DECISION **2020 NSUARB 132**
M09836

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **FACILITY ASSOCIATION** for approval to maintain its rates and risk-classification system for interurban vehicles

BEFORE: Jennifer L. Nicholson, CPA, CA, Member

APPLICANT: **FACILITY ASSOCIATION**

FINAL SUBMISSIONS: October 1, 2020

DECISION DATE: **November 12, 2020**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Facility Association applied to the Nova Scotia Utility and Review Board to maintain its rates and risk-classification system for interurban vehicles.

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

II ANALYSIS

[3] Facility applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Facility 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 Facility. The company reviewed the report and informed Board staff that it agreed with the recommendations and had no further comments.

[4] Board staff examined all aspects of the rate-making procedure to make the recommendations in the Staff Report and suggested that the Board further review certain issues. Board staff consider that Facility satisfactorily addressed all other aspects of the rate-making procedure in its application and IR responses.

Loss Trends

[5] The loss trends used by Facility in this application are almost the same as those used in a recent application for commercial vehicles. Facility and the Board's consultant, Oliver Wyman, have different views on the trends that should apply for commercial vehicles. In a recent taxi filing, where commercial vehicle loss trends rates were used, the Board directed changes to the Facility assumed loss trends. While the proposed trends in this application are slightly different, new experience data suggests some of the findings made by the Board (i.e., changes to the Bodily Injury, Direct Compensation Property Damage, and Accident Benefit trends) should be revisited for this application. After reflecting this new data, the Oliver Wyman trends and the Facility trend estimates have moved closer together

[6] Board staff, therefore, recommend the Board accept the Facility loss trend estimates from its models without change, in the circumstances of this application only, and without prejudicing future applications for other vehicle types. The Board agrees.

Profit Provision

[7] As a result of a Board Decision in 2010 (2010 NSUARB 104), Facility is entitled to include a provision for the cost of capital in its indications. In this application, Facility included a provision using a 12% after-tax return on equity and a 2:1 premium-to-surplus ratio (PSR) in its own indications.

[8] Facility acknowledged that it used these assumptions despite recognizing that the Board had ordered the use of 11% having provided no new information to support

the higher number. Board staff recommend that the Board require the use of the 11% return on equity. The Board agrees.

Return on Investment

[9] For its return on investment, Facility used 1.63%, which it chose based upon current market yields for risk-free government bonds. In previous applications, the Board did not allow Facility's use of a risk-free method to determine the return on investment. The Board instead found Facility should use a 2.5% return on investment. This application did not provide any new information to support the Facility approach. Board staff, therefore, recommend the Board require Facility to use 2.5% in place of the 1.63%, produced using the risk-free methodology, for this application. The Board agrees.

Expenses

[10] In prior applications, the Board required Facility to replace its use of the Plan of Operation based 9% Servicing Carrier Operating Fee assumption with an 8% value. This level reflected the rounded value of the actual costs for two of Facility's Servicing Carriers, as provided in an earlier hearing.

[11] No evidence was provided in this application to support or explain the Servicing Carrier cost levels. Facility continued its use of the 9% level.

[12] Lacking any new information regarding these costs, Board staff recommend the Board require Facility to use 8% instead of 9% for the Servicing Carrier Operating Fee. The Board agrees.

Proposed Rates

[13] Facility proposed to leave its rates unchanged despite indications that suggested rates should increase because it was concerned about the impact the COVID-19 pandemic was having on clients using these vehicles. Facility intends to refile for an increase at an appropriate time, likely next year.

[14] The Staff Indication, which reflect the recommended changes to return on equity, return on investment, and Service Carrier Operating Fee, are lower than Facility indications. The proposal for no change, however, still results in lower rates than the Staff Indications would produce.

[15] Board staff recommend that the Board approve the proposal for no change in rates. The Board agrees.

III SUMMARY

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

[17] The Board finds the proposed rates are just and reasonable.

[18] The Board approves the proposed effective date of 100 days after the Board's issuance of the Order in this matter, rounded to the first day of the following month, for new business and renewal business. This approach is consistent with past Facility applications.

[19] Facility is not an insurance company, but instead is supported by its member companies who underwrite automobile insurance in Nova Scotia. As a result, Facility is not required to provide financial information to the Board. The financial

information of member companies, however, is reviewed in their respective filings with the Board. The Board is satisfied, under Section 1551(1)(c) of the *Act*, that Facility's proposal for no change is unlikely to impair the solvency of the member companies.

[20] 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 Facility for interurban vehicles is September 1, 2023.

[21] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 12th day of November, 2020.

Jennifer L. Nicholson