DECISION **2025 NSUARB 20**
M11996

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 commercial vehicles

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

APPLICANT: **FACILITY ASSOCIATION**

FINAL SUBMISSIONS: December 20, 2024

DECISION DATE: **January 28, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Facility Association applied to the Nova Scotia Utility and Review Board to review its rates and risk-classification system for commercial vehicles. The company proposes to maintain its base rates apart from off-balancing the impacts of changes to territorial, class and driving rating differentials. In addition to rates, the company also asks the Board to approve the introduction of Territory as a rating variable, changes to the Class and Driving Rating variables, and changes to underwriting and ratings rules.

[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 recognized the recommendations in the Staff Report and had no other 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 Facility's loss trends. Board staff considered 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;
- Territory and Territorial Differentials;
- Class and Driving Record Differentials;
- Removal of Excess Limit Factors and Rebasing of Limit; and
- Underwriting and Rating Rule changes.

Loss Trends

[6] Facility used industry experience data for a 20-year period up to and including December 2023 to develop its loss trend selections. Facility removed the loss adjustment expenses from the industry data to get to "indemnity only" costs when developing the trend. Facility employs this approach because of how it compensates the servicing carriers for handling claims.

[7] Each year, the Board asks Oliver Wyman to provide its selections for loss trends for commercial vehicles. In its report based on industry data through December 31, 2023, along with its usual trend selections, Oliver Wyman also recommends one-time severity shocks coincident with the observed rise in inflation for certain coverages. These include a 23.9% one-time increase in severity for Direct Compensation Property Damage (DCPD) at the second half of 2021 and of 33.1% and 33.8% for Collision and Comprehensive & Specified Perils respectively at the second half of 2022. At the request of Board staff, Facility developed indications using Oliver Wyman's assumptions, including these severity adjustments. Upon comparing the indications using Oliver Wyman's assumptions versus Facility's trend estimates, the overall difference was small. Board staff, therefore, recommended the Board use the Facility loss trends when developing the indications upon which to base the proposed changes for commercial vehicles.

Comparison of Indications to Proposed Rates

[8] Despite the indications for some changes by coverage, Facility proposed no direct changes to base rates other than those required to off-balance the impact of other changes proposed in this application. While the overall indication is for a small increase, the proposal for no changes results in rates that are, overall, lower than the indicated level. Therefore, the proposed rates produce a return on equity that will fall just below the 11% allowed for Facility.

[9] The proposal does result in a small subsidy for optional coverages as premiums for mandatory coverages will be higher than indicated and the opposite is true for optional coverages. However, given the small number of customers in this category and the limited difference, the Board finds that making no direct changes to base rates is just and reasonable in the circumstances.

Other Changes

Territory and Territorial Differentials

[10] Facility does not currently rate commercial vehicles by territory. In this filing, Facility proposed to introduce the Territory rating variable to allow for a distinction between Urban and Rural rates. Facility will use the statutory territories from the General Insurance Statistical Agency Automobile Statistical Plan and will designate territory 501 (Halifax and Dartmouth) as Urban and the remaining three territories as Rural.

[11] Facility conducted an analysis that provided indicated differentials or relativities for each territory, for each coverage. Based on that analysis, where the magnitude of the indicated change exceeded 2%, Facility proposed a change from the

current 1.000 differential. The size of the change was capped at 5%. Facility provided the underlying analysis which it used to determine indicated differentials or relativities for each territory, for each coverage. The analysis supports its proposed differentials.

[12] Facility off-balanced the impact of introducing the Territory rating variable to make that change revenue-neutral. Facility supported its proposed introduction of territory as a rating variable, the proposed differentials and the off-balancing of the impact of the change. Board staff recommend the Board approve the proposed changes. The Board agrees.

Class and Driving Record Differentials

[13] Facility left the differentials unchanged for the coverages for which it currently uses Class and Driving Record rating variables. However, Facility proposed a structure that adds Class as a rating variable for DCPD, Accident Benefits and Uninsured Automobile, and adds Driving Record as a rating variable for Accident Benefits and Uninsured Automobile. Facility currently does not apply these rating variables to those coverages.

[14] Facility notes the change helps to harmonize its rating plans across jurisdictions. Facility is merely creating a structure that will be common across provinces. While these variables are used in other provinces, Facility will set the differentials to 1.000 for the coverages that are being added, so that the change has no impact.

[15] At this stage, Facility is adding the Class and Driving Record rating variables to the new coverages without providing evidence supporting why these variables should be used for these coverages. Should Facility wish to change the differentials for these

coverages from 1.000 to something that has an impact on premium, Facility would have to provide detailed support showing that the variable is predictive of risk and the chosen differentials are warranted.

[16] The Board agrees with Board staff’s recommendation to allow Facility to establish the structure within the rating plan for harmonization purposes. However, should Facility opt to change the differentials from 1.000 to a different value in a future filing, it must provide sufficient evidence to justify the introduction of the rating variables for the respective coverages, as well as the differentials.

Removal of Excess Limit Factors and Rebasing of Limit

[17] Facility currently uses excess limit factors for coverages over $1,000,000 for Bodily Injury and Property Damage-Tort. Excess limit factors are used to determine the premiums for higher coverage limits. They are calculated as a portion of the basic coverage premium. The rating algorithm applies a limit factor differential and then uses the excess limit factor in a separate step of the premium calculation. Facility uses separate factors for commercial vehicles with Chemical/Petroleum Products, Explosives, or Radioactive Materials as cargo, and another set for Other Cargo.

[18] Facility proposed to simplify its rating algorithm by removing the excess limit factors and removing that step in the algorithm. Instead, it proposed to apply a single limit differential to the base premium. Facility will rebase its current increased limit differentials to set the base premium as the rate for the $500,000 coverage limit for Other Cargo. Facility then determined the increased limit factors using this base to produce new

differentials. Facility off-balanced the impact of the change to make it revenue-neutral. Board staff recommended approval of the changes.

[19] The Board approves Facility's removal of the excess limit factors and the rebasing of the increased limit factors to the $500,000 Other Cargo base.

Underwriting and Rating Rule Changes

[20] Facility proposed changes to its underwriting and rating rules, primarily to align and harmonize its rules with other jurisdictions. These changes affect commercial vehicles and some other vehicles.

[21] Facility noted that some of these changes could impact the premiums clients pay, including changing the references to surcharges for "US" or "Outside Nova Scotia" exposure to "Outside Province/Territory" exposure. While the reference change by itself would have no impact on premiums, Facility also proposed two changes to its Outside Province/Territory Surcharge.

[22] The first change removes the Currency Differential Surcharge that applies when the vehicle travels in the US. For vehicles with US exposure, premiums would reduce because of the removal of this surcharge. The second change removes the waiver of the Outside Province/Territory Surcharge if the exposure is 5% or less and replaces it with a minimum surcharge if a client has such exposure.

[23] Facility said both changes simplify rating steps and align its private passenger vehicle rules with those of other vehicle types, including commercial vehicles. This will help agents and brokers more easily interpret the rules. None of Facility's current

commercial or other vehicle customers with US exposure were eligible for the waiver. Therefore, the change has no impact.

[24] The remaining rule changes either have no impact on premiums or apply to classes of insurance the Board does not regulate. Board staff recommended the Board approve the proposed changes to Facility's underwriting and rating rules. The Board agrees.

III SUMMARY

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

[26] The Board finds the proposed rates are just and reasonable and approves the changes for new and renewal business effective 100 days after the date the Board's Order is issued in this matter, rounded to the 1st day of the following month, which in this case is June 2025.

[27] Facility is not an insurance company, but an association supported by its member insurance companies that write business in Nova Scotia. Recent examinations of the mandatory filings of those member companies reassure the Board that it is unlikely that the changes proposed by Facility will jeopardize the solvency or financial well-being of Facility's 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 commercial vehicles is December 1, 2027.

[29] Board staff reviewed Facility's online Automobile Insurance Manual, as well as the proposed changes and did not find any instances where the Manual contravened

the *Act* and *Regulations*. The company must post a revised manual online within 30 business days of the Board's Decision.

[30] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 28th day of January 2025.

Julia E. Clark