

DECISION

**2026 NSRAB 73
M12772**

NOVA SCOTIA REGULATORY AND APPEALS BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **HEARTLAND FARM MUTUAL INC.** for approval to change its rates and risk-classification system for private passenger vehicles

BEFORE: Marc L. Dunning, P.Eng., LL.B., Member

APPLICANT: **HEARTLAND FARM MUTUAL INC.**

FINAL SUBMISSIONS: April 29, 2026

DECISION DATE: **May 7, 2026**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On April 1, 2026, Heartland Farm Mutual Inc. (Heartland) applied to the Nova Scotia Regulatory and Appeals Board (Board) to change its rates and risk-classification system for private passenger vehicles. The company proposes changes to its territorial differentials; adoption of the 2026 Canadian Loss Experience Automobile Rating (CLEAR) Table (Canada, Collision, Direct Compensation Property Damage and Comprehensive Separated, for Alberta & Atlantic Canada); changes to its Model Year Rating Variable; and changes to its underwriting and rate rules. No changes to base rates are proposed beyond those required to off-balance the impact of its other proposed changes to make them revenue neutral.

[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 Heartland's application meets these requirements and approves the company's proposed changes.

II ANALYSIS

[3] Heartland applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. Since the filing of this application, Heartland 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 Heartland. The company reviewed the report and informed Board staff that it 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 the profit provision. Board staff consider that Heartland 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:

- Profit Provision;
- Rates;
- Territorial Differentials;
- 2026 CLEAR Table;
- Model Year Rating Variable; and
- Underwriting and Rating Rules.

Profit Provision

[6] Heartland used an after-tax target return on equity of 10.65% (i.e., the equivalent of 15% pre-tax), and a premium to surplus ratio of 1.5:1 in its indications. Coupled with the assumption for investment return on surplus, these assumptions produce a profit provision of 8.2% of premium. The Board's range for a reasonable profit provision, using a 2:1 premium to surplus ratio, is 5.7% to 7.1%. The profit provision produced using the Heartland assumptions is higher than the top end of this range.

[7] In Heartland's last filing, the Board allowed it to use a 10.65% after-tax return on equity and a premium to surplus ratio of 1.5:1. At that time, Heartland explained that its actual premium to surplus ratio for the first two years was around 1:1 and, as a mutual insurance company, it can only raise capital through a profitable operation (i.e., it has no access to capital markets). As a small insurer, maintaining profitability is difficult because it has a less diversified book of business. The Board accepted those reasons,

however, as Heartland continues to grow, this rationale may cease to apply. Heartland's proposed 10.65% return on equity is only slightly higher than the Board's ordered 10%. Based on these considerations, the use of a slightly higher return on equity is reasonable. For the purpose of this filing, and without prejudice for future filings, Board staff recommend the Board accept this return on equity and the lower premium to surplus ratio. The Board agrees.

Rates

Board staff did not recommend any changes to the Heartland indications and recommend the Board use Heartland's indications as the appropriate target to assess the reasonableness of the company's proposal. The Board agrees.

[8] Heartland's indications suggest increases to almost all coverages and an overall all coverages increase of 11.8%. The company proposes no direct changes to base rates despite the indications for an increase. The company noted it modified its price segmentation in the previous filing. Those changes led to gradual improvement in the portfolio, suggesting the indications may be overstated. The company wants to wait to see if the improvement continues before increasing rates. This approach seems reasonable.

[9] Because the proposal is for no overall all coverages combined increase, the proposed rates produce a return on equity below the target of 10.65%, which Heartland estimates to be 2.71%. Given the nature of the proposal, there is no evidence to suggest this is unreasonable in the circumstances.

[10] Board staff recommend the Board approve the proposal for no direct changes to base rates. The Board agrees.

Territorial Differentials

[11] Heartland proposes changes to its territorial differentials. While the company conducted an analysis of its indicated territorial differentials, Heartland selected changes that also reflect competitive or diversification considerations.

[12] Heartland observed that the vast majority of its portfolio was from rural territories (i.e., 3A or 4C) leaving only a small portion of the portfolio from the greater Halifax area territories (e.g., 1A to 1F). Given that a relatively large percentage of the province's population is in Halifax, Heartland believes it is "severely under-represented" in this region. The company believes that changes to its differentials will improve its competitiveness and attract more business. The addition of more business from this region of the province will diversify Heartland's portfolio, reducing the risk impact of future natural catastrophes.

[13] Heartland proposes a 20% decrease for territories 1A – Halifax North, 1B – Halifax Southwest, 1C – Halifax Peninsula and 1F – East Dartmouth, and a 15% decrease for territory 1D – Clayton Park/Bedford. These areas represent the Halifax Region but exclude territory 1E – West Dartmouth. In that territory, Heartland noted that its loss experience has not materially improved over time, as it did in the other territories. The smaller reduction for 1D reflects the higher loss ratios observed in 2024 and 2025.

[14] To offset, in part, the impact of these reductions, Heartland proposes a modest 2% increase in all other territories except territory 2A – Sydney and 2B – Cape Breton. The hope is that this small increase will help slow the growth in these over-represented regions.

[15] Heartland provided an analysis of territorial loss ratios that provided insight into the indicated territorial relativities. The analysis also reflected the proposed territorial

differential changes and the projected loss ratios that would result once those changes are fully earned. Heartland views these ratios as reasonable for most territories. The results of this analysis support the proposed changes.

[16] Heartland off-balanced the small overall impact through base rates so that the territorial differential changes are revenue-neutral. That is, Heartland will collect no more premium than it currently does as a result of the territorial differential changes.

[17] Board staff recommend the Board approve the proposed changes to territorial differentials and the off-balancing of the impact of this change. The Board agrees.

2026 CLEAR Table

[18] To assign rate groups for physical damage coverages and Accident Benefits, Heartland currently uses the 2025 CLEAR Table. The company proposes the adoption of the 2026 version of this table.

[19] Heartland off-balanced the adoption of the new CLEAR table to make the change revenue-neutral. Board staff recommend the Board approve the introduction of the 2026 CLEAR and the associated off-balancing of the impact of the table change. The Board agrees.

Model Year Rating Variable

[20] In its decision in *Heartland Farm Mutual Inc. (Re)*, 2023 NSUARB 209, the Board approved Heartland's introduction of the Model Year rating variable for physical damage coverages (i.e., Direct Compensation Property Damage, Collision, Comprehensive, Specified Perils, All Perils) and for Accident Benefits and Uninsured Automobile. Heartland uses this variable in Ontario. The company selected initial

differentials that were closely aligned with those Heartland used in Ontario because it did not have sufficient Nova Scotia experience to develop specific Nova Scotia relativities.

[21] In that filing, the differentials were highest for model year 2023 and slowly dropped to a differential of 1.000 for 2016. Model years from 2010-2015 received a 10% discount for physical damage coverages and a 5% discount for Accident Benefits and Uninsured Automobile. For model years 2009 and below, the differential returns to 1.000. For 2024 and future model years, Heartland determined the increment between the proposed model year 2022 and 2023 differentials and used that for each future new model year.

[22] In this filing, Heartland proposes a slight reduction in the differentials for newer model years. Heartland noted that the adoption of updated CLEAR rate groups addresses some of the profitability concerns for newer vehicles. As well, brokers provided feedback that the company's competitiveness was deteriorating for newer vehicles. The company also demonstrated that its share of newer vehicles has fallen off in recent years, adding credibility to the competitiveness concerns.

[23] To address these issues, Heartland proposes a flatter differential curve that results from reducing the differentials by 2% to 5% beginning with model year 2017, with small incremental steps for subsequent (i.e., newer) model years. Heartland also proposes reducing the increment used for future model years. The company supported these proposed changes, which Board staff consider to be reasonable in the circumstances.

[24] Heartland off-balanced the impact of the changes to the Model Year differentials to make the changes revenue-neutral.

[25] Board staff recommend the Board approve the proposed changes to the Model Year differentials. The Board agrees.

Underwriting and Rating Rules

[26] Heartland proposes several changes to its underwriting and rating rules to address some concerns and clarify certain definitions.

[27] The first change is to the definition of Number of Vehicles used to determine the ratio of drivers to vehicles. Where there are more drivers than vehicles, Heartland charges more than when the ratio is 1.00 to reflect that the vehicle(s) may be driven more. The opposite is true where there are more vehicles than drivers, leaving some vehicles undriven at times. The current definition does not make a distinction for vehicles that are insured only for Comprehensive or Specified Perils. These vehicles are not driven at all, and their existence would not diminish the use of another vehicle. As such, they should not be included in the count of vehicles for the ratio. Heartland will make a change to its Manual to exclude such vehicles from the count.

[28] The company proposes a change to its list of major convictions to add a conviction for "Fail to stop for emergency vehicle" as defined under s. 123(2) of the Nova Scotia *Motor Vehicle Act*. Heartland is concerned that such a conviction could be confused with a conviction for "Failure to yield", which is a minor conviction. Heartland notes this is a clarification of current practice to avoid confusion and not a classification change (i.e., Heartland treats such a conviction as a major conviction currently). The change, therefore, does not impact any vehicles.

[29] Heartland also proposes two changes to its "Threats to Staff" reason for not writing a risk. First, it will expand the definition of threats to include "verbal abuse". The

company will also remove the requirement that the threat be reported to police. Heartland explains that not all threats require a police report. The company notes this is common industry practice. For verbal abuse, the company proposes considering verbal abuse based on the *Criminal Code of Canada*, which includes uttering threats (s. 264.1), criminal harassment (s. 264), indecent or harassing phone calls (s. 372) and assault (s. 265). The company notes such abuse would be escalated to executive leadership to determine if it qualifies as verbal abuse under the *Criminal Code*. The company notes this approach is consistent with that used by other companies.

[30] The remaining proposed changes deal with the Branded Vehicles and Branded/Modified Vehicles reasons for not writing a risk. Heartland will expand the definition of Branded Vehicles to include any vehicle branded as “Rebuilt”. Heartland states it lacks the knowledge and expertise to accurately underwrite such risks and therefore, is unwilling to accept the risk posed by these vehicles. Given that “Rebuilt” vehicles are now included in the Branded Vehicle reason, Heartland will remove “Rebuilt” from the Branded/Modified Vehicles reason.

[31] None of these proposed changes violate the *Insurance Act* or its *Regulations*. Board staff recommend the Board approve the proposed changes to underwriting and rating rules. The Board agrees.

III SUMMARY

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

[33] The Board finds the proposed rates and other changes are just and reasonable and approves them effective August 1, 2026, for new business and renewals.

[34] The financial information supplied by Heartland satisfies the Board, under s. 155l(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 Heartland for private passenger vehicles is April 1, 2028.

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

[37] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 7th day of May 2026.



Marc L. Dunning