DECISION **2024 NSUARB 2**
M11417

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **TD INSURANCE GROUP**

FINAL SUBMISSIONS: December 6, 2023

DECISION DATE: **January 4, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On November 3, 2023, TD Insurance Group (TD) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. TD represents Security National Insurance Company, Primmum Insurance Company, and TD Home and Auto Insurance Company. The company proposes rate changes that vary by coverage and result in an overall increase of 13.5%.

[2] TD also asks the Board to approve changes to its vehicle value rating variable, credit-based rating variable (Client Assessment Factor) and renewal premium dislocation cap. TD also seeks to introduce three new rating variables: number of cancellations for non-payment in the last three years; prior insurer; and most stolen vehicle surcharge.

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

II ANALYSIS

[4] TD applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, TD 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 TD. The company reviewed the report and informed Board staff that it agreed with the recommendations and had no further comments.

[5] Board staff examined all aspects of the ratemaking procedure to make the recommendations in the Staff Report and suggested that the Board further review TD's proposed return on investment for both cash flow and surplus assets. Board staff considers that TD satisfactorily addressed the other aspects of the ratemaking procedure in its application and IR responses.

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

- Return on investment;
- Proposed rate changes;
- Changes to the Vehicle Value rating variable;
- Adoption of new rating variables about Number of Cancellations for Non-Payment in the Last Three Years; Prior Insurer; and, Most Stolen Vehicle Surcharge;
- Changes to a credit-based rating variable, Client Assessment Factor; and,
- Changes to the Premium Dislocation Cap.

Proposal

[7] TD proposed changes to its current rates and risk-classification system that vary by coverage. The changes are uniform by territory and result in an overall rate level increase of 13.5%. TD based the proposed changes on indications that suggest a higher all-coverage combined increase should be taken.

Return on Investment

[8] TD selected a return on investment for both discounting its cash flows and for its return on surplus assets based on the average of three-year bond yields for the period August 2020 to August 2023. In previous filings, TD used the average yield for three-year bonds on a specific date, which TD indicates would have been August 1, 2023 for this application. In this application, TD argues that exceptional inflation levels drove up yields, and it would not be appropriate to use that level because inflation is not

expected to remain high. In response to an information request from Board staff, TD prepared indications based on two alternative returns on investment. The first return used the full three-year yield, and the second return used a one-year average of yields. Based on its indications, Board staff recommended that TD alter its return on investment for both cash flow and surplus assets to reflect the average yield over August 2022 through August 2023. In its response to the advisor report, TD adopted this recommendation and revised its indications.

Proposed Rate Changes

[9] The proposed rate changes follow the direction of the indications. TD proposes an overall all-coverages combined rate level increase of 13.5%, prior to consideration of other changes addressed later in this decision. Except for Accident Benefits and Family Protection Endorsement (SEF#44), TD proposed changes in rates smaller than the indicated increase. For Accident Benefits, TD proposed no change in rates, despite the indication for a decrease. For SEF#44, TD proposed a slightly smaller decrease than indicated. The Board has concerns when a company does not take the full indicated increase in rates. In previous applications, TD chose to move incrementally towards its indicated increases. In this application, TD acknowledged the deteriorating results, due to factors such as heightened inflation, supply chain issues, and increased repair costs. TD remains committed to a gradual approach to rate level changes, and states it will continue to monitor results and will act to address shortfalls, if needed.

[10] Board staff recommends the Board approve the proposed base rate changes. The Board agrees.

Changes to Vehicle Value Rating Variable

[11] TD proposed reductions to the differentials it uses for its Vehicle Value rating variable. TD introduced the Vehicle Value rating for Direct Compensation Property Damage, Collision and Comprehensive in 2020. TD hoped the variable would capture the predictive signal that was not picked up by the rating groups provided by the Canadian Loss Experience Automobile Rating (CLEAR) table. With the recent update to the 2023 version of the CLEAR tables, TD discovered that the updated CLEAR table was a better predictor of the risk. To avoid double counting the signal in its rating algorithm, TD used actuarial judgment to reduce the differentials for Vehicle Value to offset the impact of the latest CLEAR table updates.

[12] TD off-balanced the impact, along with other variable changes, to make them revenue-neutral as a whole.

[13] Board staff recommends the Board approve the proposed changes to the differentials for the Vehicle Value rating variable. The Board agrees.

Adoption of new Rating Variables

Number of Cancellations for Non-Payment in Last Three Years

[14] TD proposed adding a rating variable that will surcharge those clients who had one or more cancellations for non-payment of premiums in the past three years. TD noticed that those risks without a non-payment cancellation in the last three years had a much better claims experience than risks that had such a cancellation. TD relied on experience in New Brunswick and Newfoundland and Labrador as a complement because the data in Nova Scotia was not fully credible.

[15] TD proposed a 20% surcharge where the client has one or more non-payment cancellations in the last three years. TD believed it was prudent to take only a partial move toward the credibility-weighted indicated level given the Nova Scotia only experience suggested a lower surcharge. TD will monitor the experience under this surcharge and adjust if required.

[16] TD off-balanced the impact of the introduction of this variable, along with the impact of the other changes to make them revenue-neutral as a whole.

[17] Board staff recommends that the Board approve the proposed rating variable, Number of Cancellations for Non-Payment in the Last Three Years. The Board agrees.

Prior Insurer

[18] TD proposed adding a rating variable that will apply a surcharge when a new business risk has not had prior insurance. TD will apply the variable to Bodily Injury, Property Damage – Tort, Direct Compensation Property Damage and Collision. At renewal, the TD system will automatically recognize that the risk has prior insurance, that is with TD. As required by the section 3.1(c) of the *Matters Considered in Automobile Insurance Rates and Risk-Classification Systems Regulations*, N.S. Reg. 183/2003, TD will not allow lapses in coverage of less than 24 months that are prohibited from use as a risk-classification factor to impact the value for this variable. TD provided actuarial support showing the predictive value of this variable and justifying the level of the surcharge. On this basis, the Board finds the variable does not violate section 2 of those *Regulations*, and therefore, the use of the variable is not prohibited.

[19] TD off-balanced the impact of the introduction of this variable, along with the impact of the other changes to make them revenue-neutral.

[20] Board staff recommends that the Board approve the proposed Prior Insurer rating variable. The Board agrees.

Most Stolen Vehicle Surcharge

[21] TD proposed adding a rating variable that applies a surcharge if the vehicle is one of the top fifteen most stolen vehicles and is aged five years or less. TD derived the indicated level largely from the Ontario and Quebec experience. It selected a surcharge below that level to recognize the theft trend observed in those jurisdictions has not fully been observed in Nova Scotia. TD will monitor the experience and will adjust the surcharge levels in future filings, if needed.

[22] TD off-balanced the impact of the introduction of this surcharge, along with the impact of the other changes, to make them revenue-neutral as a whole.

[23] Board staff recommends the Board approve the proposed Most Stolen Vehicle Surcharge rating variable. The Board agrees.

Client Assessment Factor

[24] The Client Assessment Factor variable relies upon credit score information provided by a third-party vendor, with consent from the client to access the credit information. The Board approved the use of this variable in Decision 2018 NSUARB 171.

[25] This rating variable provides a discount for clients with good credit scores. TD proposed new differentials for this variable based on an actuarial analysis of the indicated differentials for its credit score groupings. As a result, credit scores below the proposed level will see increased premiums to address the poorer loss experience TD

observed for those scores, while scores above that level will see a small decrease in premium.

[26] TD off-balanced the impact of the differential changes, along with the impact of the other changes, to make them revenue-neutral as a whole.

[27] Board staff recommends the Board approve the proposed changes to the differentials for the Client Assessment Factor rating variable, and the associated off-balancing of the impact. The Board agrees.

Changes to Premium Dislocation Cap

[28] TD proposed to increase the premium dislocation cap on renewal premium increases from +10% to +20%, where a customer has no new at-fault accidents. The cap that limits renewal premium decreases to -5% will remain, as will the increase to the upper boundary to +40% in the event of an at-fault accident.

[29] TD applies the cap on a per-vehicle basis. The cap will remain in place and apply if renewal premium increases exceed 20% in future renewals. The cap is removed if there are additions or substitutions of vehicles.

[30] The Board requires that the impact of negative capping on premium, that is limiting the reductions a policy should receive, must be less than or equal to the impact on premium of the positive capping. TD has demonstrated that it complies with the Board requirement.

[31] Board staff recommends the Board approve the proposed changes to the premium dislocation cap. The Board agrees.

III SUMMARY

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

[33] The Board finds that TD's proposed rates and risk-classification system are just and reasonable, and approves the changes effective March 15, 2024, for new business and April 27, 2024, for renewal business, the revised dates provided by TD.

[34] The financial information supplied by TD 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 TD Insurance Group for private passenger vehicles is November 1, 2025.

[36] Board staff reviewed TD Insurance Group's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. TD 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.

[37] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 4th day of January, 2024.

M. Kathleen McManus