DECISION **2021 NSUARB 79**
M10120

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 for private passenger vehicles

BEFORE: Peter W. Gurnham, Q.C., Chair

APPLICANT: **TD INSURANCE GROUP**

FINAL SUBMISSIONS: June 2, 2021

DECISION DATE: **June 14, 2021**

DECISION: **Application is approved.**

I INTRODUCTION

[1] TD Insurance Group, which represents Security National Insurance Company, Primmum Insurance Company and TD Home and Auto Insurance Company, applied to the Nova Scotia Utility and Review Board for approval to change their rates for private passenger vehicles. TD proposed rate changes that vary by coverage and result in an overall increase of 5.0%.

[2] TD also proposed changes to the differentials used for its Client Assessment Factor, including the off-balancing of the impact, and changes to the premium dislocation cap.

[3] The Board will use the term "TD" in this decision to refer to all the companies represented by TD Insurance Group collectively.

[4] The Board must consider whether the proposed changes, and rates, 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 proposed changes to TD's rates.

II ANALYSIS

[5] TD applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155H Expedited Approval* (*Rate Filing Requirements*). Section 155H of the *Insurance Act* permits an insurer to apply for rates to be approved on an expedited basis if the average of the proposed rates for each coverage and category of automobile insurance does not exceed an amount that is prescribed by the Board. The Board

currently allows expedited approval applications for changes to rates for private passenger vehicles that are less than or equal to 5% on an all coverages combined basis.

[6] Board staff reviewed the application and 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. TD reviewed the report and informed Board staff that it had no comments.

[7] TD compared its proposed rates to the residual indications from those approved in its last application for changes to its rates and risk-classification system for private passenger vehicles [2020 NSUARB 55]. The overall rate level increase requested by TD in this application results in rates that are below TD's residual indications.

[8] In this application, TD proposed a 5% increase overall for all coverages. While for some coverages the proposed change exceeds 5%, the Board established the prescribed limit (i.e., 5%) on an overall basis and not on a coverage basis. The proposed change, therefore, complies with the filing requirement.

[9] Because the overall proposed changes are smaller than the residual indication, the return on equity (ROE) of the proposed rates, in combination with the previously approved rates, would remain well below the Board allowed 10% ROE from the previous application.

Client Assessment Factor Changes

[10] TD also proposed changes to the differentials used for its Client Assessment Factor, which relies on credit score information. TD is not changing any of the bands used, only the differentials that would apply. Such a change is possible under

a Section 155H Expedited Approval application because it does not change the risk-classification system but only the rates that apply.

[11] In its previous filing, TD revised its differentials for its Client Assessment Factor. To determine the proposed changes in that application, TD conducted a Generalized Linear Model (GLM) analysis that produced indicated differentials for this and other variables. That analysis suggested the discounts could be significantly increased. While TD proposed significant increases to the discounts offered, the Board approved a revised lower level of discounts given concerns about the impact on non-discounted rates the original proposal would have made.

[12] In this application, TD expressed concern that other competitors are now using credit information to rate automobile policies. TD believes these companies may be using differentials that would reflect the expected loss costs better than those the Board allowed TD to use. TD suggests this difference may lead to anti-selection with the better credit risks emigrating from TD while lower credit risk immigrate to TD causing poorer experience. TD provided no evidence to support this anti-selection argument beyond the fact that other companies are using credit and that the Actuarial Standard of Practice (12) states:

> Whenever the effects of adverse selection are expected to be material, the actuary should, when practical, estimate the potential impact and recommend appropriate measures to mitigate the impact.

[13] TD did not provide an estimate of the potential impact of the anti-selection, but it may not have been practical to determine one.

[14] TD views this anti-selection concern as sufficient support to take another step towards the indications by increasing the level of the discounts to address the anti-

selection concerns. TD proposed to move its discounts to the level originally proposed in the previous application with a similar move towards the indications for those clients who consented but whose credit score information was not available.

[15] The indications, despite not being updated, clearly support a deeper discount. The question is whether the Board is willing to vary from the view taken in the last application that the impact on non-discounted rates needed to be reduced. The key difference between the two applications is that a year with the original rates will have passed when the proposed rates will be effective. The full impact on non-discounted rates will not be felt all at once as it would have been if the Board had approved these discounts in the previous application. The incremental approach mitigates the impact on those being charged the non-discounted rates by spreading it over time.

[16] As discussed in the next section, TD proposed changes to its premium dislocation cap that will further limit the immediate impacts on those who will see rates increase as a result of the off-balancing of the change.

[17] Section 155I of the *Insurance Act* requires the Board to refuse an application if the Board considers that:

> (a) the proposed risk classification system or rates are not just and reasonable in the circumstances;
>
> (b) the proposed risk classification system is not reasonably predictive of risk or does not distinguish fairly among rates;
>
> (c) the proposed rates would impair the solvency of the applicant or are excessive in relation to the financial circumstances of the insurer; or
>
> (d) the proposed rates or rules are in violation of this Act or the regulations.

[18] The evidence suggests the proposed changes are reasonably predictive of risk and distinguished fairly between risks. Given the small size of the Nova Scotia market

compared to the rest of TD business, the proposal likely will not impair the solvency of TD, nor is it excessive in relation to the financial circumstance of TD. The Board previously ruled the Client Assessment Factor does not violate the *Insurance Act* or its *Regulations*.

[19] The remaining question is whether the proposed changes are just and reasonable. Board staff believe the incremental nature of the move towards the indications and the mitigation offered by the premium dislocation cap make the proposed change just and reasonable. TD supported its proposal for changes to the Client Assessment Factor.

[20] Board staff recommended the Board approve the proposed changes to the Client Assessment Factor.

[21] During the review of the application by Board staff, TD confirmed it will follow the IBC Code of Conduct for Insurers' Use of Credit Information (IBC Code). While following the IBC Code is voluntary, the Board expects companies using credit information for rating will follow all guidelines listed in this code.

Premium Dislocation Cap

[22] TD proposed to change the current Board approved premium dislocation cap. That cap limits any increase in the premium for a vehicle at renewal to 35% unless an at-fault accident occurs. If an at-fault accident occurs, the upper bound increases to +40%. TD also caps decreases in premium at renewal to 5%.

[23] TD proposed to reduce the 35% upper bound to 15% while leaving all other bounds (i.e., 40% and -5%) in place. This change mitigates the impact of the off-balancing for those using non-discounted rates.

[24] Board staff recommended the Board approve the change to the premium dislocation cap.

Automobile Insurance Manual Changes

[25] TD made no changes to its automobile insurance manual in this application. Board staff reviewed the current manual during the review of the previous application and found no areas where TD appeared to be in violation of the *Insurance Act* or its *Regulations*. Because TD proposed only changes to rates, the Board does not require TD to file a manual.

Other Sections

[26] Board staff reviewed the remaining sections of the application and found they comply with the Board's *Rate Filing Requirements*.

[27] The financial information included provides comfort that the changes proposed by TD, under Section 155I(1)(c) of the *Act,* are unlikely to impair the solvency or financial well-being of the organization.

Effective Dates

[28] TD proposed the rate changes would be effective for new business on August 1, 2021, and for renewals on October 1, 2021.

III SUMMARY

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

[30] The Board finds the proposed rates are just and reasonable, and approves the changes effective August 1, 2021, for new business and October 1, 2021, for renewal business.

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

[32] An application for expedited approval under the *Rate Filing Requirements* does not qualify to set a new mandatory filing date under the *Mandatory Filing of Automobile Rates Regulations*. The mandatory filing date for TD for private passenger vehicles stays at February 1, 2022.

[33] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 14th day of June, 2021.

Peter W. Gurnham