**DECISION** **2025 NSRAB 38**
**M12161**

# NOVA SCOTIA REGULATORY AND APPEALS BOARD

**IN THE MATTER OF THE INSURANCE ACT**

**- and -**

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

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| **BEFORE:** | Jennifer L. Nicholson, CPA, CA, Member |
| **APPLICANT:** | **DEFINITY INSURANCE COMPANY** |
| **FINAL SUBMISSIONS:** | May 1, 2025 |
| **DECISION DATE:** | **June 17, 2025** |
| **DECISION:** | **Application is approved.** |

## I INTRODUCTION

[1] Definity Insurance Company (Definity) applied to the Nova Scotia Regulatory and Appeals 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 10%. In addition to changes to rates, the company also asks the Board to approve changes to several existing rating variables.

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

## II ANALYSIS

[3] Definity applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, the company 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 Definity who indicated the effective dates may require amendments.

[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 certain issues that are addressed in this decision. Board staff consider that Definity satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

[5] Definity proposed changes to its rates and risk-classification system. These changes vary by coverage but not territory and result in an overall, all-coverages combined increase of 10.0%. The company will also adjust factors in its rating algorithm to reflect expense and profit loadings used in the indications.

[6] Definity proposed changes to the differentials for five rating variables (i.e., Vehicle Age, Driving Record, Policy Driver Count, Credit Score and Terms with Company x Cancelations for Non-Payment). Definity will also modify its High Theft vehicle list and the surcharges that apply to those vehicles.

[7] Definity will adopt the 2025 CLEAR table, which the Board approved for use last year.

[8] Definity will maintain its currently approved premium dislocation capping program that limits renewal increases and decreases. The capping lowers the overall increase to 9.7%.

[9] Board staff examined many issues in this decision. Based on its review, the only issue with the company's analysis of its rate level needs that warrants further discussion is loss trends. The information request process resolved any other issues.

*Loss Trends*

[10] Definity based its selected loss trend rates on a review of its own experience in Nova Scotia through December 31, 2024. Definity argued that it represents a sizeable portion of the market in the province and that its short-tail coverages, which are claims that are reported and settled quickly, are fully credible. As a result, Definity believes its volume of vehicles is large enough to warrant the use of its own data to determine loss trends. For long-tailed coverages, which are claims that can take years to resolve such

as Bodily Injury and Accident Benefits, Definity also considered industry data when making its selections.

[11] Definity and the Board's consulting actuaries, Oliver Wyman (OW) both determined loss trends including consideration of the impact of COVID-19 and inflation. The application of these loss trend selections resulted in very similar increases.

[12] Board staff recommends the Board accept the Definity loss trends, including the severity inflation adjustments and COVID-19 adjustments, as the appropriate ones for use in determining the indications to use as the target to assess the reasonableness of the Definity proposal. The Board agrees.

*Staff Indications*

[13] Based upon Board staff recommendations, the Staff Indications would equal the Definity indications. Board staff recommends the Board, therefore, use the Definity indications as the appropriate target to assess the reasonableness of the company's proposal. The Board agrees.

**Proposed Rate Change**

[14] Definity proposed changes that are lower than indicated for all coverages except Collision, Family Protection Endorsement (SEF#44), and Specified Perils. Rather than lowering Collision and SEF#44 rates by the small, indicated levels, Definity chose to leave the rates unchanged.

[15] For Specified Perils, Definity applied the proposed increase for Comprehensive. As Specified Perils represents a subset of Comprehensive coverage, the Board typically allows companies to use this approach of selecting the same change for both.

[16] Because the overall proposed change is lower than indicated, the proposed rates produce a return on equity, which is well below the 10% Definity target.

[17] Board staff observed that the company supported its proposed changes and recommended the Board approve the proposed rates. The Board agrees.

**Other Proposed Changes**

*Territorial Differentials*

[18] Definity proposed no changes to its territories or its territorial differentials. The Board does not require an analysis of territorial differentials in such circumstances, and Definity did not provide one.

*Rating Algorithm Factor Changes*

[19] Definity uses a unique formula to determine the premium it will charge based upon approved rates. Definity uses its rates to develop an Expected Loss Cost (ELC) using rates and differentials for its selected rating variables. It then inserts the ELC into a proprietary formula to get the Charged Premium.

[20] Definity updated the values for the factors used in the rating algorithm to reflect the assumptions used in the calculation of the indicated rate level needs. Board staff recommends the Board approve the proposed factors used in the rating algorithm. The Board agrees.

*Adoption of 2025 CLEAR Table*

[21] Definity currently uses the 2024 CLEAR table to assign rate groups to vehicles for Accident Benefits and physical damage coverages. The company uses the CLEAR (AB Alberta & Atlantics) – Collison and DCPD Combined version of the table.

Definity proposed the adoption of the 2025 version of this table, which the Board approved for use late last year.

[22] Definity identified the impact of the adoption of the 2025 table and included that impact in the off-balancing calculations.

[23] Board staff recommends the Board approve the proposed adoption of the 2025 CLEAR tables. The Board agrees.

[24] Administrative systems for Sonnet Insurance Company (Sonnet), a sister company, and Definity access the same CLEAR table. Both companies must change the table on the same effective date. Definity proposed effective dates for new business and renewals of September 1, 2025 and October 16, 2025, respectively, to align the dates with implementation for Sonnet. These dates differ from the effective dates of the rest of the proposed changes in the application.

[25] Board staff recommends the Board approve these proposed effective dates for the implementation of 2025 CLEAR tables which differ from those for the rest of the changes in the application. The Board agrees.

*Existing Rating Variables*

[26] Definity proposed changes to five of its existing rating variables. Those variables are Vehicle Age, Driving Record, Policy Driver Count, Credit Score, and Terms with Company x Cancellations for Non-Payment.

[27] Definity conducted a univariate analysis based on its own loss experience using 10 years of data to capture the historical loss experience for the province. The company included the impact of the differential changes for each variable in the total amount off-balanced to make the changes revenue-neutral.

[28] Board staff recommends the Board approve the proposed differentials for each variable. The next sections describe the specific changes for each variable. The Board agrees.

*Vehicle Age*

[29] Definity proposed changes to the Vehicle Age differentials for Third Party Liability, DCPD, Collision, Comprehensive, and Specified Peril coverages. Definity based the changes on the indicated differentials arising from the analysis of the expected loss costs for the various vehicle age levels. Definity used actuarial judgment when developing the proposed differentials to maintain an intuitive progression of the differentials.

*Driving Record*

[30] Definity proposed changes to the Driving Record differentials for Third Party Liability, DCPD, Accident Benefits, Compensation, Collision, Comprehensive, and Specified Peril coverages. Definity relied on the indicated differentials from the analysis of expected loss cost differences between driving record levels. The proposed changes follow the indicated changes.

*Policy Driver Count*

[31] This variable alters the premium for DCPD and Collision based on the number of drivers on the vehicle. Currently, the variable acts to surcharge premiums (i.e., differential exceeds 1.000) when the vehicle has three or more drivers. The premise is that with more people available to drive, the vehicle will be on the road more frequently, increasing the risk.

[32] Definity's analysis for Collision showed the claims experience for vehicles with three or more drivers is worse than vehicles with fewer drivers. Definity proposed

increasing the differential for three or more drivers. The proposed differential matches the credibility weighted indicated differential. The change moves the surcharge for these risks from 25% to 30%.

*Credit Score*

[33] In Board Decision 2021 NSUARB 92, Definity received approval for the introduction of its credit-based rating variable, Credit Score. In subsequent applications, the company modified the differentials for this variable, which provides for a discount for the better credit scores.

[34] The analysis suggested that Definity should offer a discount for lower credit scores than it is currently offering. This proposal lowers the starting credit score for discounts. Definity then increased the discounts for each subsequent credit score band. This proposal follows the indicated discount levels.

[35] The company also currently provides a small discount for a client who provides consent, but the credit score cannot be found (“No Hit”) as well as in those cases where the status of consent or the credit information is not known (“Unknown”). Definity proposed the removal of this discount for the Unknown category while leaving the discount in place for the No Hit category. The company notes the experience for clients in the Unknown category does not warrant the discount. For the No Hit category, the company does not want to “penalize” the insured who has consented but has no credit score. The No Hit experience is much better than the Unknown and No Consent categories, warranting a discount.

*Terms with Company x Cancellations for Non-Payment*

[36] In its decision 2024 NSUARB 74 on the previous filing, the Board approved the addition of a new rating variable, Terms with Company x Cancellation for Non-Payment. Having observed an increase in the mix of new business risks that have a non-payment cancellation over the past three years, the company offers a 10% discount (i.e., differential set to 0.90) for new business with no non-payment cancellations. Definity hoped to attract more new business without non-payment cancellations with the discount this variable provides.

[37] In that previous application, Definity stated it would explore tempering the proposed removal of the discount provided by this variable at the first renewal of the policy in a filing to be made before the anniversary of the effective dates for the previous application. In this application, Definity proposed to extend a 5% discount at first renewal, assuming the insured remains non-payment cancellation-free. This proposal lessens the effect of full removal of the discount at first renewal.

*High Theft Vehicle Surcharge*

[38] In 2023 NSUARB 131, Definity received approval for a new rating variable for Comprehensive and Specified Perils that targets those vehicles that show higher risk of being stolen or may have higher claims amount arising from theft of the vehicle.

[39] Because the Atlantic data was limited, Definity relied on national data when determining the vehicles to which a surcharge (i.e., a differential greater than 1.000) would apply. The analysis of this data focused on the 2022 accident year loss data to identify vehicles in the company portfolio that were subject to higher theft. Definity identified 13 vehicle makes and models that had a higher average frequency of theft on

a national basis and a higher overall frequency of claims. Definity noted significant overlap between these results and the Équité Association report, "*2022 Vehicle Theft Trend Report*."

[40] Definity noted the 2024 Équité Association report showed Auto theft in the Atlantic provinces remained flat (0%) year-over-year, while other regions in Canada saw a negative change in total number of thefts year-over-year.

[41] Definity reviewed its high theft vehicle list as of Dec 31, 2024, and identified 12 vehicle models having high theft frequency, along with having overall higher frequency of claims, and deteriorating comprehensive loss ratios compared to average Definity countrywide experience. The High Theft Vehicle Surcharge is proposed to now apply to these 12 vehicles, with the level of the surcharge reflecting the heightened theft risk for the vehicle. Definity continues to only apply the surcharge for vehicles aged zero to four years.

[42] Definity off-balanced the changes to the surcharge to make the changes revenue-neutral.

[43] Board staff recommends the Board approve the proposed changes to the vehicle list and the applicable surcharges for High Theft Vehicles. The Board agrees.

*Premium Dislocation Capping*

[44] To manage the impact the proposed changes will have on its clients, Definity will continue to use its Board-approved premium dislocation cap. The cap applies on a per exposure (or per vehicle) basis. The cap applies to all coverages, but not endorsements except SEF#44.

[45] The cap on renewal premium increases varies by the size of the proposed increase, in accordance with the table included in the application. Definity also uses a negative cap. If the vehicle premium decreases by more than 5%, the premium will not be lowered beyond 5% at renewal.

[46] The company caps premium at renewal unless the client, in the last 14 months, has had a new at-fault accident or a conviction. If a new vehicle or coverage is added at renewal that was not included in the prior term, the cap does not apply to that new vehicle or coverage.

[47] To include negative capping (i.e., limits on renewal decreases), the Board requires the premium foregone on the positive cap (i.e., cap on renewal increases) to exceed or equal the extra revenue collected on the negative cap. Definity provided information that showed the uncapped increase (10.0%) exceeds the capped increase (9.7%). This result demonstrates the capping program meets this requirement.

[48] Board staff recommends the Board approve the continued use of the premium dislocation capping program. The Board agrees.

## III SUMMARY

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

[50] The Board finds the proposed rates are just and reasonable, and approves the changes effective July 10, 2025, for new business and September 13, 2025, for renewal business, for all changes except for the change in CLEAR table. The CLEAR table change will be effective September 1, 2025, for new business, and October 16,

2025, for renewal business because both Definity and Sonnet must implement the table at the same time.

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

[52] 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 Definity for private passenger vehicles is March 1, 2027.

[53] Definity proposed no changes to its automobile insurance manual beyond those required to implement the changes addressed in the report, including the underwriting rule changes. Board staff reviewed Definity's Automobile Insurance Manual filed with the Board and the revisions necessitated by the changes addressed in the report and did not find any instances where the Manual contravened the *Insurance Act* or its *Regulations*. The Board requires Definity to submit a revised automobile insurance manual within 30 days of the issuance of the Order for this matter.

[54] An order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 17th day of June, 2025.

Jennifer L. Nicholson