DECISION **2025 NSRAB 72**
M12341

NOVA SCOTIA REGULATORY AND APPEALS 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: Jennifer L. Nicholson, CPA, CA, Member

APPLICANT: **SONNET INSURANCE COMPANY**

FINAL SUBMISSIONS: July 24, 2025

DECISION DATE: **August 21, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Sonnet Insurance Company (Sonnet) 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 15.0%. In addition to changes to rates, the company also asks the Board to approve changes to several existing rating variables, the introduction of a new rating variable, and the adoption of the 2025 Canadian Loss Experience Automobile Rating (CLEAR) tables.

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

II ANALYSIS

[3] Sonnet applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this 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.

[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. Board staff consider that Sonnet satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

Proposal

[5] Sonnet 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 15.0%. Sonnet based the proposed changes on indications that suggested rates should increase by a higher amount.

[6] The company will adjust factors in its rating algorithm to reflect the expense and profit provisions used in the indications.

[7] Sonnet will change its differentials for four rating variables, will introduce a new rating variable, and will adjust its High Theft Vehicle list and surcharges.

[8] Sonnet will adopt the 2025 CLEAR table, which the Board approved for use last year. Sonnet will also increase the fee it charges for pre-authorized withdrawals that are returned for not-sufficient funds (NSF).

[9] Sonnet will continue to use its approved premium dislocation capping program that limits renewal increases and decreases. The capping lowers the overall increase to 14.2%.

[10] The company will also refine its underwriting rules.

Loss Trends

[11] Sonnet based their selected loss trend rates on a review of its sister company, Definity Insurance Company's (Definity), own experience in Nova Scotia through December 31, 2024. Sonnet argued that Definity represents a sizeable portion of the market in the province and that its short-tail coverages are fully credible. As a result,

Sonnet believes Definity's volume of vehicles is sufficiently large enough to warrant the use of Definity's own data to determine loss trends. For long-tailed coverages (e.g., Bodily Injury and Accident Benefits), Sonnet also considered industry data when making its decision.

[12] With the release of the industry claims experience data through December 2023, Board staff requested Oliver Wyman, the Board's consulting actuaries, to develop assumptions for loss trends for private passenger vehicles. Oliver Wyman reviewed data from 2004 through 2023 but tended to rely on more current data when making its selection.

[13] Oliver Wyman examined trends for frequency, severity, and loss cost information. Oliver Wyman made its selections after examining both five and 10 years of data, on a half-yearly basis. For future trends, Oliver Wyman selected the most recent past trend, assuming it would continue. It included a scalar to account for inflation increases.

[14] Sonnet provided indications using the Oliver Wyman assumptions. The indications using these trends, including the severity shock, reduced the overall indicated increase slightly. The Board generally would not allow the use of only company data to develop trends, given that data may not be of sufficient size to discern credible trends. Because Definity represents about one-twelfth of the Nova Scotia market, its experience is large enough to allow its use to develop trends. The Board allowed Sonnet to use Definity's own data to develop trends in the past, and Board staff see no reason in this filing to change that determination.

[15] Board staff recommend the Board accept the Sonnet loss trends as the appropriate ones to use in determining the indications for the target to assess the reasonableness of the Sonnet proposal. The Board agrees. As a result, the appropriate target to assess the reasonableness of the proposed base rate changes is the Sonnet indications.

Comparison of Proposed Rates to Indicated Rates

[16] Sonnet proposed changes that are lower than indicated for all coverages, except Family Protection Standard Endorsement Form (SEF#44) and Specified Perils. SEF#44 and Specified Perils had small, indicated decreases which Sonnet chose not to take. The proposed increases for all mandatory coverages, all compulsory coverages, and all coverages combined are lower than indicated. As a result, the proposed rates produce a return on equity of 3.04%, which is well below the Sonnet 10% target, and which is also the low end of the Board's range for a reasonable return on equity.

[17] Sonnet supported the proposed changes to base rates. Board staff recommend the Board approve the proposed rate changes. The Board agrees.

Other Proposed Changes

Rating Algorithm Factor Changes

[18] Sonnet uses a unique formula to determine the premium it will charge based upon approved rates. Sonnet uses its rates to develop an Expected Loss Cost using rates and differentials for its selected rating variables. Sonnet then inputs this Expected Loss Cost into a formula to get the Charged Premium.

[19] Board staff recommend the Board approve the proposed changes to the profit and expense factors in the rating algorithm. The Board agrees.

Adoption of 2025 CLEAR Table

[20] Sonnet currently uses the 2024 CLEAR table to assign rate groups to vehicles for Accident Benefits and physical damage coverages. The company uses the CLEAR table (AB Alberta & Atlantic) – Collision and Direct Compensation Property Damage (DCPD) combined version of the table. Sonnet proposed the adoption of the 2025 version of this table, which the Board approved for use effective December 1, 2024.

[21] Sonnet identified the impact of the adoption of the 2025 table and included it in the off-balancing calculations. Board staff recommend the Board approve the proposed adoption of the 2025 CLEAR table effective September 17, 2025, for new business and November 21, 2025, for renewals. The Board agrees.

Existing Rating Variables

[22] Sonnet proposed changes to four of its existing rating variables. Those variables are Operator Type, Policy Vehicle Count, Credit Score, and Years Licensed x Gender Interaction.

[23] Sonnet conducted an analysis based on its own loss experience over all its years of data to capture the historical loss experience more fully for the province. The company developed indicated differential changes relative to the overall average loss ratio incurred for each coverage and variable, rendering any issues regarding not developing the claims to ultimate values immaterial. Where the data was not credible, Sonnet chose no change as the complement of credibility. The company included the impact of the differential changes for each variable in the total amount off-balanced to make the changes revenue-neutral.

[24] Board staff recommend the Board approve the proposed differentials for each variable. The Board agrees. The following sections describe the changes to the variables.

Operator Type

[25] Sonnet proposed a change to the Type of Operator differentials that followed the indicated change, but the magnitude of the change was capped at 10%. Sonnet increased the differentials for inexperienced secondary operators to reflect the higher experience loss ratios for those operators when compared to primary operators.

Policy Vehicle Count

[26] This variable reflects the number of vehicles included on the policy. The variable reduces the Accident Benefits premium if there are two or more vehicles on the policy. Reflecting the indicated differential from the analysis, Sonnet changed the differential to reduce the discount the variable provides.

Credit Score

[27] In Board Decision *2021 NSUARB 19*, Sonnet 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 higher credit scores. The analysis suggested some credit scores lower than Sonnet's current cutoff point warrant a discount. Sonnet proposes to lower the credit score at which the discounts begin and to adjust the discounts that it provides.

[28] 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). Sonnet

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. These changes match those the Board recently approved for Definity.

Years Licensed x Gender Interaction

[29] This variable reflects the loss experience for different Years Licensed split by Gender. That is, the company has a set of Years Licensed differentials that applies to females and another set that applies to males. Sonnet uses the variable for all coverages except Uninsured Automobile and SEF#44.

[30] Sonnet is proposing changes to the Years Licensed differentials for Third Party Liability, Comprehensive, and Specified Peril coverages, for the Male Gender. Sonnet chose the adjustments to each coverage’s differentials to reflect the difference in expected loss cost between different genders. Sonnet’s goal is to narrow the gap between male and female rates. The changes follow the indications.

High Theft Vehicle Surcharge

[31] In *2023 NSUARB 152*, Sonnet received approval for a new rating variable for Comprehensive and Specified Perils that targets those vehicles that show a higher risk of being stolen or may have higher claims arising from theft of the vehicle. Definity, in 2025 NSRAB 38*,* recently received approval for changes to its High Theft Vehicle variable and Sonnet wishes to adopt those changes.

[32] Sonnet will use the same High Theft Vehicle List that the Board approved for Definity as well as the assigned surcharges. Sonnet included the impact of this change with the impact of other changes and off-balanced the total to make the changes revenue-neutral.

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

New Rating Variable: Terms with Company x Cancellations for Non-Payment

[34] In its Decision 2024 NSUARB 74, the Board approved the addition of a new rating variable, Terms with Company x Cancellations for Non-Payment, for Definity. At that time, having observed an increase in the mix of new business risks that have a non-payment cancellation over the past three years, Definity proposed a discount 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.

[35] In this application, Sonnet proposed to adopt a similar variable. The company will provide a 7.5% discount for new business risks that have had no cancellations for non-payment of premium. The company explained this discount will temper the impact of other proposed changes in this application on desirable new business risks.

[36] Board staff recommend the Board approve the proposed introduction of the Terms with Company x Cancellations for Non-Payment rating variable. The Board agrees.

Change to NSF Fee

[37] When a pre-authorized automatic withdrawal is rejected due to NSF, the bank will try to collect it again in three business days. If that payment is successful, the

policy remains in proper standing and Sonnet is not advised of the initial rejection. If the payment fails, the bank tells Sonnet of the missed payment. This process takes up to 15 days depending on the bank. At that point, Sonnet sends an NSF/Special Withdrawal notice via email and SMS to the insured advising them that Sonnet will attempt another withdrawal in 15 days and that a $25 NSF fee will apply on a future installment. If the special withdrawal fails, a cancellation for non-payment is triggered and a notice is sent to the insured. Sonnet proposed to increase this NSF fee to $50. The company noted its costs had increased and that its competitors charged similar fees to the proposed level.

[38] Due to system implementation constraints, Sonnet proposes this change to be effective for new business, renewal business and existing customers on October 25, 2025. This date differs from those for the remaining changes in the application.

[39] Board staff recommend the Board approve the proposed increase in NSF fee on the proposed effective date. The Board agrees.

Renewal Premium Dislocation Cap

[40] To manage the impact that changes will have on its clients, Sonnet uses its Board approved renewal 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. The cap varies by the size of the proposed increase as indicated in the table provided to the Board.

[41] Sonnet 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 in the prior term, the cap does not apply to that new vehicle or coverage.

[42] Sonnet also uses a negative cap. If the vehicle premium decreases by more than 5.5%, the premium will not be lowered beyond 5.5% at renewal. To include a negative cap (i.e., limits on renewal premium decreases), the Board requires the premium foregone on the positive cap to exceed or equal the extra revenue collected on the negative cap. Sonnet noted the capped overall change was less than the uncapped overall increase. This result demonstrates the proposed renewal premium cap meets the Board requirement. Sonnet proposed to continue to use the approved renewal premium dislocation cap.

[43] Board staff recommend the Board approves the continued use of the current renewal premium dislocation cap. The Board agrees.

Underwriting Rule Changes

[44] Sonnet proposed the removal of the specific underwriting rules used to re-rate policies when third-party reports differ from information disclosed by the insured. The change will ensure all exposures are immediately re-rated at proper rates representing the correct risk profile instead of the current process of waiting until renewal to re-rate. This revision will eliminate potential rate deficiencies on new business policies. Because Sonnet's existing process re-rates risks to proper premiums upon renewal, no current policies will be impacted by this change.

[45] Due to additional systems concerns, the company wants these changes to be effective on September 27, 2025, for new business and November 11, 2025, for renewal business, rather than on the effective dates for the rest of the changes in the application.

[46] Board staff recommend the Board approve the proposed changes to the underwriting rules and the unique effective dates for this change. The Board agrees.

Other Observations on the Application

Automobile Insurance Manual Review

[47] Sonnet proposed no changes to its automobile insurance manual beyond those required to implement the changes addressed in this decision, including the underwriting rule changes. Board staff reviewed the revised proposed manual and found no areas where the company is in violation of the *Regulations*.

III SUMMARY

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

[49] The Board finds the proposed rates are just and reasonable and approves the changes effective September 17, 2025, for new business and November 1, 2025, for renewal business, except for the proposed change to underwriting rules, the CLEAR table and the NSF fee change. The underwriting rule changes will be effective September 27, 2025, for new business and November 11, 2025, for renewal business. The CLEAR table will be effective September 17, 2025, for new business and November 21, 2025, for renewals. The NSF fee change will be effective October 25, 2025, for new and existing business.

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

[51] 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 Sonnet for private passenger vehicles is June 1, 2027.

[52] Board staff reviewed Sonnet's Automobile Insurance Manual filed with the Board 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.

[53] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 21st day of August 2025.

Jennifer L. Nicholson