

DECISION

**2024 NSUARB 53
M11492**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **INTACT INSURANCE COMPANY**

FINAL SUBMISSIONS: February 20, 2024

DECISION DATE: **March 14, 2024**

DECISION: **Application is approved**

I INTRODUCTION

[1] Intact Insurance Company 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 6.8%. The company also proposed the adoption of the 2024 Canadian Loss Experience Automobile Rate (CLEAR) rate group table, changes to the differentials for several rating variables, and changes to its discount and endorsement offerings. In addition, Intact also proposed some revisions to its underwriting manual and the continued use of its approved renewal premium dislocation capping mechanism.

[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 Intact's application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

[3] Intact applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. Since the filing of this application, Intact 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 Intact. The company reviewed the report and informed Board staff that apart from identifying a typographical error, it had no other 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 two issues surrounding the Intact analysis of its rate level, where additional discussion is required. These issues are (a) loss trends selections and (b) profit provision. Board staff consider that Intact satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

Loss Trends

[5] The company based its selected loss trend rates primarily on a review of internal Intact experience, including business acquired from Royal & Sun Alliance Assurance Company (RSA) in Nova Scotia through December 31, 2022. Intact argued that it represents a sizeable portion of the market in the province and that most of its coverages are fully credible. Intact believes its volume of business is large enough to warrant the use of its own data to determine loss trends. For Bodily Injury and Accident Benefits Intact also considered industry data through June 2022 when making its trend selections.

[6] Intact examined frequency, severity, and loss cost separately to make the loss trend selections. The company varied the experience period used to determine the loss trend selections and excluded pandemic year data for some coverages.

[7] Intact selected its base future trend rates that match its past trend rates. Intact examined the impact of higher inflation, supply chain issues and political unrest. These elements put pressure on the costs for physical damage related coverages. Intact expects the increased repair costs and increased total loss costs to persist through the period for which the premiums are being developed.

[8] To account for this higher inflation expectation, Intact added an adjustment factor to the base future trend for physical damage coverages (i.e., PD-Tort, DCPD, Collision, Comprehensive, Specified Perils and All Perils). This factor recognizes the excess of inflation experience over the country-wide severity trend.

[9] Board staff requested Oliver Wyman, the Board's consulting actuaries, 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, excluding pandemic years, when making its selection.

[10] 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, except for Bodily Injury, where Oliver Wyman used a lower future trend.

[11] Intact provided indications using the Oliver Wyman trends including the recommended one time scalar, or level change, parameter for DCPD and Collision that would see severity increase at 2021-2022. The overall indications using these assumptions were much higher than the Intact indications.

[12] The Board usually would not allow the use of company data solely to develop trends but Intact represents about one-sixth of the Nova Scotia market. The Board has allowed Intact to use its own data to develop trends in the past.

[13] Board staff recommends the Board accept the Intact loss trends, including the company's proposed inflation adjustments, as appropriate in determining the indications for the Intact proposal. The Board agrees.

Profit Provision

[14] Intact uses a pricing model that includes an 11% target return on equity. The model also uses 200% of the Office of the Superintendent of Financial Institutions' minimum capital requirement (MCT). The model produces a premium to surplus ratio of 2.05:1 and profit provision expressed as a percentage of premium of 5.9%.

[15] In recent decisions, the Board has required companies, including Intact, to lower the target return on equity to 10%. This action was taken because of Board concerns that, as evidenced in part by the release of the 2012 and 2013 General Insurance Statistical Agency Financial Information Reports, the industry appeared to be earning returns on equity in excess of the 12% the Board believed it was approving.

[16] The 2014-2019 versions of these reports show negative a return on equity for the industry. The Board believes this is a result of many companies not taking full indicated rates coupled with some deteriorating experience, possibly related to inclement weather at the start of 2015. The Board does not believe it is a result of the Board requiring companies to price rates at the lower end of their profit range. As such, the Board has continued to require a 10% return on equity for most companies.

[17] The 2020, 2021 and 2022 versions of the report show positive returns. These results may be driven by reduced claims resulting from lower driving observed during the pandemic combined with a move by companies to take premium increases.

[18] In previous applications, the Board required Intact to use a 10% return on equity and 185% of the MCT in its pricing model. These assumptions result in a premium to surplus ration of 2.14:1 and a profit provision of 5.0%. Intact noted that this result falls

below the Board's range for a reasonable profit provision, while its 11% and 200% of MCT assumptions produce a value (5.9%) which falls in the Board range (5.5%-7.0%).

[19] Board staff noted that the Board developed its range some time ago. If the Board recognized recent changes in the tax and investment environment, then the range would be 5.2% to 6.7%. Board staff noted that the use of 10% return on equity and 185% of MCT would see the profit provision fall outside this range. Board staff, therefore, recommended the Board allow the use of 200% of MCT but with a 10% return on equity. These assumptions produce a profit provision of about 5.3%, which is at the lower end of the range, where the Board expects companies to be unless they can prove they are different from the industry.

[20] Board staff recommends the Board allow Intact to use its 200% of MCT assumption but require the use of a 10% return on equity. The Board agrees.

Staff Indications

[21] Based on the approved recommendations, the Staff Indications are calculated using all Intact assumptions except 10% replaces the 11% selection for return on equity. Board staff recommends the Board use Staff Indications as the appropriate target to assess the reasonability of the Intact proposal. The Board agrees.

Comparison of Proposed Rates to Indicated Rates

[22] The proposed rate changes follow the direction of Staff Indications, but the size of the changes is different. While the Accident Benefits proposed decrease is smaller than indicated, the smaller than indicated increases for other mandatory coverages results more than offsets this result. These mandatory and optional coverage changes are below indication and combine for a lower than indicated overall change. The

proposed changes result in a return on equity of 9.4%, which is below the 10% allowed target.

[23] Intact supported its proposed rate changes. Board staff recommends the Board approve the proposed rate changes. The Board agrees.

Proposed Changes

Territorial Differentials

[24] Intact did not propose any changes to territories or territorial differentials. Intact did not provide any territorial analysis, nor does the Board require any in these circumstances.

Adoption of 2024 CLEAR Table

[25] To assign rate groups for physical damage coverages and Accident Benefits, Intact uses the 2023 CLEAR table (Canada, Collision and DCPD Combined, with extended Vehicle Code (21 years) for Alberta & Atlantic Canada). Intact proposed the adoption of the 2024 version of this CLEAR table. Intact off-balanced the impact of the adoption of the table to make the change revenue-neutral.

[26] Board staff recommends the Board approve the proposed adoption of the 2024 CLEAR table and the associated off balancing for both companies. The Board agrees.

Differential Changes

[27] Intact proposed changes to the differentials for six of its rating variables. The company conducted a one-way analysis to examine the relative loss costs between the various levels of each of the variables being changed. Where the data was not fully credible, Intact used the current relativities as the complement of credibility. Intact off-

balanced the impacts of the differentials changes through base rates to make them revenue-neutral.

[28] Board staff recommends the Board approve the proposed differential changes, including the changes to the credit-based rating variable and the associated off-balancing of the impact of these changes. The Board agrees.

[29] The following sections describe the rating variables for which Intact proposed change to differentials.

Years Licensed

[30] Intact is concerned about its competitiveness for both inexperienced operator segments (i.e., those licensed less than eight years) and those licensed 50 or more years. Competitive information shows Intact quotes well below the rest of the market, indicating Intact rates are too low for these segments. The results of the analysis and the competitive review of quotes placed during the six-month period from March to September 2023 both suggested Intact needed to increase its rates for these segments. The company proposed increases on certain coverages where the analysis supports a rate increase for those profiles, and rate decreases for those in between (9-49 years licensed). Intact considered its competitive position when making its selected changes.

Years with Company

[31] Intact proposed removing this variable, which provides a loyalty benefit. The variable reduces rates over time but puts pressure on indications for future increases. The company believes the removal of the variable will improve its Atlantic Canada results.

Bodily Injury Limit

[32] Based on the results of its analysis, Intact lowered rates for its \$2,000,000 limit and increased rates for its \$1,000,000 limit for Bodily Injury coverage. The proposed changes followed the indications for these two limits.

Months Since Last Move

[33] This variable provides a discount for clients who demonstrate stability of residence. In conjunction with the current Years with Company, only clients who have lived at the current address for two years or less benefit from this variable. With the removal of Years with Company, as discussed, Intact will use this variable directly to provide a discount as the number of years at the same residence increases. To establish the proposed deductibles, Intact adopted the indicated differentials by segment, but adjusted them to ensure a smooth and logical progression. The differentials gradually decrease as the years at the same residence increase.

New Business Type

[34] Intact received approval for this rating variable in its last application. At that time, an analysis of new business versus existing business over the last five years suggested a discount close to the proposed level could be provided, while existing business would see no discount. Intact introduced the discount to offset the previous rate increase to reduce the impact of that rate change on the company's competitive position for new business.

[35] At that time, Intact selected differentials that see new business clients with no non-payment cancellations receive a discount, which at each subsequent renewal

decreases uniformly until it reaches 0% at the fourth renewal. The stepping-down of the discount to zero over four renewals seemed appropriate given the analysis at that time.

[36] Intact proposed to increase the discount initially and to increase the amount by which the discount decreases each year, so the discount once again decreases to zero after four renewals. Intact stated the increase to this variable will help offset the proposed rate increase from this application and reduce the impact of that increase on the company's competitive position.

[37] The analysis provided suggested the discount should be reduced not increased. When questioned about this result, Intact reiterated the purpose of the discount was to temper the impact of the last rate change and the proposed rate changes on the company's competitive position. While Intact included the actuarial analysis, this inclusion was to satisfy the filing requirements rather than to justify the proposed change. After considering the gap between indicated and selected rates for this variable and reflecting the limited impact the discount has on the business from both a magnitude and applicability perspective, Intact viewed the difference to be small enough to be considered reasonable. Intact believes despite the deviation, the structure of the variable will allow the group eligible for this discount to converge to the indicated premium quickly. In this light, the proposed differentials seem reasonable in the circumstances.

Credit-Based Rating Variable

[38] In 2020 NSUARB 67, the Board approved the company's credit-based rating variable. The variable provides a discount for better credit scores for those policies where the insured provided consent to the company to do a credit check.

[39] Intact applies the variable to most coverages. As a result of the analysis, Intact proposed changes to the credit score where the discounts begin and to its discount levels offered (i.e., differentials) that reflected the indications with some adjustments to maintain smoothness of the differentials curve.

New Rating Variable: Number of Years Licensed X Gender

[40] Intact proposed a new rating variable that combines gender with the number of years licensed. The company saw different patterns for male and female drivers that were not being captured in the current algorithm. Intact observed that it was more competitive for inexperienced male drivers and less competitive for inexperienced female drivers. Intact is less profitable for inexperienced male drivers and more profitable for female drivers. The new variable will address this imbalance.

[41] Based on both the loss cost analysis and a competitive review of quotes placed during the six-month period March to September 2023, Intact developed differentials based on gender and years licensed combined, and by comparing these to the Years Licensed differentials, was able to develop the differentials for this new Number of Years Licensed X Gender variable. The developed differentials vary by coverage.

[42] Intact included the impact of the new rating variable when determining the amount to off-balance to make the proposed changes revenue neutral.

[43] Board staff recommends the Board approve the Number of Years Licensed X Gender rating variable and the associated differentials. The Board agrees.

Endorsement Changes

[44] Intact offers a Roadside Assistance Endorsement. Under the endorsement, Intact arranges for and covers the costs of the roadside assistance services. The company limits reimbursements to \$100 per event and \$400 annually.

[45] Intact proposed a premium increase based on the increased cost of towing services, and the expected increases as it revises its contract with its external roadside assistance provider. The company believes the new premium will allow it to continue to provide the benefits under the endorsement.

[46] Intact offers bundles of endorsements, referred to as Plus Pac Options, which may include this endorsement (i.e., Plus Pac Options C, D and E). The premium for these bundles is calculated as $(1 - \text{a discount percentage})$ times the sum of the premiums for the underlying endorsements. Intact proposed no changes to the discount percentages. The proposed higher premiums for the Roadside Assistance Endorsement, however, will increase the bundle price.

[47] Board staff recommends the Board approve the proposed increase to the premium for the Roadside Assistance Endorsement and the bundles in which it is included. The Board agrees.

Discount Changes

[48] Intact proposed changes to two of its discounts. The first change is to its Multi-Policy Discount. This discount applies when a client has a private passenger vehicle policy and insures their home or has a commercial policy (excluding a commercial

vehicle policy) insured with Intact. Intact will increase the current discount, which Intact believes is lower than what its competitors offer as evidenced by its competitive review, with no changes to the eligibility criteria. The analysis provided supported the discount change for most coverages.

[49] The second change is to the Hybrid and Electric Discount, which provides a discount for electric and hybrid vehicles. Intact proposed to vary the discount for electric vehicles (EV) based on the vehicle price band in which the vehicle falls.

[50] The company noted, from its own Ontario and Quebec experience, that EVs within the zero to \$30,000 price range have a higher frequency of claims but lower severity of claims than non-EVs within the same price range. EVs within the \$50,000 and up price range experience higher frequency and higher severity than non-EVs within the same price range. Claims should, therefore, increase as price ranges increase. Experience in the United States shows Tesla cars have higher claims than gas-powered luxury cars. This result also supports the proposed declining discount as the vehicle price band increases.

[51] Intact also proposed to lower the discount for hybrid vehicles regardless of vehicle value. Both changes are part of a nationwide initiative to position the company as climate conscious while recognizing, in part, the realities of claims experience for these vehicles. Intact noted that Ontario and PEI have already approved this discount.

[52] Board staff recommends the Board approve the proposed changes to the Multi-Policy Discount and the Hybrid and Electric Discounts. The Board agrees.

Renewal Premium Dislocation Capping Mechanism

[53] To manage the dislocation experienced by their clients, Intact received approval for its current renewal premium dislocation capping mechanism. The mechanism acts to limit renewal premium increases to 21%. If there has been a new minor conviction during the policy period before the renewal, the cap increases to 45% to allow the impacts of any minor conviction to pass through. The cap returns to 21% if, in the next policy period, there are no new minor convictions. If the client has a major or criminal code conviction, or has an at-fault claim, Intact removes the cap.

[54] Intact also caps renewal premium decreases to 3% unless the risk has an improvement in claims or conviction experience at renewals, or the risk is licensed for ten years or less. In these cases, the renewal decrease cap becomes -20%. Intact proposes to continue to use this renewal premium capping mechanism.

[55] To use a cap on renewal premium decreases (i.e., a negative cap), the Board requires companies to demonstrate that the premium forgone from the cap on renewal increases will exceed the extra premium collected from the cap on renewal decreases. Intact provided the required evidence to confirm it met this requirement.

[56] Intact believes the cap will be in effect on average for one year, but some policies may be subject to the cap for longer. Board staff recommends the Board approve continued use of the renewal premium dislocation capping mechanism. The Board agrees.

Other Sections

[57] Board staff reviewed the remaining sections of the application. They comply with the Board's Rate Filing Requirements.

Effective Dates

[58] Intact proposed effective dates of June 5, 2024, for new business, and July 5, 2024, for renewals. Board staff recommends that the Board approve these effective dates. The Board agrees.

Automobile Insurance Manual

[59] Intact proposed changes to its rating and underwriting rules in its automobile insurance manual to reflect the changes noted in the report. The company also made some other changes that did not impact rates or risk-classification systems.

[60] Board staff reviewed Intact's Automobile Insurance Manual filed with the Board and the proposed changes and did not find any instances where the Manual contravened the *Act* and *Regulations*.

[61] Board staff recommend the Board approve the proposed Manual and require the company to file an electronic copy within 30 days of the issuance of the Order for this matter. The Board agrees.

III SUMMARY

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

[63] The Board finds the proposed rates are just and reasonable, and approves the changes effective June 5, 2024, for new business and July 5, 2024, for renewal business.

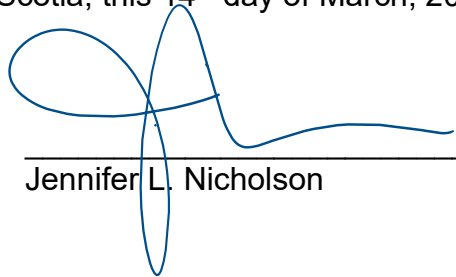
[64] The financial information supplied by Intact satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the company.

[65] 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 Intact for private passenger vehicles is December 1, 2025.

[66] 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.

[67] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 14th day of March, 2024.



Jennifer L. Nicholson