

DECISION

**2023 NSUARB 217
M11315**

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 change its rates and risk-classification system for Taxis

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 by this decision, subject to a compliance filing**

I INTRODUCTION

[1] Facility Association applied to the Nova Scotia Utility and Review Board to change its rates and risk classification system for taxi vehicles. The company proposes rate changes that vary by coverage and result in an overall increase of 11.3%.

[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 not satisfied that Facility's application meets these requirements and does not approve the company's proposed rates and risk-classification system as filed. Facility must submit new rates that match those produced using the Staff Indications, with the factors Facility applies to private passenger vehicle rates for optional physical damage coverages, adjusted to reflect the Board-approved rate changes for Board Matter M11313, the concurrent private passenger vehicle application.

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 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 its 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
- Servicing Carrier operating costs
- Dependent Coverages

Loss Trends

[6] In the Board's last two decisions on taxis, the Board considered whether Facility's trends should be used to develop indications, or whether those of the Board's consulting actuaries, Oliver Wyman, should be preferred.

[7] Oliver Wyman prepares annual commercial vehicle loss trend selection reports for the Board based on industry-wide Nova Scotia data. These are published by the Board and available to the industry. Oliver Wyman derives indicated annual loss trend rates from an exponential regression analysis of the data, over different time periods, with and without certain points included. Using actuarial judgment, Oliver Wyman makes loss cost trend selections to apply to developed losses to estimate the needed claims amounts.

[8] The Board views the Oliver Wyman loss trend selections as appropriate for generating indicated rate level needs. Insurers may use the most recent published report available when an application is being prepared. A company may also use different selections but must explain its development and answer why its own selections are more appropriate for the application than the Board's published trends.

[9] In its last filing for taxis, Facility adopted the commercial vehicle loss trends from Oliver Wyman, for all coverages except DCPD, Collision, and Uninsured Automobile. For Collision, Facility used its loss trend estimate from its model. Facility used a 0.0% loss trend estimate for Uninsured Automobile. For DCPD, Facility used the average of its loss cost trend estimate and the Oliver Wyman selection. Facility made those choices to be consistent with the Board ruling in the 2021 NSUARB 84 (for Matter M09948). In that decision, the Board had agreed with Oliver Wyman's evidence and rejected Facility's use of estimates from its models, instead requiring the use of Oliver Wyman's estimates except for DCPD, Collision, and Uninsured Automobile.

[10] To summarize, 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 and says its approach best reflects its Servicing Carrier compensation model.

[11] In the current application, Facility reverted to using its own loss trend models and the resultant estimates. Board staff advised that the issues raised by Oliver Wyman in the past application would still apply to the models developed for this application. Facility again 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.

[12] 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, results in a slightly lower indicated decrease. Following its decision in 2021 NSUARB 84, the Board agrees with staff's recommendation to require the use of Oliver Wyman's 2022 trend selections for taxis for all coverages except DCPD and Collision, where Facility's own trends are appropriate to assess the proposed rates.

Return on Investment

[13] 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.

[14] 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). The Board

expected this survey to be completed before this filing, but Board staff and Facility are continuing work to design and issue the survey.

[15] 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 and recreational 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.

Servicing Carrier Costs

[16] 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.

[17] 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. The Board directs Facility to provide revised operating costs in its private passenger or taxi filing by 2025.

Dependent Coverages

[18] Facility's taxi premiums for Collision, Comprehensive and Specified Perils are dependent on private passenger vehicle rates. In its application in this proceeding, Facility calculated the factors needed to apply to its private passenger vehicle rates to produce its required taxi premiums. However, these factors were based on the private passenger vehicle rates in effect when Facility filed this application. Subsequently, the Board has approved new rates for private passenger vehicles in Board Matter M11313 (2023 NSUARB 215).

[19] Because the Board approved increases to the private passenger vehicle rates for these coverages, the total premiums collected for taxis also would increase. Without a change in the factors, Facility would collect more premium than its indications suggest is needed for Collision, Comprehensive and Specified Perils. As such, the Board requires Facility to provide the revised factors for these coverages in a compliance filing.

Assessment of Proposed Rates

[20] Facility proposed rates for all coverages equal to its alternate indications, which would result in an 11.3% overall increase. As discussed, following its past decisions, the Board opted to compare Facility's proposal against the indications recommended by staff, which equal those using Oliver Wyman's 2022-based loss trend selections for all coverages except Collision and DCPD (where Facility's estimates are used), along with the remaining assumptions Facility used in its alternative indications: 11% return on equity, 3.24% return on investment, and the use of the Board-approved

indications from the previous filing in the complement of credibility, where previous indications are required.

[21] Using those assumptions, the overall proposed change would be higher than the indicated change and the proposed rates would produce a return on equity greater than the Board-approved 11%. Board staff recommended the Board approve rates for taxis based on the staff-indicated assumptions, adjusted so that the changes would not produce a return on equity that exceeds 11%. The rates must also be adjusted to reflect the Board's recent approval for private passenger vehicles, as discussed earlier. These rates should represent an increase of 9.4%, which is lower than Facility's proposed 11.3% increase.

[22] The Board directs Facility to submit new rates so that the changes match the staff indications, with the factors applied to private passenger vehicle rates for Collision, Comprehensive and Specified Perils adjusted to reflect the recently approved rate changes for private passenger vehicles.

III SUMMARY

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

[24] The Board directs Facility to revise its rates for taxis using the following assumptions, to produce rates which the Board considers will be just and reasonable, and to submit a compliance filing within 15 days of the date of this decision:

- a. The use of a 3.24% return on investment;
- b. The use of an 11% target return on equity;

- c. The use of Facility's provision of 9% for the Servicing Carrier Operating Expense and 1% Servicing Carrier Operating Fee;
- d. The use of the Board's published loss trend selections from December 2022 for coverages, except for DCPD and Collision which are to use Facility's own loss trend estimates;
- e. The use of the Board ordered indications in the complement of credibility, as Facility used in its alternate indications;
- f. Adjustment to the factors for the private passenger vehicle dependent coverages – Collision, Comprehensive and Specified Perils, to account for the recently approved changes to private passenger vehicle rates in Board Matter (M11313).

[25] The Board directs the changes to be effective one hundred days after the date of the Order in this matter, rounded to the first day of the following month for new and renewal business.

[26] The Board directs Facility to provide revised operating costs for its Servicing Carrier in its private passenger or taxi filing by 2025.

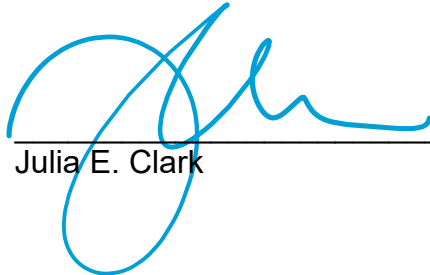
[27] Facility is not an insurance company. It is a non-profit association supported by its member insurance companies that underwrite business in Nova Scotia. Therefore, it did not provide any financial information. However, recent examinations of the filings of member companies confirm that it is unlikely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

[28] 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 taxis is September 1, 2026.

[29] 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*. Within 30 days of the issuance of the order in this matter, Facility must provide the Board with an electronic version of its Manual, updated for the changes approved in this decision, either by filing it with the Board or posting the manual on Facility's website and alerting the Board to the posting.

[30] An order will be issued accordingly, following receipt of the compliance filing.

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



Julia E. Clark