DECISION **2025 NSUARB 35**
M11998

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **INTACT INSURANCE COMPANY** for approval to change its rates and risk-classification system for commercial vehicles

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

APPLICANT: **INTACT INSURANCE COMPANY**

FINAL SUBMISSIONS: January 6, 2025

DECISION DATE: **February 18, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Intact Insurance Company (Intact) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for its individually rated commercial automobiles (IRCA), including interurban trucks. The changes result in an overall all coverages combined increase of 6.0%. To support these changes, Intact provided actuarial indications, which are calculations of the estimated changes to the current premium that the company should make to achieve its target Return on Equity (ROE). These actuarial indications suggest that Intact should increase its rates overall by a slightly higher amount. Intact proposed changes to its USA Exposure Surcharges and to several of its endorsements. The company will also make changes to its underwriting and rating 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 Intact's application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

[3] Intact applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Intact 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 Intact. It reviewed the report and informed Board staff that it had no further 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 certain issues. Board staff consider that Intact satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

[5] Based on Board staff's review of the filing, the only issue that warrants further discussion is profit provision, specifically ROE. The information request process resolved all other issues raised.

[6] The Board will examine the following issues in this decision:

- Profit provision;
- Proposed rate changes;
- USA Exposure Surcharge changes;
- Endorsement changes; and
- Renewal premium dislocation capping mechanism.

Profit Provision

[7] Intact uses a pricing model that projects cash flow for a policy using assumptions about expenses, losses, investment income, etc. The model uses a target ROE of 12%, and the percentage of the Office of the Superintendent of Financial Institution's (OSFI) minimum capital test (MCT) that the company aims to hold.

[8] While the test is a minimum capital test, OSFI requires companies to hold an even higher percentage of capital. To stay above this regulatory level, Intact argues that it must plan and price for an even higher ratio. Intact used almost twice the minimum capital test percentage, consistent with the prior filing for these vehicles.

[9] The Intact model determines the permissible loss ratio, which results in the net present value of the cash flows equaling zero. If the company experiences loss ratios

at this level (assuming all other assumptions are met), the company will achieve its 12% target ROE. The model produces a premium to surplus ratio of about 2:1.

[10] In recent decisions, the Board has required companies, including Intact, to lower the target ROE to 10%. This action was taken as a result of Board concerns that, as evidenced in part by the release of the 2012 and 2013 General Insurance Statistical Agency Financial Information Reports, the industry appeared to be earning returns on equity well in excess of the 12% the Board believed it was approving.

[11] The 2014-2019 versions of these reports show negative ROE for the industry. The Board believes this is a result of many companies not taking full indicated rates coupled with some deteriorating experience, possibly related to inclement weather at the start of 2015. The Board does not believe it is a result of the Board directing companies to the lower end of their profit range. As such, the Board has continued to require a 10% ROE for most companies.

[12] The 2020, 2021 and 2022 versions of the report show positive returns. Board staff advise that these results may have been driven by the reduced claims resulting from less driving during the pandemic combined with a move by companies to take premium increases.

[13] The company's use of a 12% ROE and a 2:1 premium to surplus ratio associated with the minimum capital test assumption, produces a profit provision of 7.0%.

[14] Intact noted the Board filing requirements state a reasonable return as a percentage of premium basis is 5.5% to 7.0%, assuming a 2:1 premium to surplus ratio. The company chose its percentage of MCT and 12% ROE to get a return on premium within the range.

[15] Board staff notes that the range from the Board filing requirements was developed some time ago. Since then, the tax rate in Nova Scotia has declined and the rates of return have risen.

[16] In Intact's recent private passenger vehicle matter, the Board required Intact to use a 10% ROE but allowed the company to use its selected percentage of MCT. The Board accepted evidence that lowering the percentage of MCT increases the premium to surplus ratio and reduces the profit provision expressed as a percentage of premium. As Intact is close to the common 2:1 premium to surplus ratio, requiring a lower percentage of MCT is not warranted.

[17] Intact also produced the indications using 10% ROE. The lowered ROE reduced the overall indicated return by 0.5%.

[18] Despite the small difference, Board staff recommends the Board require Intact to use a 10% ROE as input to the model to produce indications to be used as the target to assess the proposal. The Board agrees and will use the indications with all Intact assumptions except for the lowered ROE (from 12% to 10%) as the target to assess the reasonableness of the company proposal.

Proposed Rates Changes

[19] In all cases where changes are suggested, the proposed rates are in the direction of the indications, and only the magnitude differs. The smaller than indicated increases for Bodily Injury, Collision, and Comprehensive & Specified Perils, while partially offset by smaller than indicated decreases or higher than indicated increases for other coverages, produced an overall increase that is lower than indicated. As a result, the proposed changes result in a ROE that falls below the 10% recommendation.

[20] Board staff recommend the Board approve the proposed changes to base rates. The Board agrees.

USA Exposure Surcharge Changes

[21] For incidental exposure, Intact currently offers two surcharges, which differ by the number of days the vehicle has USA exposure per month. The surcharges apply to Bodily Injury & Property Damage-Tort combined, Accident Benefits, and Direct Compensation Property Damage (DCPD). The current surcharge for USA exposure of one or two days per month is half of the surcharge for three to five days per month.

[22] Intact will remove the distinction by number of days of exposure in favour of a single surcharge for Bodily Injury & Property Damage-Tort combined and will remove the surcharge entirely from Accident Benefits and DCPD. The new level aligns Nova Scotia with other jurisdictions where Intact operates. Very few policies are impacted by this change which results in a small premium reduction.

[23] Intact is expanding its willingness to insure vehicles with regular USA exposure. The company will add two non-incidental USA exposure surcharges that align with how Intact will price USA exposure by state and distance of travel within the USA. The State based surcharge will apply to Bodily Injury & Property Damage-Tort combined only and has two levels with the states assigned to each outlined in a table. Intact uses these surcharges in other provinces. The higher surcharge applies in states that are more litigious than others, warranting the surcharge.

[24] Intact will also have a surcharge based on the distance traveled in the USA. A base surcharge will be applied for USA Exposure up to 400 km. It will increase by a small amount for the next 400 km, and by the same amount for each additional 800 km

after that until an ultimate surcharge level is reached at 2,401 km. The surcharge will apply to Bodily Injury & Property Damage-Tort combined, as well as DCPD, Accident Benefits, Collision, and Family Endorsement (SEF#44). These distance-based surcharges are currently used in Ontario and were approved there in 2017.

[25] Intact notes it has no policies to which the surcharges would apply currently, so there is no impact from the change at this time. Board staff recommend the Board approve the proposed changes to USA Exposure Surcharges. The Board agrees.

Endorsement Changes

[26] Intact proposed changes to several of its endorsements. For NSEF#20 – Loss of Use Endorsement, Intact proposed the removal of its $1,500 and $3,000 per occurrence limits and the addition of a $2,500 limit. The company explained the change harmonizes its limits for this endorsement with other provinces. The premium for the new limit falls within the range formed by the current premiums for the $1,500 and $3,000 limits. For those clients who have either of the two limits that will be removed, the company will allow them to keep those levels for 12 months, after which the limit will be increased to the next higher level.

[27] For NSEF#27 – Legal Liability for Damage to Non-Owned Automobiles, Intact will add a new $150,000 limit. Any higher limits will be referred to the company to assess. As the value of vehicles increases, Intact wanted to offer higher limits. For those vehicles valued over $150,000, the premium will increase by a flat dollar amount for every additional $10,000 in value. Where the value exceeds $150,000 the deductible will be 5% of the vehicle’s value. For the stated limits, the deductible remains $500.

[28] For NSEF#27b – Legal Liability for Damage to Non-Owned Automobiles (business operations), Intact will remove its current $100,000 maximum limit and instead have higher valued vehicles referred to the company to assess. The premium will increase by a flat dollar amount of $5 for every $10,000 increase in value over $100,000.

[29] For its Limited Waiver of Depreciation endorsements (i.e., NSEF#43R/43R(L)) – Legal Liability for Damage to Non-Owned Automobiles, Intact will remove its reference to “light commercial vehicles” and replace it with “commercial vehicles up to 6,350 kg.” The change reflects the company’s increased willingness to insure heavier commercial vehicles.

[30] Board staff recommend the Board approve the proposed changes to the Intact endorsement offerings. The Board agrees.

Renewal Premium Dislocation Capping Mechanism

[31] Intact proposed to continue the use of its approved renewal premium dislocation cap that limits renewal premium increases to 10%. The cap assumes there is no material change in risk. If there is such a change, or if a coverage is removed or added, the cap would be removed, and the full premium would apply. Board staff recommends the Board approve the proposed continued use of the renewal premium dislocation cap. The Board agrees.

Other Observations on the Application

Automobile Insurance Manual Review

[32] Apart from the changes outlined in this report Intact proposed some changes to its Automobile Insurance Manual. These changes reflect Intact’s increased willingness to insure certain types of vehicles or provide clarity on the current rating rules.

[33] Board Staff reviewed the proposed changes and the manual on file and found no areas where the company appears to be in violation of the *Regulations*. Board staff recommend the Board approve the proposed changes to underwriting and rating rules and requires Intact to provide a revised manual within 30 days of the release of its Decision. The Board agrees.

III SUMMARY

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

[35] The Board finds the proposed rates are just and reasonable, and approves the changes effective April 22, 2025, for new business and May 22, 2025, for renewal business. Board staff recommend the Board approve these effective dates.

[36] The financial information supplied by Intact satisfies the Board, under Section 155**I**(1)(c) of the *Act,* that the proposed changes are unlikely to impair the solvency of the company.

[37] 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 Intact for commercial vehicles is December 1, 2027.

[38] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 18th day of February, 2025.

Jennifer L. Nicholson