

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

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

BEFORE: Roberta J. Clarke, Q.C., Member

APPLICANT: **SONNET INSURANCE COMPANY**

FINAL SUBMISSIONS: November 18, 2019

DECISION DATE: **November 25, 2019**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Sonnet Insurance Company applied to the Nova Scotia Utility and Review Board to change its underwriting rules for private passenger vehicles. The company proposes lower acceptable limits on chargeable accidents, minor convictions, serious convictions, or non-payment cancellations, as well as new rules related to fraudulent activities.

[2] Sonnet had earlier applied to the Board for approval of changes to its rates and risk classification for these vehicles (M09418). As part of that application, it proposed changes to its underwriting rules, the same as changes for which it had required approval in New Brunswick and Prince Edward Island. Sonnet wanted to have the same effective dates in Nova Scotia as the other two provinces. Because the original application is still under review, Sonnet was concerned that it could not have the same effective dates and sought permission to sever the underwriting rules changes and make a separate application. Board staff confirmed this could be done and provided simplified filing guidelines. Sonnet then filed a new application for the underwriting rules only.

[3] The Board must consider whether the proposed rule changes are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*. The Board is satisfied that Sonnet's application meets these requirements and approves the proposed changes.

II RULE CHANGES

[4] For principal operators licensed for fewer than four years, Sonnet proposes to change the following underwriting rules to restrict the types of risks it will underwrite:

- From three or more to one or more chargeable accidents in the past six years; and,
- From four or more to three or more minor convictions in the past three years.

[5] For principal operators licensed for four or more years, Sonnet proposes to restrict risks by making the following changes to its underwriting rules:

- From five or more to three or more chargeable accidents in the past six years;
- From three or more to two or more minor convictions in the past three years;
- From three or more to one or more chargeable accidents in the past six years and two or more to one or more non-payment cancellations in the past three years; and,
- From three or more to two or more minor convictions in the past three years and two or more to one or more non-payment cancellations in the past three years.

[6] The proposed new rules regarding fraudulent activities are intended to allow Sonnet to request more documentation to prevent misrepresentation by clients, to prevent known fraud issues and to ensure accurate rating. In addition, should Sonnet become aware that a risk does not comply with its rules, it would have the right to terminate coverage.

III ANALYSIS

[7] Sonnet initially applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. This application was filed under a set of simplified guidelines. In addition to those issued in the initial application, Sonnet 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 Sonnet. The company reviewed the report and informed Board staff that it had no further comments.

[8] Sonnet explained that its current underwriting rules have resulted in it insuring riskier clients. Sonnet stated this area is continuing to grow, and while its market share remains small, the company does not want to continue growing with undesirable risks. The proposed changes are intended to minimize future negative impact.

[9] Board staff advised that Sonnet provided information to demonstrate that the application of the proposed rules and the removal of risks that would be excluded under them will result in lower indications. Board staff also confirmed that none of the proposed changes would violate the *Act* or *Regulations*. The Board accepts the recommendation of Board staff to approve the proposed changes to Sonnet's underwriting rules.

IV SUMMARY

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

[11] The Board finds the proposed changes to the underwriting rules and new fraud-related rules are just and reasonable, and approves the changes effective December 15, 2019, for new business and January 26, 2020, for renewal business.

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

[13] This application does not qualify to set a new mandatory filing date under the *Mandatory Filing of Automobile Insurance Rates Regulations*. The mandatory filing date for Sonnet for private passenger vehicles remains unchanged.

[14] Board staff reviewed Sonnet's Automobile Insurance Manual filed with the Board and the proposed pages to reflect the changes. Board staff did not find any instances where the Manual contravened the *Act* and *Regulations*. Sonnet must file an electronic version of its updated Manual, within 30 days of the issuance of the order in this matter.

[15] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 25th day of November, 2019.



Roberta J. Clarke