DECISION **2025 NSUARB 41**
M12033

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: January 28, 2025

DECISION DATE: **February 24, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Heartland Farm Mutual Inc. (Heartland) 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 22.0%. In addition to changes to rates, the company asks the Board to approve its adoption of the 2025 Canadian Loss Experience Automobile Rating (CLEAR) tables to assign rate groups for physical damage coverages and Accident Benefits, changes to the Minor Conviction Surcharge, and changes to the Driving Record, Years Licensed, and Insurance Score rating variables, as well as various changes to underwriting and rating rules.

[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 filing this application, Heartland received and responded to Information Requests (IRs) from Board staff. Heartland revised its indicated and proposed rates in an amended submission dated January 20, 2025, to reflect necessary changes to the proposed effective dates. Board staff prepared a report to the Board with recommendations on the amended 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 comments.

[4] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested that the Board further review Heartland's analysis of its rate level needs, particularly the profit provision. Board staff consider that Heartland satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

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

- Profit Provision;
- Proposed rate changes;
- Adoption of CLEAR Tables;
- Minor Conviction Surcharge;
- Rating Variable changes;
  - Driving Record;
  - Years Licensed;
  - Insurance Score (credit-based); and
- Underwriting and Rules changes.

Profit Provision

[6] The Board's range for reasonable profit provision, using a 2:1 premium to surplus ratio, would be 5.5% to 7.0%. Heartland used an after-tax target return on equity (ROE) of 10.65% and a premium-to-surplus ratio of 1.5:1 in its indications. Coupled with the assumption for investment return on surplus, these assumptions produce a profit provision outside the top end of the Board's range.

[7] As often noted in past decisions, the Board maintains a target 10% ROE unless a company can demonstrate that it differs from the industry. Board staff noted that

Heartland's use of an ROE higher than 10% and a premium-to-surplus ratio lower than the standard 2:1 ratio both serve to increase the profit provision. Heartland explained that its actual premium-to-surplus ratio was lower than the selected 1.5:1. As a mutual insurance company, with no access to capital markets, it can only raise capital through a profitable operation. As a small insurer, Heartland maintains a less diversified business profile than its competitors. Heartland has experienced rapid growth in the market which has put pressure on its capital base.

[8] Heartland's proposed ROE is only slightly higher than the Board's target of 10%. The Board is satisfied that it is reasonable in the circumstances. Heartland's current circumstances are sufficiently different from industry and the Board accepts the return on equity and lower premium-to-surplus ratio for the purposes of this application.

Proposed Rate Changes

[9] Heartland proposed rate changes that vary by coverage but not territory that result in an overall increase in rates of 22%. Heartland based its proposal on indications that suggest an overall higher increase is required. Board staff recommended the Board use Heartland's indications as the appropriate target to assess the reasonableness of the company's proposal.

[10] Heartland's proposed changes align with the direction of the indications, but the magnitude of the changes is smaller. The proposal results in lower rates than would be produced if the indicated changes were made, except for Property Damage-Tort and Uninsured Automobile. In these cases, Heartland proposed no change despite the indication for a small decrease. As these are mandatory coverages and the overall

proposal leads to lower rates for all mandatory coverages combined, the Board finds no need to adjust the proposal.

[11] Because the proposal is for a smaller overall all-coverages combined increase than indicated, the proposed rates produce an ROE below the 10.65% target. The Board accepts Board staff's recommendation to approve the proposed base rate changes.

CLEAR Table Changes

[12] To assign rate groups for physical damage coverages and Accident Benefits, Heartland currently uses the 2024 CLEAR table (Canada, Collision, DCPD and Comprehensive Separated, for Alberta and Atlantic Canada). The company proposed its adoption of the 2025 version of the table. Heartland off-balanced the adoption of the new CLEAR table to make the change revenue-neutral.

[13] Board staff recommended the Board approve Heartland's use of the 2025 CLEAR table and the off-balancing of the impact of the change. The Board agrees.

Minor Conviction Surcharge

[14] Heartland applies a surcharge once a client incurs two minor convictions in the past three years. The Minor Conviction Surcharge starts at a base level for two minor convictions and increases by an additional percentage with each additional conviction. Heartland established the current surcharge based on competitive information at the time the company developed its initial set of rates. Heartland undertook an analysis of its

recent claims experience which showed that a larger surcharge was warranted. Heartland also noted increases in comparable surcharges among its competitors.

[15] Heartland proposed to increase the initial surcharge for two minor convictions as well as the increment for each additional conviction. The Board notes that the potential surcharge increases are substantial, particularly with more than two minor convictions. Nevertheless, Heartland justified its proposal as the increases are less than indicated from Heartland's analysis of its experience. Board staff recommended the Board approve the increase to the Minor Conviction Surcharge. The Board agrees.

Driving Record Rating Variable

[16] Heartland received feedback from its brokers that rates for clients with Driving Record 0-5 were high relative to competitors. Most of Heartland's business is Driving Record 6, the best claims experience. Heartland proposed an increase in the differential for its best Driving Record, leaving the other differentials unchanged, thereby changing the slope of the differential curve. The off-balancing of the change will result in lower rates for other Driving Records, addressing the competitiveness concern for those rates.

[17] The Board approves the change to the Driving Record differentials.

Years Licensed Rating Variable

[18] Heartland proposed changes to the differentials for its Years Licensed rating variable based on broker feedback, competitive analysis, and an analysis of its indications and loss ratios. In particular, Heartland noted that the loss experience for Years Licensed

of 20-34 years is worse than the rest of the categories, while the opposite is true for 0-5 Years Licensed. Further, Heartland had concerns about the competitiveness of its rates for clients with 0-5 Years Licensed.

[19] Heartland proposed lowering the differentials for 0-5 Years Licensed and selected differentials on the remainder of the curve to produce a less-steep curve with relatively stable year-over-year changes to avoid large premium adjustments over a single year under the variable. The proposed differentials vary by coverage. Heartland off-balanced the impact of the differential changes to make them revenue-neutral.

[20] The Board approves the change to the Years Licensed differentials.

Insurance Score Rating Variable

[21] Heartland uses a credit-based rating variable, Insurance Score, to provide discounts to clients who provide consent for the company to do a credit check, should the resultant score prove high enough to warrant a discount.

[22] Heartland proposed changes to its Insurance Score differentials to increase the discounts provided to all scores over a minimum level, with more material increases for higher scores. The changes reflect differences in frequency of claims that Heartland observed. Heartland included the impact of these differential changes in the amount to be off-balanced so the changes are revenue-neutral. Board staff recommended the Board approve the changes.

[23] The Board approves the proposed changes to the Insurance Score differentials.

Underwriting and Rating Rules Changes

[24] Heartland proposed two changes to its underwriting rules to address concerns with writing higher-value vehicles. First, Heartland will lower the value at which the vehicle must be referred for underwriting approval from $150,000 to $100,000.

[25] The second change lowers the maximum vehicle value that the company is willing to write from $200,000 to $125,000. Heartland views the risk of loss on higher-value vehicles as too great in its current circumstances. It does not currently insure any risks valued at more than $125,000 so there is no impact from the change.

[26] Neither change violates the *Insurance Act* or the *Regulations* and the Board approves them.

III SUMMARY

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

[28] The Board finds the proposed rates are just and reasonable, and approves the changes effective May 15, 2025, for both new and renewal business.

[29] 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.

[30] 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 December 1, 2026.

[31] Board staff reviewed Heartland's Automobile Insurance Manual filed with the Board 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.

[32] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 24th day of February 2025.

Julia E. Clark