DECISION		**2024 NSUARB 104**

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M11658

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

BEFORE: M. Kathleen McManus, K.C., Ph.D., Member

APPLICANT: **PEMBRIDGE INSURANCE COMPANY OF CANADA**

FINAL SUBMISSIONS: May 15, 2024

DECISION DATE: **June 14, 2024**

DECISION: **Application is allowed, as modified.**

I INTRODUCTION

[1] On April 12, 2024, Pembridge Insurance Company of Canada (Pembridge) 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 12%. In addition to changes to rates, the company also seeks to: adopt the 2024 Canadian Loss Experience Automobile Rating (CLEAR) table; introduce a change to the Multi-Line Discount; make changes to Usage-Based Discount Program; and modify its 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 Pembridge's application meets these requirements for the risk classification system and approves it. The Board is not satisfied that Pembridge's application for its proposed rates meets these requirements, for the reasons outlined later in the Decision, and does not approve them. The Board directs Pembridge to file revised rates that are consistent with indications calculated using all Pembridge assumptions except for return on equity, where 10% replaces 12%, and the correct 29% tax rate is used.

II ANALYSIS

[3] Pembridge applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Pembridge received Information Requests (IRs) from Board

staff and filed an amended application including a revised proposal based on the IR process. 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 Pembridge. The company reviewed the report and informed Board staff that it agreed with the recommendations and had no further 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 Pembridge's tax rate, profit provision and the comparison of proposed rates to indications. Board staff considers that Pembridge 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:

- Tax rate;
- Profit provision;
- Proposed rate changes;
- Adoption of 2024 CLEAR Table;
- Multi-Line Discount;
- Usage Based Discount Program Changes;
- Modifications of the Renewal Premium Dislocation Capping Mechanism; and,
- Changes to Automobile Insurance Manual.

<u>Tax Rate</u>

[6] In its application, Pembridge used a corporate tax rate of 31%. The corporate tax rate in Nova Scotia has been 29% since April 2020. Pembridge provided revised indications to use the correct tax rate.

[7] Board staff recommends the Board accept Pembridge's use of the correct tax rate in its revised indications. The Board agrees.

Profit Provision

[8] The Rate Filing Requirements note that, in general, the Board finds a return on equity between 10% and 12% to be reasonable, assuming a premium-to-surplus ratio of 2:1. The Board also allows a return on premium approach to reflect profit and generally views a range of 3.9%-5.3% as reasonable.

[9] Pembridge proposed a rate of return on equity of 12% in its indications and a premium-to-surplus ratio consistent with the previous application to reflect profit in its rates. The resulting profit provision is 5.3%. Pembridge's proposed profit provision is at the top of the Board's range.

[10] In recent decisions approving rates for automobile insurance, the Board directed applicants to lower their target return on equity to 10%. The Board took this action because of a concern that the industry was earning returns exceeding the level the Board believed it was approving. This concern was based in part on information in financial reports released by the General Insurance Statistical Agency (GISA) in 2012 and 2013. The 2014 to 2019 GISA reports show negative returns on equity for the industry. The Board does not regard this as the result of it forcing companies to the lower end of their profit range. The negative returns are more likely because many companies did not increase rates as much as their actuarial studies suggested they should, coupled with deteriorating experience. The Board continues to require a 10% return on equity for most companies, unless they can show a different treatment is warranted. The Board notes the 2020 to 2022 versions of the report show positive returns on equity, in part due to the impacts of the pandemic.

[11] Pembridge provided financial information which showed its loss ratios for Nova Scotia automobile insurance were higher than those for the rest of Canada in all of the four years displayed. Over the four years (2019-2022) combined, the Nova Scotia loss ratio of 79.2% compares to the all-Canada result of 72.3%.

[12] Pembridge uses industry loss costs, adjusted to reflect its own mix of business, as its complement of credibility. That use provides an opportunity to compare Pembridge and the industry experience. Pembridge's experience from that perspective appears to be close to or better than the industry.

[13] In previous applications, the Board required Pembridge to use a 10% return on equity based on the information that the company provided. In this application, the company provided similar evidence to that in previous applications to explain why the Board should allow the company to use a 12% return on equity. In those previous applications, Pembridge took smaller than indicated rate increases, arguing that larger increases would disrupt its ability to retain policies. It should be noted that Pembridge proposed to take the full indication in this application.

[14] Board staff recommends that Pembridge be required to use a 10% target return on equity when developing its indicated rate level needs. The Board agrees and would note that this recommendation is consistent with prior Board decisions for Pembridge applications.

Proposed Rate Changes

[15] Based upon the return on equity recommendation, the Staff Indications are calculated using all the company assumptions except for return on equity, where 10% is

used in place of 12%, along with the correct tax rate. Pembridge based its proposal on its own revised indications with a goal of achieving the overall rate increase. However, the proposal for most coverages exceeds the Staff Indications.

[16] Where Pembridge proposed changes, the changes follow the direction of the indications, except for Property Damage-Tort, and Family Protection Endorsement (SEF#44). For Property Damage-Tort, Pembridge selected the same decrease as it did for Bodily Injury despite the indicated increase. The proposal results in higher premiums than indicated for all coverages, expect Collision and Comprehensive, where the rates are slightly lower than indicated. The proposed change also is a larger step toward indications than Pembridge made in previous applications.

[17] For SEF#44, the company proposed to leave the current rate unchanged despite an indication for a large decrease. The indicated change would drop Pembridge's current average premium well below the industry average premium. A large drop from the current Pembridge level, which is already close to the industry level, does not seem prudent.

[18] The overall proposed increase is larger than the overall Staff indicated increase. The proposal, therefore, would produce a return on equity of 12%, which exceeds the Board allowed 10%. Board staff recommends that the Board not approve the proposed rates but instead require Pembridge to revise its proposal to reflect the Staff Indications, by coverage and overall. The Board agrees.

Adoption of 2024 CLEAR Table

[19] Pembridge currently uses the 2023 CLEAR (Canada, Collision and DCPD Combined, for Alberta & Atlantic Canada) table to assign rate groups for physical damage coverages and Accident Benefits. In this application, Pembridge proposed to adopt the 2024 version of this table. The Board approved this table for use in Nova Scotia effective December 1, 2023. Pembridge provided the impact by coverage of the table change. The impact overall was small. Pembridge did not off-balance the impact but allowed the change to form part of the overall rate change.

[20] Board staff recommends the Board approve the proposed adoption of the 2024 CLEAR table. The Board agrees.

Multi-Line Discount

[21] Pembridge provides a discount on an automobile policy, when the insured also has a property policy (e.g., Homeowners, Tenant, Condominium) with Pembridge. The level of discount varies by the type of property policy.

[22] The company conducted an analysis of combined ratio (e.g., loss ratio plus expense ratio) to determine the indicated discounts for each of the property policy types. This analysis led Pembridge to increase the discount for insureds with a Homeowners policy while leaving the other discount levels unchanged. The increase is consistent with the indicated increase from the analysis.

[23] Board staff recommends that the Board approve the proposed change to the Multi-Line Discount. The Board agrees.

Usage Based Discount Program Changes

[24] Pembridge offers a Usage Based Insurance (UBI) discount program, which it calls My_BRIDGE. Based on data collected from an enrollment period, the program assigns a discount based on how well the insured drives. Once the enrollment is complete, the tracking ends and the earned discount, if any, is assigned.

[25] The company offered an Enrollment Discount to encourage clients to enroll in the program. The insured receives a 10% discount, which remains in place until the monitoring reveals what the true discount would be. At the next renewal, the Enrollment Discount is replaced with the true discount or removed if the program says no discount is warranted.

[26] Additionally, Pembridge encouraged enrollment by offering a 5% “Try Before You Buy” discount, which brought the total discount at enrollment to 15%. When Pembridge launched My_BRIDGE, UBI was new to the province. The Enrollment and “Try Before You Buy” Discounts provided needed incentive to attract people to the program.

[27] As the usage of UBI has matured, Pembridge said the same incentive to enroll was no longer needed and proposed removing the “Try Before You Buy” Discount but leaving the Enrollment Discount to 10%. The company based the proposed removal on an analysis that also showed the discount was too generous. The change would also align Nova Scotia with Ontario and Alberta for Pembridge. The company supported its proposed changes to its My_BRIDGE program.

[28] Board staff recommends the Board approve the proposed change to My_BRIDGE program to remove the “Try Before You Drive” Discount. The Board agrees.

Modifications of the Renewal Premium Dislocation Capping Mechanism

[29] In its last filing, Pembridge received approval for changes to its renewal premium dislocation capping mechanism. Those changes resulted in a premium dislocation cap that limited renewal premium increases to 29%, and renewal premium decreases to 5.0%. In this application, Pembridge proposed to increase the cap on renewal premium increases to 38% and renewal premium decreases to 0.0%.

[30] When a company proposes to use negative capping (i.e., limiting the renewal decreases), the Board requires the company to show that the premium foregone from the positive cap (i.e., limiting the renewal increases) is greater than or equal to the extra premium collected from the negative cap. Pembridge stated that the capped impact of the proposed changes was the same as the uncapped impact. This result complies with the Board requirements, as the premium foregone must be equal to or less than the extra premium collected to achieve this result.

[31] The proposed capping structure will apply as long as there is no material change in risk (i.e., no territory change, no increase or decrease in the number of convictions or at-fault accidents at renewal). If there is a material change, Pembridge will change the capping levels to allow more of the expected impact of the material change to be observed. For example, if the client at renewal has fewer at-fault claims that can be used in rating, the client expects the premium will drop. Pembridge will alter the cap on decreases to allow more of that impact to flow through. Pembridge provided scenarios to show the proposed impacts on the capping levels of certain material changes in risk. The capping limit changes for these scenarios seem reasonable.

[32] Pembridge expects this capping mechanism to be in place for two years but will advise the Board if there are any changes about how long the cap is in place. This approach is consistent with the Board's view that such caps should be removed quickly.

[33] Board staff recommends the Board approve the proposed renewal premium dislocation capping mechanism. The Board agrees.

<u>Changes to Automobile Insurance Manual</u>

[34] Pembridge proposed changes to its Automobile Insurance Manual which include, in part:

- adding a section to clarify what insurance can be bound during or before major weather events;
- declining to write a vehicle where the Vehicle Information Number (VIN) has been tampered with, is invalid or cannot be validated; and,
- removing the maximum 30-day rental period from its NSEF#27 – Legal Liability for Damage to Non-Owned Automobiles and Providing Other Coverages When Insured Persons Drive Other Automobiles endorsement.

[35] None of the changes to declination rules (i.e., rules by which the company chooses not to write a policy) or other underwriting rules appear to violate the *Insurance Act* or its *Regulations*.

[36] Board staff recommends the Board approve the proposed changes to the underwriting rules. The Board agrees.

III SUMMARY

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

[38] The Board finds the proposed rates are not just and reasonable and directs Pembridge to revise its rates to reflect the Staff Indications and the overall indicated increase, which use a return on equity of 10% and the correct tax rate. Pembridge should file a revised submission within 15 days of the issuance of the order in this matter.

[39] The Board approves the proposed effective dates of July 26, 2024, for new business and September 26, 2024, for renewal business, unless Pembridge chooses to alter these dates as part of its resubmission.

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

[41] 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 Pembridge for private passenger vehicles is April 1, 2026.

[42] Board staff reviewed Pembridge'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.

[43] An order will issue accordingly.

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

M. Kathleen McManus