

DECISION

**2024 NSUARB 105
M11659**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **PAFCO INSURANCE COMPANY OF CANADA** for approval to change its rates and risk-classification system for private passenger vehicles

BEFORE: M. Kathleen McManus, K.C., Ph.D., Member

APPLICANT: **PAFCO INSURANCE COMPANY OF CANADA**

FINAL SUBMISSIONS: May 15, 2023

DECISION DATE: **June 14, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On April 12, 2024, Pafco Insurance Company of Canada (Pafco) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposed rate changes that vary by coverage, but not territory, and result in an overall increase of 10.8%. In addition to changes to rates, the company also asked the Board to approve its adoption of the 2024 Canadian Loss Experience Automobile Rating (CLEAR) table to assign rate groups for physical damage coverages and Accidental Benefits. Finally, Pafco asked the Board to approve its proposed changes to its rating or underwriting 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 Pafco's application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

[3] Pafco applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. Since the filing of this application, Pafco received Information Requests (IRs) from Board staff. In response, Pafco filed an amended application including a revised proposal on May 6, 2024. 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 Pafco. The company reviewed the report and informed Board staff that it agreed with the recommendations and 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 Pafco 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:

- Tax rate;
- Profit provision including target return on equity;
- Proposed rate changes;
- Adoption of 2024 CLEAR table; and,
- Changes to Automobile Insurance Manual.

Tax Rate

[6] In its application, Pafco used a corporate tax rate of 31%. The corporate tax rate in Nova Scotia has been 29% since April 2020. Pafco revised its indications to use the correct tax rate.

[7] Board staff recommends the Board accept Pafco's use of the correct tax rate in its revised indications. The Board agrees.

Profit Provision

[8] The Rate Filing Requirements note that, in general, the Board finds a return on equity between 10% and 12% to be reasonable, assuming a premium-to-surplus ratio of 2:1. The Board also allows a return on premium approach to reflect profit and generally views a range of 4.0%-5.4% to be reasonable.

[9] Pafco proposed a target return on equity of 12% in its indications and a premium-to-surplus ratio consistent with prior filings to reflect profit in its rates. The resulting profit provision is 5.4% of premiums. The Pafco profit provision is at the top of the Board's range.

[10] In recent decisions approving rates for automobile insurance, the Board directed applicants to lower their target return on equity to 10%. The Board took this action because of a concern that the industry was earning returns exceeding the level the Board believed it was approving. This concern was based in part on information in financial reports released by the General Insurance Statistical Agency (GISA) in 2012 and 2013. The 2014 to 2019 GISA reports show negative returns on equity for the industry. The Board does not regard this as the result of it forcing companies to the lower end of their profit range. The negative returns are more likely because many companies did not increase rates as much as their actuarial studies suggested they should, coupled with deteriorating experience. The Board continues to require a 10% return on equity for most companies, unless they can show a different treatment is warranted. The Board notes the 2020 to 2022 versions of the report show positive returns on equity, in part due to the impacts of the pandemic.

[11] In the previous Pafco application [2023 NSUARB 99], the Board allowed the company to use a 12% return on equity. The Board felt this profit provision was sufficient to address the fact that Pafco writes vehicles that are too risky for the regular market but not so risky to warrant them being written by the insurer of last resort, Facility Association, and the associated volatility of experience for that type of business. There was no evidence to suggest the Board should alter this decision.

[12] Board staff recommends that the Board allow Pafco to continue to use 12% return on equity. The Board agrees.

Proposed Rate Changes

[13] Based on the return on equity recommendation, the Staff Indications would equal the Pafco revised indications. For all coverages, Pafco's proposed changes follow the direction of those indications except for Collision and Uninsured Automobile and Family Protection Endorsement (SEF#44). The proposal results in lower premiums than indicated for Bodily Injury, Property Damage-Tort, and Accident Benefits, and higher premiums than indicated for the remaining coverages.

[14] For Collision, while Pafco proposed a small decrease in base rates, the impact of the CLEAR table change, discussed later in this Decision, offset this reduction to produce the proposed increase. For SEF#44, the company proposed leaving the current rate unchanged despite an indication for a large decrease. The indicated change would drop Pembridge's current average premium well below the industry average premium. A large drop from the current Pembridge level, which is already close to the industry level, does not seem prudent. Because the overall proposed increase equals the indicated increase, the proposed rates would produce a return on equity of 12%, which is the allowed level.

[15] Board staff recommends the Board approve the proposed rates. The Board agrees.

Adoption of 2024 CLEAR Table

[16] Pafco currently uses the 2023 CLEAR (Canada, Collision and DCPD Combined, for Alberta & Atlantic Canada) table to assign rate groups for physical damage coverages and Accident Benefits. In this application, Pafco proposed to adopt the 2024 version of this table. The Board approved this table for use in Nova Scotia effective

December 1, 2023. Pafco provided the impact of the table change by coverage. The impact overall was small. Pafco did not off-balance the impact but allowed the change to form part of the overall rate change.

[17] Board staff recommends that the Board approve the proposed adoption of the 2024 CLEAR table. The Board agrees.

Changes to Automobile Insurance Manual

[18] Pafco proposed changes to its Automobile Insurance Manual which include, in part:

- adding a section to clarify what insurance can be bound during or before major weather events;
- declining to write a vehicle where the Vehicle Information Number (VIN) has been tampered with, is invalid or cannot be validated;
- declining to write policies where the insured or applicant willfully made a false statement in respect to a claim or material change or willfully refused to sign the application of the required forms;
- removing the maximum 30-day rental period from its NSEF#27 – Legal Liability for Damage to Non-Owned Automobiles and Providing Other Coverages When Insured Persons Drive Other Automobiles endorsement; and,
- allowing only driving experience from Canada and the USA because of a significant increase in fraudulent Letters of Experience (LOEs) in other countries. This change will only apply to new business and any existing risks with international driving experience credits will not see their policy cancelled nor will years of driving experience be changed.

[19] None of the changes to declination rules (i.e., rules by which the company chooses not to write a policy) or other underwriting rules appear to violate the *Insurance Act* or its *Regulations*.

[20] Board staff recommends the Board approve the proposed changes to the Automobile Insurance Manual. The Board agrees.

III SUMMARY

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

[22] The Board finds the proposed rates are just and reasonable, and approves the changes effective July 26, 2024, for new business and September 26, 2024, for renewal business.

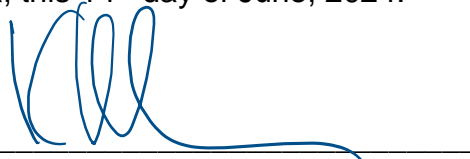
[23] The financial information supplied by Pafco satisfies the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of the company.

[24] 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 Pafco for private passenger vehicles is April 1, 2026.

[25] Board staff reviewed Pafco's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. The company must file an electronic version of its Manual, updated for the changes approved in this decision, within 30 days of the issuance of the order in this matter.

[26] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 14th day of June, 2024.



M. Kathleen McManus