

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 systems for private passenger vehicles

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

APPLICANT: **SONNET INSURANCE COMPANY**

FINAL SUBMISSIONS: August 14, 2026

DECISION DATE: **October 2, 2026**

DECISION: **The application is approved.**

I INTRODUCTION

[1] Sonnet Insurance Company (Sonnet) applied to the Nova Scotia Regulatory and Appeals Board (Board) to change its rates and risk-classification systems for private passenger vehicles. The company proposes rate changes that vary by coverage and result in an overall increase of 10.0%. In addition to changes to rates, the company also asks the Board to approve modifications of its rates and risk-classification systems. The company proposed changes to the rating variables for: Airbag; Annual Distance (km); Body Type; Conviction Free (3 years); Driving Record; Make Region; One Way Commute Distance (km); Vehicle Age; Vehicle Count x Driver Count; Vehicle Ownership; Vehicle Price (manufacturer's suggested retail price (MSRP)); and Years Licensed x Gender Interaction. Sonnet seeks removal of the rating variables for Driver Count on Vehicle and for Vehicle Count x Years Licensed. The company also seeks to change the renewal premium dislocation capping mechanism and approval to adopt the 2026 Canadian Loss Experience Automobile Rating (CLEAR) table.

[2] The Board must consider whether the proposed rates and risk-classification systems 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 systems.

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.

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

- Loss trends;
- Proposed rate changes;
- Rating algorithm changes;
- Changes to rating variables for:
 - Airbag;
 - Annual Distance (km);
 - Body Type;
 - Conviction Free (3 years);
 - Driving Record;
 - Make Region;
 - One Way Commute Distance (km);
 - Vehicle Age;
 - Vehicle Count x Driver Count;
 - Vehicle Ownership;
 - Vehicle Price (MSRP); and,
 - Years Licensed x Gender Interaction.
- Removal of rating variables for:
 - Driver Count on Vehicle; and,
 - Vehicle Count x Years Licensed.
- Changes to Renewal Premium Dislocation Capping Mechanism; and
- Adoption of the 2026 CLEAR Table.

Loss Trends

[6] Sonnet based its selected loss trend rates on a review of Definity Insurance Company's own experience in Nova Scotia through to December 31, 2025. Sonnet argued that Definity, its sister company, 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 large enough to warrant the use of its 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 selections.

[7] Sonnet used a multivariate regression model when doing its loss trend analysis. The company examined frequency and severity separately and based its loss trend selections on the results of regressions with the best fit for these elements. The company varied the experience period it used to determine the loss trend selections. Sonnet tended to use more current data (e.g., 2017-2025) when making its selections.

[8] The Sonnet model included Google Mobility data as another explanatory variable aimed at assessing the COVID-19 impact on losses. The model also included a severity inflation factor designed to capture the sudden increase in physical damage costs in 2021 and 2022. The model provided severity inflation adjustment factors for physical damage coverage and COVID-19 multiplier adjustments for all coverages.

[9] Sonnet selected a future trend rate, or prospective trend, that equalled its past trend selection for all coverages.

[10] With the release of the industry claims experience data through December 2024, Oliver Wyman, the Board's consulting actuaries, developed assumptions for loss trends for private passenger vehicles. Oliver Wyman reviewed data from 2005 through

2024 but tended to rely on more current data when making its selection. Oliver Wyman developed loss trends with the impact of COVID-19 removed. Oliver Wyman then identified adjustments that could be made to reflect the new normal post-pandemic frequency. Oliver Wyman included suggested excess inflation factor adjustments to recognize higher than normal inflation observed. Oliver Wyman examined trends for frequency, severity, and loss cost information. Oliver Wyman made its selections after examining both 5 years 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.

[11] Sonnet provided indications using the Oliver Wyman assumptions. The use of Oliver Wyman trends results in indications for an overall rate increase that is slightly lower than using the Sonnet trends.

[12] The Board generally would not allow the use of company only data to develop trends when the data set is not sufficient to discern credible trends. However, because Definity represents about one-twelfth of the Nova Scotia market, Board staff is of the opinion that the experience seems large enough to allow its use to develop trends. The Board allowed Definity and Sonnet to use Definity's own data to develop trends in the past. The Board finds no reason to change that determination for this application.

[13] Board staff recommends the Board accept the Sonnet loss trends, including the severity inflation adjustments and COVID-19 adjustments, as the appropriate ones for use in determining the indications to be used to assess whether Sonnet's proposal is reasonable. The Board agrees.

Staff Indications

[14] The Staff Indications equal the Sonnet indications. Board staff recommends the Board use the Sonnet indications as the appropriate target to assess the reasonableness of the company's proposal. The Board agrees.

Proposed Rate Changes

[15] Sonnet proposed changes that are lower than indicated for all coverages. Because the proposed overall change is lower than the indicated change, the proposed rates produce a return on equity of 9.6%, which is below the Sonnet 10% target, and the low end of the Board's range for a reasonable return on equity. Sonnet supported the proposed changes to base rates.

[16] Board staff recommends the Board approve the proposed rate changes. The Board agrees.

Rating Algorithm Changes

[17] 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 puts this Expected Loss Cost into its formula to get the Charged Premium. The values for the variables were updated to those used in the revised calculation of the indicated rate level needs. The company also increased the Fixed Expense Charge in its formula which is intended to ensure adequate coverage of a fixed expense amount regardless of premium size.

[18] Board staff recommends the Board approve the proposed profit factors, the proposed expense factors, and the Fixed Expense Charge in the rating algorithm. The Board agrees.

Proposed Changes to Existing Rating Variables

[19] Sonnet proposed changes to 12 of its existing rating variables. Those variables are: Airbag; Annual Distance (km); Body Type; Conviction Free (3 years); Driving Record; Make Region; One Way Commute Distance (km); Vehicle Age; Vehicle Count x Driver Count; Vehicle Ownership; Vehicle Price (MSRP); and, Years Licensed x Gender Interaction.

[20] These changes are the beginning of the harmonization of Sonnet's and Definity's rate structure in the province. A rating variable generally will be kept where it is used and will be added to the other company where it is not. Total alignment between Sonnet and Definity rating structures will happen over multiple phases and this filing represents the first steps.

[21] Sonnet conducted a univariate analysis based on the combined Sonnet and Definity loss experience. The experience covered accident years 2020 through 2025. Sonnet brought this data to current rate levels through an extension of exposure method, to properly reflect current rates in the loss ratio, allowing for use of additional historic years compared to prior filings. Sonnet re-rated the combined experience under the latest algorithm to ensure its accuracy.

[22] 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.

[23] When making its proposal, Sonnet also considered its competitive position. The company used an analysis of recent quote-to-bind statistics (i.e., the number of

quotes that resulted in a sale) to assess its market position. Sonnet also examined its renewal versus new business mix. Because the company did not analyze Specified Perils separately, Sonnet assigned Comprehensive differentials to Specified Perils where needed.

[24] The company included the impact of the differential changes for each variable in the total amount off-balanced to make the changes revenue-neutral.

Airbag

[25] Sonnet currently provides a discount on Bodily Injury & Property Damage-Tort (PD-Tort) combined when the vehicle has one of two airbag codes. The other five codes do not receive no discount. The company proposed adding the Airbag rating variable to Accident Benefits to harmonize with Definity's offering. The same two airbag codes will receive discounts but at a lower level than for the other coverage.

[26] Board staff recommends the Board approve the changes to Airbag. The Board agrees.

Annual Distance (km)

[27] Sonnet uses the Annual Distance (km) variable for all major coverages except SEF#44 (Underinsured Motorist). The variable acts to apply a surcharge for higher annual driving distances (i.e., 16,000-24,000 km and 24,000+ km), with only the latter applying to Bodily Injury & PD-Tort combined, while both categories apply to the other coverages.

[28] Sonnet proposed changes to the differentials that varied based on the loss ratio analysis with some actuarial judgement applied. For coverages other than Comprehensive, the differentials are lowered for the 24,000+ km category to reflect the

more favourable loss experience. For Comprehensive, Sonnet had more favourable loss ratios for the 16,000-24,000 km category and less favourable loss ratios for the 24,000+ km category. Sonnet adjusted the differentials to recognize these observations. The company extended the surcharge to the 8,000-16,000 km category for Direct Compensation Property Damage (DCPD) based on the analysis.

[29] Board staff recommends the Board approve the changes to Annual Distance (km). The Board agrees.

Body Type

[30] Currently, the Body Type rating variable only applies to Bodily Injury & PD-Tort combined. Based on the loss ratio analysis, Sonnet proposed the addition of the variable to DCPD and Collision. For DCPD, Sonnet lowered the differentials away from 1.000 for most Body Types to recognize the more favourable loss experience for this coverage (i.e., only one type saw an increased differential). The company increased the differentials away from 1.000 for most Body Types for Collision to recognize the less favourable experience for this coverage. One Body Type saw the differential lowered. For both DCPD and Collision, the proposed changes were generally in line with the indications.

[31] Board staff recommends the Board approve the changes to Body Type. The Board agrees.

Conviction Free (3 years)

[32] Sonnet applies this variable to all coverages to provide a discount where an insured is conviction free for the past three years. The level of discount varies by coverage. The analysis showed the discount provided for Bodily Injury & PD-Tort

combined should be smaller. The company reduced the discount for this coverage, leaving the discounts for all other coverages unchanged.

[33] Board staff recommends the Board approve the changes to Conviction Free (3 years). The Board agrees.

Driving Record

[34] Sonnet uses Driving Record as a rating variable for all coverages except Underinsured Motorist. Based on the loss ratio analysis, Sonnet proposed changes to the differentials for all Driving Records except DR 03 (the base differential which remained at 1.000). The proposed changes follow the indications with actuarial judgement informing the final selections.

[35] Board staff recommends the Board approve the changes to Driving Record. The Board agrees.

Make Region

[36] Sonnet applies the Make Region rating variable, which recognizes where a vehicle is made, to Comprehensive and Specified Perils. Based on its analysis, Sonnet proposed adding the rating variable to Bodily Injury & PD-Tort Combined, DCPD, and Accident Benefits. The change is proposed to align Sonnet and Definity rating algorithms because Definity applies the variable to those coverages. Sonnet selected differentials for the newly added coverages that tended to follow the indications arising from the relative loss ratios, with actuarial judgment applied and consideration given to how competitive the company was for certain makes (i.e., vehicles made in Asia).

[37] Board staff recommends the Board approve the changes to Make Region. The Board agrees.

One Way Commute Distance (km)

[38] Sonnet uses this rating variable for all coverages except Underinsured Motorist. The differentials vary by coverage, and the company proposed changes to the differentials for DCPD and Comprehensive & Specified Perils. The proposed changes follow the indications with actuarial judgment overlaid to keep the differentials intuitive (i.e., differentials tend toward higher values as the commute categories increase).

[39] Board staff recommends the Board approve the changes to One Way Commute Distance (km). The Board agrees.

Vehicle Age

[40] This rating variable applies to all coverages except Accident Benefits and Underinsured Motorist. The differentials vary by coverage. Sonnet proposed changes to the differentials for all coverages. The company considered the indicated change as well as competitive information provided by an analysis of the quote to bind ratios. This quote to bind information identified an opportunity to improve the competitiveness for newer vehicles where the ratio of bound sales to quotes was very low.

[41] Board staff recommends the Board approve the changes to Vehicle Age. The Board agrees.

Vehicle Count x Driver Count

[42] Sonnet uses this rating variable, which assigns a differential based upon the number of vehicles and the number of drivers, for DCPD, Collision and Underinsured Motorist. The company modified the differentials and proposed adding the variable to Accident Benefits and Bodily Injury & PD-Tort combined. With the proposed removal of rating variables, Vehicle Count x Years Licensed and Driver Count on Vehicle, the

company expects this variable will capture the predictive value lost from the removal of these variables. The use of the single variable simplifies the Sonnet rating algorithm.

[43] The company considered the indicated change as well as competitive information provided by an analysis of the quote to bind ratios. This information allowed Sonnet to address its competitiveness for multi-driver risks.

[44] Board staff recommends the Board approve the changes to Vehicle Count x Driver Count. The Board agrees.

Vehicle Ownership

[45] Sonnet uses the ownership type (i.e., Owned, Financed, and Leased) as a rating variable currently for Collision, Comprehensive & Specified Perils. Because Definity applies the variable to DCPD as well, Sonnet proposed adding the variable to that coverage. Sonnet selected differentials for each coverage based on the one-way analysis of loss ratio relativities. The selected differentials follow the indications with some actuarial judgment applied.

[46] Board staff recommends the Board approve the changes to Vehicle Ownership. The Board agrees.

Vehicle Price (MSRP)

[47] Sonnet used the Vehicle Price (MSRP) as a rating variable for Comprehensive & Specified Perils. To harmonize with Definity, the company proposed adding the variable to DCPD and Collision. Sonnet based the proposed differentials for each coverage to which the variable will apply on the analysis of the loss ratios by band of MSRP, with some adjustments based upon actuarial judgment so the progression of

the differentials is reasonably intuitive (i.e., the differentials tend to increase as the MSRP band increases).

[48] Board staff recommends the Board approve the changes to Vehicle Price (MSRP). The Board agrees.

Years Licensed x Gender

[49] The Years Licensed x Gender variable reflects the loss experience for different Years Licensed split by Gender. That is, the company has a set of years of licensed differentials that applies to females and another set that applies to males. Sonnet uses the variable for all coverages except Uninsured Automobile and Underinsured Motorist.

[50] Sonnet is proposing changes to the Years Licensed differentials for all coverages and all genders. Female and gender x use the same differentials. Sonnet chose the adjustments to each coverage's differentials to reflect the difference in expected loss cost between different genders and considered competitive position based on quote to bind ratios. The company adjusted the differentials for newly licensed risks to improve its competitiveness in that sector.

[51] Board staff recommends the Board approve the changes to Years Licensed x Gender. The Board agrees.

Removal of Rating Variables

[52] With the goal of harmonizing with Definity and simplifying its rating algorithm, Sonnet proposed to remove two rating variables, namely Driver Count on Vehicle and Vehicle Count x Years Licensed. As noted, the Vehicle Count x Driver Count variable will capture the predictive value currently captured by these variables. The

removal avoids double counting the impact for these items. Sonnet included the impact of the removal of these variables in its off-balancing calculations.

[53] Board staff recommends the Board approve the proposed removal of these rating variables. The Board agrees.

Changes to Renewal Premium Dislocation Capping Mechanism

[54] To manage the impact that rate changes have on its existing clients, Sonnet currently uses 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. The mechanism limits both renewal premium increases and decreases. The size of the cap on renewal increase varies as the change in the premium increases. For this application, Sonnet proposed changes to the capping limits on premium increases.

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

[56] To include negative capping (i.e., limits on renewal 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 that the uncapped increase slightly exceeds the capped increase using the proposed capping limits. This result demonstrates that the capping program complies with this requirement.

[57] Board staff recommends the Board approve Sonnet's proposed changes to its premium dislocation capping program. The Board agrees.

Adoption of 2026 CLEAR Table

[58] Sonnet currently uses the 2025 CLEAR table to assign rate groups to vehicles for Accident Benefits and physical damage coverages. The company uses the CLEAR (AB Alberta & Atlantic) – Collision and DCPD Combined version of the table. In this application, Sonnet proposed the adoption of the 2026 version of this table, which the Board approved for use in Nova Scotia, effective October 15, 2025. Sonnet identified the impact of the adoption of the 2026 table and included that impact in the off-balancing calculations.

[59] Board staff recommends the Board approve the proposed adoption of the 2026 CLEAR table. The Board agrees.

III SUMMARY

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

[61] The Board finds the proposed rates and risk classification systems are just and reasonable and approves the changes. All the changes, except the CLEAR table change, will be effective October 29, 2026, for new business, and December 18, 2026, for renewal business. The CLEAR table change will be effective October 29, 2026, for new business, and January 27, 2027, for renewal business.

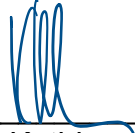
[62] The financial information supplied by Sonnet satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the company.

[63] 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 July 1, 2028.

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

[65] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 2nd day of October 2026.



M. Kathleen McManus