DECISION **2023 NSUARB 218**
M11316

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 Snow vehicles

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

APPLICANT: **FACILITY ASSOCIATION**

FINAL SUBMISSIONS: October 10, 2023

DECISION DATE: **December 6, 2023**

DECISION: **Application is approved**

I INTRODUCTION

[1] Facility Association applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for Snow vehicles. The company proposes rate changes that vary by coverage and result in an overall increase of 21.9%.

[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 emphasized that it considered Facility's own actuarial assumptions and indications to be reasonable. While Facility respectfully disagreed with Board staff that the Board should rely on Oliver Wyman 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
- Servicing Carrier Operating Costs

Loss Trends

[6] Because Facility has insufficient experience data to develop its own snow vehicle loss trends, it relied upon loss trend estimates for private passenger vehicles. This use of private passenger loss trends as proxies for miscellaneous vehicles is common in the industry.

[7] Board staff recommended that the Board rely on the approach to loss trend selections considered in Facility's most recent private passenger filing (M11313), which was considered by the Board at the same time as the Snow Vehicles application. The Board accepted the use of Oliver Wyman's loss trend selections for private passenger vehicles based on its December 2022 data, including one-time severity increases for DCPD and Collision at 2021-2, for all coverages.

[8] At Board staff's request, Facility provided indications using the December 2022-based Oliver Wyman Trends and Board staff compared them with Facility's alternative indications. The results are reasonably close for most coverages. Applied to coverages for snow vehicles, indications based on Oliver Wyman's loss trend selections would result in a 25.2% overall rate increase, compared with the 21.9% increase using Facility's alternative indications. On Board staff's recommendation, and for consistency,

the Board approves the same approach to loss trend selection for snow vehicles as it approved for private passenger vehicles.

Return on Investment

[9] In previous decisions, the Board required Facility to use a 2.5% return on investment. In 2021, the Board also required Facility to conduct a survey designed to collect information about the type and mix of investment companies use to back Facility assets, and if they use different strategies for Facility assets, compared to their own. The Board required Facility to use 2.5% as a floor until the results of the survey are completed. Board staff continue to work with Facility to design and administer the survey, but it has not yet been completed.

[10] In this filing, Facility proposed a 3.25% return on investment for snow vehicles. 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.

[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 its concurrent decision on Facility's private passenger vehicles (M11313), the Board allowed a similar return on investment of 3.24%. Similarly, in this application, using the proposed 3.25% return on investment results in lower indicated rates and the

Board approves it. The Board takes no position at this stage on whether using the Average Industry Return methodology to calculate the return on investment should be approved in future applications.

Servicing Carrier Operating Costs

[12] In its concurrent decision on private passenger vehicle rates, the Board addressed the circumstances surrounding Facility's recent transition to 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.

[14] For these and the reasons set out in the private passenger vehicles decision, the Board approves Facility's continued use of a 9% Servicing Carrier Operating Cost with a 1% Servicing Carrier Operating Fee for Snow Vehicles, until it provides revised operating costs in a private passenger or taxi filing.

Assessment of Proposed Rates

[15] Board staff recommended the Board compare the proposed rates against indications equal to those calculated using Oliver Wyman's December 2022-based loss trend selections, with the remaining assumptions used in Facility's alternative indications

(i.e., 11% return on equity, 3.25% return on investment, and the use of the previously-approved indications in the complement of credibility, where previous indications are required).

[16] Board staff compared staff indications with the proposed rate changes, which equal Facility's alternative indications. Facility's overall proposed change is for a lower increase than indicated by the recommended Staff indications and results in a return on equity of less than the Board's allowable range. Any differences in the estimated premium changes by coverage are small.

[17] In these circumstances, Board staff recommended the Board approve the rates as filed. The Board agrees.

III SUMMARY

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

[19] The Board finds the proposed rates are just and reasonable and approves the changes effective 100 days from the date of the Board's Order in this matter, rounded to the first day of the next month, for both new and renewal business.

[20] Facility is not an insurance company. It is a non-profit association backstopped by its member insurance companies who underwrite business in Nova Scotia. Accordingly, Facility did not provide any financial information. However, a recent examination of the mandatory filings of these member companies confirms that it is unlikely that the changes proposed by Facility would impair the financial solvency of those companies.

[21] 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 Snow vehicles is September 1, 2026.

[22] 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*. Facility proposed no changes to its underwriting or rating rules, but the online manual includes rates. The company must provide the Board with an electronic version of its Manual, updated for the rate changes approved in this decision, either by filing it or posting it on Facility's website and informing the Board of its posting, within 30 days of the Board's Order in this matter.

[23] An order will issue accordingly.

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

Julia E. Clark