DECISION **2024 NSUARB 84**
M11620

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **HEARTLAND FARM MUTUAL INC.**

FINAL SUBMISSIONS: April 9, 2024

DECISION DATE: **May 15, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Heartland Farm Mutual 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 rate changes that vary by coverage and result in an overall increase of 8.3%. Heartland also proposed changes to underwriting rules, surcharges, endorsements, and the differentials for several rating variables. The company will also adopt the 2024 Canadian Loss Experience Automobile Rating (CLEAR) tables and proposed changes to the rate groups assigned when vehicle value is used, when the vehicle is not found in the 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 Heartland's application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

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

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

- Base Rate Changes
- Territorial Differentials
- CLEAR Table Change
- Rate Group for Vehicles Rated by Value
- Non-Payment Cancellation Surcharge
- Endorsement Changes
- Changes to Insurance Score Rating Variable
- Underwriting and Rating Rule Changes

Base Rate Changes

[5] Heartland received approval for its initial rates and risk-classification system in Nova Scotia in Board Decision 2022 NSUARB 17. Lacking any Nova Scotia experience of its own, Heartland developed its rates by “reverse engineering” a competitive rate and risk-classification structure. Heartland began using these rates effective December 1, 2022.

[6] After introducing its rates, Heartland received broker feedback that its premiums were not competitive. To address these concerns, Heartland received approval to lower its rates (by lowering territorial differentials) via a Section 155B Rate Decrease with Cap application. These rates were effective March 1, 2023.

[7] After those changes went into effect, Heartland witnessed strong new business growth in certain territories. Broker feedback suggested Heartland rates became too competitive as other companies made changes to their rates. As a mutual company, Heartland cannot grow capital like other companies. Because rapid growth can therefore

pose a risk to the company's solvency, Heartland wanted to make its rates less competitive to slow the growth experienced. In Board Decision 2023 NSUARB 209, the Board accepted Heartland's proposal to increase its rates, effective February 15, 2024.

[8] Despite that recent increase, Heartland continues to witness significant growth in new business. Heartland also noted that several other companies it considers competitors filed and received approval for overall increases since Heartland's last application. Heartland is concerned that maintaining its current rates in these circumstances will result in more accelerated growth, risking the company's financial stability.

[9] The Board typically relies on comparative indications of rate needs to assess an application. In previous submissions to the Board, Heartland indicated that when it reached a higher volume of business, it would develop and rely on indications to support its rate proposals. Despite its growth, the company explained that it is still not able to develop reliable indications because it does not have enough volume to do so. Therefore, Heartland developed its proposals for per-coverage increases based on a combination of broker input, new business growth by territory, and competitive analyses.

[10] Because it is new to the market, faces capital restrictions as a mutual company, and due to its continued growth in new business, Board staff recommended this approach be accepted for Heartland and that the Board approve the proposed changes to base rates.

Other changes

Territorial Differentials

[11] Heartland did not vary the proposed changes by territory.

CLEAR Table Update

[12] Heartland currently uses the 2022 CLEAR (Canada, Collision, Direct Compensation Property Damage and Comprehensive Separated, for Alberta & Atlantic Canada) tables to assign rate groups for physical damage coverages and Accident Benefits. The company proposed to adopt the 2024 version.

[13] In the application, Heartland did not off-balance the impact of adopting the new CLEAR table, given the small number of policies. When raised by Board staff, Heartland indicated that off-balancing the impact of the table change would require Heartland to revise its proposal to achieve its desired outcome, i.e., less competitive rates. For this application, Board staff recommended the Board approve Heartland's adoption of the 2024 CLEAR table without off-balancing. In these circumstances, the Board agrees.

Rate Groups for Vehicles Rated by Value

[14] Heartland proposed a change in the rate groups assigned based on a vehicle's value. Rating by value occurs when a vehicle is more than 30 years old and is no longer rated in a CLEAR table. The value of the vehicle is then used to provide the rate group for physical damage coverages. For these vehicles, the Accident Benefit rate group is set to 10.

[15] For physical damage coverages, Heartland noted there is a sudden drop in the rate group assigned to these vehicles. This results in a lower premium as the vehicle switches from CLEAR's experience-based rating to the vehicle value rating. The company says the drop in premium is not actuarially justified, as premium decline should be smooth and incremental each year.

[16] Heartland conducted a study that compared the CLEAR rate groups for vehicles that were nearly 30 years old to the vehicle value-based rate groups for 30-year-old vehicles. This analysis suggested that the rate groups assigned based on value at the 30-year point would be about 10-13 rate groups too low. Based on its findings, Heartland proposed to adjust each vehicle value rate group in the table upward, by 12, when assigning these older vehicles.

[17] The company also noted that other companies make adjustments for older vehicles (e.g., introducing a model year variable or increasing rate group differentials). Board staff recommended that the Board approve Heartland's proposal to adjust the vehicle value rate groups upward by 12. The Board is satisfied that Heartland justified its study methodology and its finding, and its approach appears reasonable.

[18] Heartland included the small impact of this change in the total impact of all changes, except CLEAR, so those changes will be revenue-neutral.

Non-Payment Cancellation Surcharge

[19] Heartland proposed a 5% increase to its current non-payment cancellation surcharge. The surcharge applies when a risk has had a least one cancellation for non-payment of premium in the past three years. The surcharge applies to all coverages excluding SEF#44 and other endorsements.

[20] The company noted that it wrote a small number of risks with a non-payment cancellation from January 2023 through February 2024. However, Heartland noted the policies with non-payment cancellation had multiple claims at a frequency much higher than the rest of its business. The company provided some loss experience from its Ontario portfolio for the past three years that demonstrated a higher surcharge is warranted given the risk profile. While this data is for Ontario, Heartland believes it translates to Nova Scotia data and provided support for the proposed increase. Board staff agreed and recommended the Board approve the surcharge increase.

[21] The small impact of the change was included in the off-balancing calculation and the Board approves the new non-payment cancellation surcharge.

Endorsement Changes

[22] Heartland proposed changes to its premium formula for its NSEF#43 – Limited Waiver of Depreciation Endorsements and its non-standard Vehicle Replacement Cost Endorsement (VRCE). Both endorsements provide coverage for more than the depreciated cost of the vehicle, essentially making an insured whole in the event of total loss. The VRCE provides enhanced coverage beyond that provided by the NSEF#43. In both cases, the current premium for the endorsement is set as a percentage of the premium for Comprehensive coverage.

[23] Heartland compared its premiums to those charged by another company for its 2020 version of the NSEF#43, which offers the same benefits and terms as Heartland. This comparison suggested the Heartland premiums were too low. On that basis, Heartland proposed an increase in the percentage factor for NSEF#43. As the

VRCE provides higher benefits than NSEF#43, Heartland will increase the factor by a percentage that keeps the current ratio between the NSEF#43 and VRCE premiums.

[24] Heartland off-balanced the higher endorsement premiums through base rates to make them revenue-neutral. Board staff recommend the Board approve the proposed changes to the premium formula for these endorsements. The Board agrees.

Changes to Insurance Score Rating Variable

[25] Heartland uses a credit-based rating variable, Insurance Score, to provide discounts to clients who consent to a credit check, if the credit score proves high enough to warrant a discount. The Board approved Heartland’s use of this variable in the decision setting the company’s initial rates (2022 NSUARB 17). The variable and its differentials remained unchanged since that approval.

[26] Heartland proposed changes to its Insurance Score differentials that would increase the discounts provided for all scores over a certain value, with higher increases at higher score levels. The company noted that several competitors using a credit-based rating variables had increased their discounts since Heartland established its variable. After those changes, Heartland observed a shift in its business mix and provided charts showing the distribution of new business by Insurance Score band to illustrate the point. The company believes its proposed increases to its discounts will help attract higher insurance score risks.

[27] Heartland determined the impact of the differential changes and included it with the impacts of all changes, other than the CLEAR table change, in the amount to be off-balanced so these changes are revenue neutral.

[28] Board staff recommend the Board approve the proposed changes to the Insurance Score differentials. The Board agrees.

Underwriting and Rating Rule Changes

[29] Heartland proposed changes to its underwriting rules, including adding a minimum deductible for Comprehensive or Specified Perils where there have been two prior claims (excluding glass claims) in the past three years. Also, Heartland will no longer provide loss or damage coverage if there is unrepaired damage to the vehicle. The company insures none of these risks, so there is no impact from these changes.

[30] Heartland proposed a change to its definition of "number of drivers per vehicle." The change will remove the phrase "*including occasional operators*" so that the number only includes primary and secondary drivers. The company notes that occasional drivers who are licensed for less than nine years attract their own premium. Including those drivers when determining the number of drivers per vehicle could result in both the extra charge and the charge for having more than one driver per vehicle. This results in charging too much for the risk. Heartland identified the number of risks impacted by the change and included the impact, which lowers total premiums collected, in the amount off-balanced.

[31] Heartland resubmitted its proposed underwriting rule changes in response to Board staff's information requests. The Board approves the changes to the underwriting rules, as revised.

III SUMMARY

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

[33] The Board finds the proposed rates are just and reasonable, and approves the changes effective August 15, 2024, for new and renewal business.

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

[35] 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 Heartland for private passenger vehicles is April 1, 2026.

[36] Heartland proposed no changes to its Automobile Insurance Manual beyond those addressed in this decision. Board staff examined the manual on file and did not identify any areas where the manual violates the *Insurance Act* or its *Regulations*. Heartland is directed to file a revised version of the manual within 30 days of the date of this decision.

[37] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 15th of May 2024.

Julia E. Clark