

**DECISION**

**2020 NSUARB 77  
M09731**

**NOVA SCOTIA UTILITY AND REVIEW BOARD**

**IN THE MATTER OF THE INSURANCE ACT**

**- and -**

**IN THE MATTER OF AN APPLICATION** by **ECHELON INSURANCE** for approval to modify its rates and risk-classification system for commercial and interurban vehicles

**BEFORE:** Richard J. Melanson, LL.B, Member

**APPLICANT:** **ECHELON INSURANCE**

**FINAL SUBMISSIONS:** **June 3, 2020**

**DECISION DATE:** **June 12, 2020**

**DECISION:** **Application is approved.**

## **I INTRODUCTION**

[1] Echelon Insurance applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for commercial and interurban vehicles.

[2] Since the filing of this application, Echelon received and responded to Information Requests (IRs). Board staff also reviewed the application and prepared a report (Staff Report). After reviewing the Staff Report, Echelon agreed with the recommendations and did not offer any further comments.

[3] The Board did not consider it necessary to hold an oral hearing. The Board finds that the proposed rates and risk-classification system are just and reasonable in the circumstances and approves the application.

## **II ISSUE**

[4] The issue in this application is whether the proposed rates and changes to the risk-classification system are just and reasonable and in compliance with the *Insurance Act (Act)* and its *Regulations*.

## **III ANALYSIS**

[5] In its application under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*, Echelon proposed changes to base rates, together with minor changes to the rounding used in the rating algorithm, for both commercial and interurban vehicles.

[6] Echelon is a non-standard market insurer. The company appeals to customers who are denied coverage by traditional insurers but, are better risks than those that should be written through the Facility Association, the “insurer of last resort”.

[7] Board staff examined the application and consider that Echelon satisfactorily addressed all aspects of the ratemaking procedure in its application and IR responses.

[8] In this Decision, the Board will consider:

- the reasonableness of Echelon’s proposed rates for commercial vehicles;
- the reasonableness of Echelon adopting the last approved rates for IAO Actuarial Consulting Services Aon Reed Stenhouse Inc. (IAO) for interurban vehicles; and,
- the modifications to the rating algorithm.

## **Proposed Rates**

### *i) Commercial Vehicles*

[9] Echelon’s current base rates for commercial vehicles were set in 2017. These rates were set equal to 85% of the approved Facility Association base rates for urban areas and 75% for rural areas. Echelon proposes to refresh its commercial vehicle rates by applying the same urban and rural percentages to the Facility Association base rates approved to be effective July 1, 2020 (2020 NSUARB 35). Echelon continues to believe these percentages place its rates in a reasonable competitive position for the vehicles in its target market.

[10] The Board allowed Echelon to adopt the 85%/75% of Facility Association base rates in the company's previous application. Given the fact that Echelon only wrote a small number of vehicles and the number of policies has been stable at this level, conducting an actuarial analysis to determine if these percentages remain reasonable is not likely to produce meaningful or reliable results.

[11] Board staff provided a table showing the impacts of Echelon's proposal on rates. While the impacts varied by coverage, resulting in both increases and decreases, the overall effect was an increase in rates of 0.8%.

[12] Given this small impact, Board staff recommend the Board approve the proposal to reset Echelon's base rates as proposed in the application. The Board agrees with this recommendation.

ii) Interurban Vehicles

[13] Echelon proposed to adopt the last approved IAO rates effective July 1, 2019 (2019 NSUARB 39). To adopt IAO rates, a company must make an application that:

- i. explains why it is appropriate for the company to adopt the IAO rates;
- ii. adjusts (downward only) the rates to reflect the desire to use a proposed return on equity that is lower than the return on equity approved for IAO (12%); and
- iii. adjusts the rates, if desired, to reflect any differences in the company's expense ratio relative to that included in the approved IAO rates.

[14] When asked why Echelon did not set interurban vehicle rates as a percentage of Facility Association rates, as it does with commercial vehicles, the

company explained it uses IAO rates in Ontario and it wants to be consistent with that approach for interurban vehicles.

[15] While Echelon wants to have a rate available, if it is required, it has written no interurban vehicles in Nova Scotia and does not intend to market such vehicles aggressively. Having no experience, the use of IAO rates seems an appropriate way to have rates available in case they are needed. Therefore, criterion (i) is met.

[16] Echelon proposed to make no adjustment to rates for return on equity under criterion (ii). The IAO rates use a 12% return on equity. In its last private passenger vehicle application, Echelon selected a 10% return on equity consistent with the Board's approach to return on equity at that time. The use of the IAO selected 12% could be problematic. In this case, Echelon has no policies for interurban vehicles. The Board observes that IAO currently has an application before the Board which, if approved, would result in significantly higher rates than Echelon proposes. -Therefore, the proposed return for Echelon will likely be below 12%. The Board is satisfied criterion (ii) has been met, in the unique circumstances of this case. The expense ratio in the Echelon financials is not dramatically different from that used by IAO. As such, no adjustment seems warranted, and none was made. Criterion (iii) has been met.

[17] Board staff believe that Echelon has adequately supported its proposal to adopt the IAO rates approved in Board Decision 2019 NSUARB 39, without making any adjustments for differences in return on equity or expenses. The Board agrees and approves this rate change.

iii) *Rating Algorithm*

[18] Echelon proposed minor changes to the rounding used in the rating algorithm for both commercial and interurban vehicles. Rather than rounding to zero decimal places (i.e., whole dollars) at each step, the rounding to whole dollars will only be done at the end of the premium calculation.

[19] Board staff recommend the Board approve the proposed changes to rounding in the premium calculation. The Board agrees with this recommendation.

**Automobile Insurance Manual**

[20] Echelon proposed no changes to its Automobile Insurance Manual.

[21] Board staff reviewed the current manual and found no areas where the company appears to be in violation of the *Act* or its *Regulations*.

**IV FINDINGS**

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

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

[24] The Board finds the proposed changes to base rates for commercial and interurban vehicles are just and reasonable and approves them.

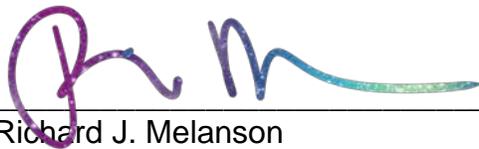
[25] The Board approves the proposed rounding changes to the rating algorithms.

[26] The application did not include full actuarial indications. The company provided support for its decision to base its commercial vehicle rates on those offered by Facility Association. Echelon also provided support for the proposal to adopt the last approved rates for IAO for interurban vehicles. As it has done in the past, the Board will allow these approaches for Echelon to fulfill the requirements of a mandatory filing. The Board resets the mandatory filing deadline to May 1, 2023 for both types of vehicles.

[27] The Board approves the effective date of December 1, 2020, for new and renewal business.

[28] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 12<sup>th</sup> day of June, 2020.



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Richard J. Melanson