DECISION **2023 NSUARB 216**
M11314

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 Trucks

BEFORE: Julia E. Clark, LL.B., Member

APPLICANT: **FACILITY ASSOCIATION**

FINAL SUBMISSIONS: October 10, 2023

DECISION DATE: **December 6, 2023**

DECISION: **Application is approved as modified**

I INTRODUCTION

[1] Facility Association applied to the Nova Scotia Utility and Review Board to maintain its rates and risk-classification system for Interurban Trucks. The company proposes no changes to rates.

[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 the 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 emphasized that it considered the Facility's own actuarial assumptions and indications to be reasonable. While Facility respectfully disagreed with Board staff about whether the Board should rely on Oliver Wyman's loss trends rather than Facility's selected trends, it accepted the recommendations in the Staff Report for the purpose of moving the applications forward.

[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 Facility 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
- Return on Investment
- Service Centre Operating Costs

Loss Trends

[6] The commercial vehicle loss trends Facility used in this application are the same as those used in its concurrent application for taxis (M11315). In that application, as in this one, Board staff recommended the Board use its consulting actuary, Oliver Wyman's, December 2022-based loss trend selections for all coverages except Collision and DCPD. Staff recommended Facility's estimates be used for those coverages.

[7] Facility and Oliver Wyman have different views on the trends that should apply to commercial vehicles. Oliver Wyman uses indemnity plus allocated loss adjustment expense plus unallocated loss adjustment expense as the basis for loss amounts in their trend analysis. Facility uses indemnity only. Facility argued that it was more appropriate to select loss trends based on indemnity-only data as well as to ensure the evaluation and application of the data and experience are considered consistently. It urged the Board to consider that differences in actuarial judgment and opinion can lead to different selections and different trend estimates that are nonetheless valid.

[8] Oliver Wyman's 2022 report was not available at the time that Facility filed its application but represents the most current information. Using those indications for all coverages, versus the 2021 report, would result in a slightly lower indicated decrease.

For the reasons canvassed in the Board's decision on Facility's concurrent taxi application, and following its decision in 2021 NSUARB 84, the Board agrees with staff's recommendation to require the use of Oliver Wyman's loss trend selections for Interurban Trucks for all coverages except DCPD and Collision, where Facility's own trends should be used to assess the proposed rates.

Return on Investment

[9] Facility proposed a 3.24% return on investment in this application. This was based on the company's application of a new methodology using the 12-month rolling average of Government bonds (Average Industry Return methodology) instead of the previous approach using information from the Canadian Economic Statistics table from the Canadian Institute of Actuaries (CIA). For corporate bonds, Facility continues to use the CIA data.

[10] In past decisions, the Board required Facility to use a 2.5% return on investment in its filings, until it completed a survey of members on the type and mix of investments companies use to back Facility assets (see 2021 NSUARB 119). Board staff and Facility are continuing to work on the design of the survey.

[11] The Board views 2.5% as a minimum level for Facility's return on investment. Earlier this year, in decision 2023 NSUARB 59, the Board found that Facility's use of a higher return on investment of 2.9% for public passenger vehicles was reasonable. In the current application, using the proposed 3.24% return on investment results in lower indicated rates and the Board approves it. The Board takes no position at

this stage on using the Average Industry Return methodology to calculate the return on investment.

Service Carrier Operating Costs

[12] Facility has recently undergone changes in its Servicing Carrier model and now has a single Servicing Carrier. In its 2023 filings, Facility provided actual 2022 operating costs and projected 2023 operating costs under this current model. The Board is satisfied the true operating costs of the single servicing carrier are still uncertain because of challenges with the transition and inflation pressures.

[13] Staff recommended the Board approve the use of the 9% Servicing Carrier Operating Cost along with the 1% Servicing Carrier Operating Fee, as proposed by Facility and as outlined in its Plan of Operation. For these and the more detailed reasons outlined in the Board's concurrent decision on Facility's private passenger vehicles application, the Board agrees. In its decision 2023 NSUARB 215, the Board directed Facility to provide revised operating costs in a private passenger or taxi filing by 2025.

Assessment of Proposed Rates

[14] Based on the change the Board requires for loss trends, the indicated rate change drops from a 0.8% increase to 0.3% increase. The Board approves this level of rate change as the appropriate target to assess the proposed rates.

[15] Facility explained it considers many factors before proposing rate level changes, such as comparing the cost of implementing changes (such as time, resources, and opportunity cost) to the benefits of implementing the changes. Because the indicated

increase was so low, and after weighing those factors, Facility decided not to propose changes. The Board finds this to be reasonable and approves the proposal to maintain the rates.

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, and approves them, effective one hundred days after the date of the Order in this matter, rounded to the first day of the following month, for new business and renewal business.

[18] Facility is not an insurance company. It is a non-profit association supported by its member insurance companies that underwrite business in Nova Scotia. Therefore, it did not provide any financial information. However, recent examinations of the filings of member companies confirm that it is unlikely that Facility's proposal will impair the solvency or financial well-being of those member companies.

[19] 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 Trucks is September 1, 2026.

[20] Board staff reviewed Facility's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. Because the proposal does not change rates, the company is not required to file an updated version of its Manual.

[21] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 6th day of December, 2023.

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Julia E. Clark