DECISION | **2025 NSRAB 55**
M12211

NOVA SCOTIA REGULATORY AND APPEALS BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **PEMBRIDGE INSURANCE COMPANY**

FINAL SUBMISSIONS: May 8, 2025

DECISION DATE: **July 3, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On April 9, 2025, Pembridge Insurance Company of Canada (Pembridge) 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 1.7%. In addition to changes to rates, the company also seeks to: make changes to its territorial differentials; adopt the 2025 Canadian Loss Experience Automobile Rating (CLEAR) table; make changes to the Multi-Line Discount; make changes to the Vehicle Safety Discount; modify its renewal premium dislocation capping mechanism; and make changes to the Automobile Insurance Manual, including underwriting and rating rules.

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

II ANALYSIS

[3] Pembridge applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Pembridge received and responded to Information Requests (IRs) from Board staff and filed a revised application based on the IR process. 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 Pembridge. 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 determined that Pembridge satisfactorily addressed all aspects of the ratemaking procedure in its application and IR responses.

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

- Proposed rate changes;
- Changes to Territorial Differentials;
- Adoption of 2025 CLEAR Table;
- Changes to Multi-Line Discount;
- Vehicle Safety Discount;
- Changes to the Renewal Premium Dislocation Capping Structure; and,
- Changes to Automobile Insurance Manual.

Proposed Rate Changes

[6] With no recommendations for changes to the underlying assumptions used by Pembridge, the Staff indications equal the Pembridge indications. Board staff recommend that the Board use the Pembridge indications as the appropriate target to assess the reasonableness of the proposed changes. The Board agrees.

[7] For all coverages, Pembridge proposed changes that are in the direction of the indicated changes, but the size of the changes differ. For Property Damage-Tort and Family Protection Endorsement (SEF#44), the proposed changes result in rates that are larger than indicated, while the opposite is true for all other coverages. Because Pembridge includes the Property Damage-Tort rate in its Bodily Injury rate, the company applied the same rate change to both coverages, despite the differing indications.

[8] The proposal for no change for SEF#44 results in the proposed change for all mandatory coverages being higher than indicated. The opposite is true for optional coverages. While this result produces a cross-subsidy from mandatory coverages to

optional coverages, the size of the subsidy is small enough that the Board need not intervene.

[9] As a result, the proposed rates would produce a return on equity equal to the allowed 10%. Board staff recommend the Board approve the proposed changes to base rates. The Board agrees.

Territorial Definitions and Differentials

[10] Pembridge proposed no changes to its Territory definitions, but did propose changes to its territorial differentials.

[11] The company conducted an analysis of its territorial differentials. Pembridge compared the combined ratios for each territory to the overall combined ratios for each coverage that uses Territory as a rating variable. After applying credibility weights to those relationships and using the current differentials as the complement of credibility, Pembridge produced the indicated differentials. Using these indications and after considering the company's competitiveness (as measured by sales and quotes distribution), Pembridge selected the proposed differentials by territory and coverage. The deviations from the indicated differentials were generally small. The analysis performed seems reasonable, as do the selected changes. Pembridge did not off-balance the impact of the proposed changes but instead let them flow through to the overall proposed change.

[12] Board staff recommend the Board approve the proposed changes to territorial differentials. The Board agrees.

Adoption of 2025 CLEAR Table

[13] Pembridge currently uses the 2024 CLEAR (Canada, Collision and DCPD Combined, for Alberta & Atlantic Canada) table to assign rate groups for physical damage coverages and Accident Benefits. In this application, Pembridge proposed to adopt the 2025 version of this table. The Board approved this table for use in Nova Scotia effective December 1, 2024. Pembridge provided the impact by coverage of the table change. The impact overall was small. Pembridge did not off-balance the impact but allowed the change to form part of the overall rate change.

[14] Board staff recommends the Board approve the proposed adoption of the 2025 CLEAR table. The Board agrees.

Multi-Line Discount

[15] Pembridge provides a discount on an automobile policy when the insured also has a property policy (e.g., Homeowners, Tenant, Condominium) with Pembridge. The level of discount varies by the type of property policy.

[16] The company conducted an analysis of combined ratio (e.g., loss ratio plus expense ratio) to determine the indicated discounts for each of the property policy types. This analysis led Pembridge to increase the discount for insureds with a Homeowners policy. This change was in the direction of the indication, but the size of the change was larger than indicated.

[17] Pembridge proposed no change to the discount provided for policyholders with a Tenant or Condominium policy despite the indications for a larger decrease than that shown for Homeowners. Pembridge explained that the company examined the percentage of written exposures that carry the multi-line discount. This examination

showed that while the percentage of written exposures with a Condominium or Tenant policy remained stable, the share of policies with a Homeowner policy declined. This result suggests to Pembridge that their discount may be uncompetitive for these clients and therefore, the company chose to increase the discount for this group to a level above the indicated level.

[18] Board staff recommend that the Board approve the changes to the Multi-Line Discount. The Board agrees.

Vehicle Safety Discount

[19] Pembridge provides a discount on a vehicle that is equipped with the identified safety features (i.e., forward collision mitigation (e.g., automatic emergency braking), lane departure mitigation, selected (restricted) driver mode, driver monitor, parking assist sensor and/or camera, various warning systems). The discount varies by feature and equals the sum of the discounts for those features on the vehicle.

[20] Pembridge proposed reductions to its automatic emergency breaking and its lane departure mitigation safety feature discounts. Pembridge conducted an analysis of the combined ratios (e.g., loss ratio plus expense ratio) to determine the indicated change to the discount. For these two features, the analysis suggested the discount was too large. Pembridge proposed a reduction that was smaller than the indicated reduction in the discount.

[21] Board staff recommend the Board approve the changes to the Vehicle Safety Discount. The Board agrees.

Changes to Renewal Premium Dislocation Capping Mechanism

[22] In its last filing, Pembridge received approval for changes to its renewal premium dislocation capping mechanism. Those changes resulted in a premium dislocation cap that limited renewal premium increases to 36.0%, and renewal premium decreases to 0.0%. In this application, Pembridge proposed to decrease the cap on renewal premium increases to 31.0% and renewal premium decreases to 0.0%.

[23] When a company proposes to use negative capping (i.e., limiting the renewal decreases), the Board requires the company to show that the premium foregone from the positive cap (i.e., limiting the renewal increases) is greater than or equal to the extra premium collected from the negative cap. Pembridge stated that the capped impact of the proposed changes was the same as the uncapped impact. This result would comply with the Board requirements, as the premium foregone must be equal to or less than the extra premium collected to achieve this result. However, the dislocation charts show that under the capping and the proposed changes, no risk has its renewal premium increases capped. As such, it appears the company will not give up any premium from the positive cap, while it will benefit from extra premium from the cap on decreases. In that case, the proposed cap appears to violate the Board's requirement that the premium foregone on the positive cap must equal or exceed the extra premium collected from the negative cap.

[24] When asked about this apparent violation, Pembridge noted the dislocation tables display the impact of the changes proposed in this application only, as required. When the impact of prior approved rate changes is factored in along with the proposed changes in this application, some policies will see renewal premium increases in excess of the new capping limit. As a result, Pembridge will forego premiums on these policies.

Pembridge chose the capping limits so that the extra premium collected on renewal premium decreases equals the premium foregone on renewal premium increases meeting the Board requirement.

[25] As the current capping structure does, the proposed capping structure applies as long as there is no material change in risk (i.e., no territory change, no increase or decrease in the number of convictions or at-fault accidents at renewal). If there is a material change, Pembridge will change the capping levels to allow more of the expected impact of the material change to be observed. For example, if the client at renewal has fewer at-fault claims that can be used in rating, the client expects the premium will drop. Pembridge alters the cap on decreases to allow more of that impact to flow through. Pembridge provided scenarios to show the proposed impacts on the capping levels of certain material changes in risk. The capping limit changes for these scenarios seem reasonable.

[26] Pembridge expects this capping mechanism to be in place for two years. If that changes, Pembridge will approach the Board with details. This short time frame is consistent with the Board's view that such caps should be removed quickly.

[27] Board staff recommend the Board approve the proposed renewal premium dislocation capping mechanism. The Board agrees.

Changes to Automobile Insurance Manual

[28] Pembridge proposed changes to its Automobile Insurance Manual, including:

- increasing the maximum vehicle value allowed from $150,000 to $175,000, to keep the limit in line with the increasing vehicle values observed due to inflation;

- increasing the minimum deductible from $1,000 to $2,000, where the risk has two or more Comprehensive claims in three years or three or more Comprehensive claims in six years;
- not considering a lapse in coverage of 24 months or more as a ratable lapse if it results from the insured being deployed outside of Canada on active military duty, as long as they seek insurance within 60 days of returning to Canada; and,
- modifying the credit-based rating variable, Insurance Score, to consider the score for the insured’s spouse if the spouse has provided consent to do a credit check and is a principal or occasional operator of the vehicle, and to use the best of the two scores when rating the vehicle.

[29] None of the changes to declination rules (i.e., rules by which the company chooses not to write a policy) or other underwriting rules appear to violate the *Insurance Act* or its *Regulations*.

[30] Board staff recommends the Board approve the proposed changes to the underwriting rules. The Board agrees.

III SUMMARY

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

[32] The Board finds the proposed rates are just and reasonable, and approves the changes effective August 3, 2025, for new business and September 26, 2025, for renewal business.

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

[34] 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 Pembridge for private passenger vehicles is April 1, 2027.

[35] Board staff reviewed Pembridge's Automobile Insurance Manual filed with the Board as well as the proposed changes and did not find any instances where the Manual contravened the *Act* and *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.

[36] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 3rd day of July, 2025.

M. Kathleen McManus