverages before making its selections. Definity further noted with the 0% retrospective premium trend, the indication on Collision may be an optimistic view.

[23] For SEF#44, rather than applying the large decrease indicated, which would drop the current average premium from about $20, which is at the industry average, to about $7, Definity chose a very small decrease. Dropping the rate well below the industry average, despite the indication, seems imprudent.

[24] Given the limited exposure for Specified Perils and despite the indication for a large decrease, Definity chose to propose a change consistent with the Comprehensive change. Specified Perils provides a subset of the Comprehensive coverage, and such an approach is commonly used by many companies.

[25] Because the proposed overall change is lower than the indicated change, the proposed rates produce a return on equity of 5.6%, which is below the Definity 10% target, which is also the low end of the Board’s range for a reasonable return on equity.

[26] Definity supported the proposed changes to base rates. Board staff recommends the Board approve the proposed rate changes. The Board agrees.

Other Proposed Changes

Rating Algorithm Factor Changes

[27] Definity uses a unique formula to determine the premium it will charge based upon approved rates. Definity uses its rates to develop an Expected Loss Cost (ELC) using rates and differentials for its selected rating variables, and then enters this ELC into a formula to get the Charged Premium.

[28] Definity updated the values for the factors used in the rating algorithm to reflect the assumptions used in the calculation of the indicated rate level needs. Board staff recommends the Board approve the proposed factors used in the rating algorithm. The Board agrees.

Territorial Differentials

[29] Definity proposed no changes to its territories but did propose changes to its territorial differentials. The changes proposed will impact Bodily Injury & PD-Tort, DCPD, Accident Benefits, Collision, Comprehensive and Specified Perils.

[30] Definity analyzed its loss experience and provided loss ratios by coverage and territory. This analysis identified overperforming and underperforming territories relative to the provincial loss ratios. After examining the credibility weighted indicated differentials, Definity made selections that tended to follow the indicated levels, after rebasing the indications so that the base territory (1B) had a differential of 1.000. However, the magnitude of the proposed changes tended to be smaller than indicated.

[31] Definity determined the impact of the changed differentials and included it in the total impact of all changes used in the off-balancing calculation to make the changes revenue-neutral.

[32] Definity supported its proposed changes to its territorial differentials. Board staff recommends the Board approve the proposed differentials. The Board agrees.

Adoption of 2024 CLEAR Table

[33] Definity currently uses the 2023 CLEAR table to assign rate groups to vehicles for Accident Benefits and physical damage coverages. The company uses the CLEAR (AB Alberta & Atlantic) – Collison and DCPD Combined version of the table. The company proposed the adoption of the 2024 version of this table, which the Board approved for use last year.

[34] Definity identified the impact of the adoption of the 2024 table and included that impact in the off-balancing calculations. Board staff recommends the Board approve the proposed adoption of the 2024 CLEAR table. The Board agrees.

[35] Administrative systems for Sonnet Insurance Company, a sister company, and Definity, access the same CLEAR table. Both companies must change the table on the same effective date. Definity proposed effective dates for new business and renewals of September 1, 2024, and October 16, 2024, respectively to align the dates with implementation of the table for Sonnet. These dates differ from the effective dates of the rest of the proposed changes in the application.

[36] Board staff recommends the Board approve these proposed effective dates for the implementation of 2024 CLEAR tables which differ from those for the rest of the changes in the application. The Board agrees.

Changes to Existing Rating Variables and Introduction of Gender X Rates

[37] Definity proposed changes to four of its rating variables. Those variables are Vehicle Age, Policy Driver Count, Rate Group and Years Licensed x Gender. The change to the last variable will also see the introduction of Gender Level X.

[38] Definity conducted a univariate analysis based on its own loss experience. The experience covered accident years 2021 through 2023, as the company viewed these three years to be the most representative of these segments because there were minimal changes to these variables during this period.

[39] The company developed indicated differential changes relative to the overall average incurred loss ratio for each coverage and variable. This rendered immaterial any issues regarding not developing the claims to ultimate values. Where the data was not credible, Definity chose no change as the complement of credibility.

[40] Because the company did not analyze Specified Perils separately, Definity assigned the Comprehensive differentials to Specified Perils, where needed.

[41] The company included the impact of the differential changes for each variable in the total amount off-balanced to make the changes revenue-neutral.

[42] Board staff recommends the Board approve the proposed differentials for each variable. The Board agrees.

Vehicle Age

[43] Definity had significant concerns about the increased damage costs that are most prevalent for newer vehicles. The analysis suggested that the differentials for newer vehicles are too low relative to the indicated level for physical damage coverages. At the

same time, the differentials for older vehicles for Bodily Injury & PD-Tort are similarly too low. The company proposed differentials that address these concerns.

Policy Driver Count

[44] This variable alters the premium for DCPD and Collision based on the number of drivers listed on the vehicle. Currently, the variable adds a surcharge to premiums when the vehicle has three or more drivers. The premise is that with more people available to drive, the vehicle will be on the road more frequently, increasing the risk the vehicle poses to Definity.

[45] The analysis for DCPD showed the claims experience for vehicles with two drivers is worse than vehicles with one driver. Risks with three drivers had even worse claims experience. To address these observations, Definity proposed adding a differential for two drivers while increasing the differential for three or more drivers. The analysis for Collision suggested the current differentials were adequate.

Rate Group

[46] Definity uses the CLEAR table to assign rate groups for Accident Benefits and physical damage coverages. Definity uses its own rate group differentials for these coverages. To identify any needed changes, Definity developed an analysis of indicated differentials, where the rate groups were banded together to increase the credibility of the analysis. Definity examined the differences between expected loss cost between small Rate Group cohorts and large Rate Group cohorts and adjusted the differentials based on these observations.

[47] For DCPD, Definity decreased the differentials for smaller Rate Groups and increased the differentials for higher Rate Groups. For Collision and Comprehensive,

Definity proposed decreases for higher Rate Groups to reflect the better recent loss experience. For Accident Benefits, the company increased the differentials for Rate Groups 8 and 9 to address the higher loss experience for these cohorts.

Years Licensed x Gender

[48] This variable reflects the loss experience for different Years Licensed split by Gender. That is, the company has a set of differentials that apply to females and a separate set that apply to males. The company adjusted the differentials to reflect the differences in the expected loss costs between drivers with fewer years licensed and those with more experience. The one-way analysis of the loss experience supported the proposed adjustments to the differential.

[49] For male drivers, the adjustments increased differentials for Bodily Injury & PD-Tort, DCPD, and Accident Benefits for higher Years Licensed and for all Years Licensed for Collision, while lowering differentials for Comprehensive. These adjustments are consistent with the indicated changes.

[50] For female drivers, the adjustments increased differentials for Bodily Injury & PD-Tort, DCPD, and Accident Benefits for higher Years Licensed, while lowering differentials for Collision and Comprehensive. These adjustments are consistent with the indicated changes.

[51] Definity will introduce Gender X for those clients who do not reveal a gender. Definity will use its female differentials for those who choose Gender X.

[52] In addition to approving the proposed differentials for Years Licensed x Gender, Board staff recommends the Board approve the proposed use of female differentials for Gender X individuals. The Board agrees.

Introduction of Term with Company x Cancellations for Non-Payment Rating Variable

[53] Definity proposed adding a new rating variable, Terms with Company x Cancellation for Non-Payment. The variable will apply to all coverages. While the variable will include terms from zero through more than four years with the company, Definity will only set the differentials to values other than 1.000 for new business (i.e., term is zero) if the risk has no previous cancellations for non-payment of premium.

[54] Having observed an increase in the mix of new business risks that have a non-payment cancellation over the past three years, the company originally proposed offering a 5% discount (i.e., differential set to 0.95) for new business with no non-payment cancellations. Definity believed this discount would offset the proposed increase resulting from this application for those new business risks without cancellations for non-payment and avoid making the rate less competitive. Definity hoped to attract more new business without non-payment cancellations with the discount this variable will provide.

[55] Since making the application, Definity received information that it has continued to observe a significant decline in new business, with the year-over-year comparison showing a 40% reduction in new business written. Given this latest information, the company is concerned the originally proposed discount provided by the new variable would be insufficient to overcome the impact of the proposed increase in rates, and new business would continue to decline. To address the concerns, Definity now proposes a discount to 10% (i.e., differential set to 0.90) with plans to explore tempering the proposed removal of the discount provided by this variable at the first renewal of the policy in a filing to be made before the anniversary of the effective dates for this application.

[56] Definity notes that other carriers have received approval for a similar variable or discount. Without introducing this new variable, the company may be at a competitive disadvantage that would see more risks with cancellations for non-payment attracted to Definity.

[57] The variable applies to new business only, so there is no impact that needs to be off-balanced.

[58] Board staff recommends the Board approve the new rating variable, Terms with Company x Cancellation for Non-Payment, and the revised selected differentials. The Board agrees.

Service Fee for Monthly Payment Plans

[59] Definity does not charge a premium 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 impose a service fee for risks with a monthly payment plan.

[60] Definity notes that it is re-introducing the service fee that it had in place before 2017. The company views that level of fee as an industry standard (i.e., it is consistent with what other companies charge for service fees). Definity believes adding back the fee will help avoid anti-selection that could arise as the Definity offering may look more attractive for monthly payment plan risks than competitors who charge the fee. Some of these risks could be in undesirable categories.

[61] Definity will not apply the service fee for group and affinity business. The company explained that prior to 2017, a subsidiary company, Waterloo Insurance

Company, underwrote group business and did not charge a service fee. The benefit of no fee provided to group business is part of the company's ongoing strategy for its group and affinity businesses.

[62] The company noted the service fee is part of a countrywide initiative already approved in Alberta and New Brunswick.

[63] Definity developed the expected impact of the introduction of service fee using a mix of business based of its current mix. The company then included this impact in the total impact of all changes for the off-balancing calculations.

[64] Definity explained how the service fee would be reflected in future rate indications. The approach complied with the Board requirements that:

> The finance fee revenues can either be treated as additional premiums or a negative expense (in either case as a percentage of premiums) in calculating the rate level change indication.

Board staff recommends the Board approve the proposed service fee for monthly payment plans. The Board agrees.

Renewal Premium Dislocation Capping

[65] To manage the impact the proposed changes will have on its clients, Definity will continue to use its Board approved premium dislocation cap. The cap applies on a per exposure (or per vehicle) basis. The cap applies to all coverages, but not endorsements, except SEF#44.

[66] The cap varies by the size of the proposed increase, in accordance with the table provided by Definity. Definity also uses a negative cap. If the vehicle premium decreases by more than 5%, the premium will not be lowered beyond 5% at renewal.

[67] The company caps premium at renewal unless the client, in the last fourteen months, has had a new at-fault accident or a conviction. If a new vehicle or coverage is added at renewal that was not in the prior term, the cap does not apply to that new vehicle or coverage.

[68] To include negative capping (i.e., limits on renewal decreases), the Board requires the premium foregone on the positive cap to exceed or equal the extra revenue collected on the negative cap. Definity provided information that demonstrates the capping program meets this requirement.

[69] Board staff recommends the Board approve the continued use of the current premium dislocation capping program. The Board agrees.

Underwriting Rule Changes

[70] Definity proposed refinements to some of its underwriting rules to ensure those rules are consistent with the company's risk appetite. The company noted that it had not updated its risk appetite since 2018 and chose to do so in this application to avoid vehicles with unacceptable risk profiles looking for insurance with the company because the declination rules allowed them.

[71] Definity will reduce the number of minor, major and serious convictions, as well as chargeable accidents that the company will allow for a policy to be written. The change will see the maximum number of convictions allowed in the past three years reduced as follows:

- four minor convictions instead of eight;
- two major convictions instead of three; and
- one serious conviction instead of three.

The allowed chargeable accidents dropped from four to three in the past six years.

[72] The allowed number of combined minor and major convictions will drop from two major and five minor convictions in the past three years to one and two, respectively. Also, the number of minor convictions allowed when the vehicle also has a non-payment cancellation will reduce from two to one. These changes will also see several other rules removed as they would not be allowed given the changes proposed in this paragraph or the rule is redundant. The company noted that only a few risks will no longer be written under the new criteria.

[73] Definity removed some proposed rules that appeared to violate the *Automobile Insurance Underwriting Practices Regulations* during the information request process. The remaining proposed changes do not appear to violate the *Insurance Ac*t or its *Regulations*.

[74] Board staff recommend the Board approve the proposed changes to underwriting rules, as revised during the information request process. The Board agrees.

III SUMMARY

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

[76] The Board finds the proposed rates are just and reasonable and approves the proposed effective dates for new business of August 1, 2024, and for renewals of October 5, 2024, for all changes except for the proposed change of CLEAR table, which must be effective September 1, 2024, for new business and October 16, 2024, for renewals to align with Sonnet Insurance Company’s adoption of the tables.

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

[78] 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 Insurance Company for private passenger vehicles is March 1, 2026.

[79] Board staff reviewed Definity's Automobile Insurance Manual filed with the Board as well as the proposed changes, as revised, and did not find any instances where the 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.

[80] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 13th day of May, 2024.

Jennifer L. Nicholson