DECISION | **2024 NSUARB 107**
M11685

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

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

APPLICANT: **THE PORTAGE LA PRAIRIE MUTUAL INSURANCE COMPANY**

FINAL SUBMISSIONS: May 23, 2024

DECISION DATE: **June 19, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On April 30, 2024, The Portage La Prairie Mutual Insurance Company (Portage) applied to the Nova Scotia Utility and Review Board to change its rates and risk-classification system for private passenger vehicles. The company proposes rate changes that vary by territory and coverage and result in an overall increase of 5.0%. In addition to changes to rates, the company also asks the Board to approve the adoption of the 2024 Canadian Loss Experience Automobile Rating (CLEAR) table and several modifications to the wording of its Automobile Insurance Manual.

[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 Portage's application meets these requirements and approves the company's proposed rates and risk-classification system. The Board also approves the adoption of the 2024 CLEAR table and proposed modifications to the Automobile Insurance Manual.

II ANALYSIS

[3] Portage applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, Portage 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 Portage. The company reviewed the report and informed Board staff that there were some errors in the report. Board staff revised its report and sent it to Portage who 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 Portage 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;
- Profit provision;
- Proposed rate changes;
- Territorial relativities and territory changes;
- Adoption of 2024 CLEAR table; and,
- Changes to the Automobile Insurance Manual.

Loss Trends

[6] Portage based its past or retrospective loss trend rates on a review of industry experience in Atlantic Canada from January 1, 2003, through December 31, 2022. Portage focused primarily on more recent data (2016-2022) when making its selections for most coverages. The actual accident year data used (starting point, ending point and excluded data points) to determine trend selections varied by coverage.

[7] The company used exponential regression analysis to develop the trend selections and applied its judgment to determine which model provided the best fit or best explained the observed data. Portage performed the analysis on half-year data and examined frequency, severity and loss cost. The company adjusted the data to reflect the various reforms that took place during the observation period (e.g., 2003 minor injury cap introduction, 2010 minor injury cap reform, 2012 accident benefit reform, and 2013 introduction of Direct Compensation Property Damage (DCPD)). Portage included two new variables in the models to help identify the impacts of the COVID-19 Pandemic. After

selecting past trends, Portage set future trends equal to those selections for most coverages.

[8] Oliver Wyman, the Board's consulting actuaries, examined industry data through December 2022 to select its loss trends for private passenger vehicles. Oliver Wyman examined the trends for frequency, severity and loss cost information. Oliver Wyman made its loss trend selections after examining both 5 and 10 years of data, on a half-yearly basis. For future trends, Oliver Wyman selected the most recent past trends, assuming it would continue.

[9] In developing the selections, Oliver Wyman noted the recent increase in inflation. Rather than recognizing the inflation in the loss trends, Oliver Wyman chose to include a scalar or level parameter that would increase severity for DCPD and Collision at the second half of 2021 by 9% and 10%, respectively. That is, DCPD and Collision claims before the second half of 2021 should be increased by 9% and 10%, respectively, before being trended forward with the selected loss trends.

[10] When developing indications using the Oliver Wyman trends, Portage initially did not reflect the severity shocks for DCPD and Collision. As part of the information requests process, Portage provided indications that included the severity shocks. Portage explained the difference in its trend selections and those of Oliver Wyman for Accident Benefits and Comprehensive, the two coverages where the indication differences between the company and Oliver Wyman are large.

[11] For Accident Benefits, Portage viewed the cause of the differences to be Oliver Wyman's use of loss costs directly to determine trend in contrast to Portage's approach of examining frequency and severity separately, as well as the time period

selected, and data points excluded. Portage favoured a longer time frame given the longer-term nature of the benefits and relied on its outlier test to exclude some data points rather than Oliver Wyman's judgmental approach.

[12] For Comprehensive, both Portage and Oliver Wyman examined frequency and severity separately. While the severity selections were close, the difference in frequency between Portage and Oliver Wyman was larger. Portage used a shorter experience period (i.e., the second half of 2016 through to the second half of 2022) and excluded the second half of 2021 data, which appeared as an outlier based on the company's outlier test. Portage also noted its regression model had a better fit than the models Oliver Wyman used to determine its frequency value.

[13] Board staff accepted Portage's explanation of the loss trend differences for Accident Benefits and Comprehensive and noted that the Board allowed the company to use its loss trend selection in the previous application. Additionally, Board staff supports keeping this allowance for this application. Board staff recommends that the Board allow Portage to use its own selected loss trends in the circumstances of this application only. The Board agrees.

Profit Provision

[14] 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 5%-7% as reasonable.

[15] Portage proposed a rate of return on equity of 11% in its indications and a premium-to-surplus ratio consistent with its prior filing to reflect profit in its rates. The

resulting profit provision is 5.39% which places Portage's proposed profit provision at the lower end of the Board's range.

[16] 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 believe this resulted from its requiring companies to use the lower end of the 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 GISA reports show positive returns on equity, in part due to the impacts of the pandemic.

[17] In the previous application, Portage demonstrated that it had volatile return on equity results, and volatile Nova Scotia loss ratios, for the past five years. Based on that information, the Board approved the company to use an 11% return on equity in the circumstances of that application only. Portage proposed the use of an 11% return on equity in this application because the circumstances for the company are not that different from the previous application.

[18] Board staff recommends that the Board allow Portage to continue to use 11% return on equity. The Board agrees.

Proposed Rate Changes

[19] Staff indications, which equal the Portage indications, are the recommended target against which the Board should assess the company's proposal. The proposed rate changes follow the direction of the Staff indicated changes, but are smaller than the Staff indicated changes and in many cases the difference is quite large. Portage explained that while attempting to address rate inadequacy, the company was very concerned about its steadily declining volume of business in the province since 2018. The company noted the primary reason for the decline was uncompetitive pricing. Portage chose a modest increase rather than losing more policies due to shocking increase in rates.

[20] The Board has concerns about companies not taking full indicated increases. In the recent applications, Portage chose to move incrementally towards its indicated increases. While the current proposal is a bit of a step backwards, taking a much smaller increase than indicated, the company's concern with its declining volume of business provides support for the proposal.

[21] Board staff recommends that the Board approve the proposed base rate changes, including the Health Services Levy flat dollar premium. The Board agrees.

Territorial Relativities and Territory Changes

[22] As part of its indications, Portage undertook an analysis of its territorial relativities and determined credibility weighted indicated changes as required in a mandatory filing. The analysis looked at experience for years 2018 through 2022. Based on these indications, Portage proposed new differentials, with the change for each

differential capped at +/-15% to mitigate dislocation, except for Uninsured Automobile and Family Protection Endorsement (SEF#44), where changes were capped at 0%.

[23] Board staff found that Portage supported its chosen territorial differentials and recommends the Board approve the proposed base rates by territory that result from the application of the new differentials. The Board agrees.

Adoption of 2024 CLEAR Table

[24] Portage currently uses the 2022 CLEAR table to assign rate groups for physical damage coverages and Accident Benefits. In this application, Portage proposed to adopt the 2024 table. The Board approved this table for use in Nova Scotia effective December 1, 2023. Portage identified the impact by coverage of the table change and off-balanced the impact through base rates to make the table change revenue-neutral.

[25] Board staff recommends the Board approve the proposed adoption of the 2024 CLEAR table and the associated off-balancing of the impact which staff found reasonable. The Board agrees.

Changes to Automobile Insurance Manual

[26] Portage proposed several modifications to the wording of its Automobile Insurance Manual. The company explained the revisions provide clarification of current practices without impacting rates or risk-classification.

[27] The proposed changes do not impact rates. Board staff reviewed the manual on file and the proposed revisions and did not find any areas where the company appears to be in violation of the *Regulations*.

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

III SUMMARY

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

[30] The Board finds the proposed rates are just and reasonable, and approves the changes effective October 1, 2024, for new business and for renewal business.

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

[32] 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 Portage for private passenger vehicles is May 1, 2026.

[33] Board staff reviewed Portage's Automobile Insurance Manual filed with the Board as well as the proposed changes 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.

[34] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 19th day of June, 2024.

M. Kathleen McManus