DECISION | **2024 NSUARB 113**
M11739

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **UNITED GENERAL INSURANCE CORPORATION** for approval to change its rates and risk-classification system for private passenger vehicles

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

APPLICANT: **UNITED GENERAL INSURANCE CORPORATION**

FINAL SUBMISSIONS: June 12, 2024

DECISION DATE: **June 26, 2024**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On June 3, 2024, United General Insurance Corporation (United General) 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 coverage and result in an overall increase of 2.1%. In addition to changes to rates, the company also asks the Board to approve its proposed adoption of the 2024 Canadian Loss Experience Automobile Rating (CLEAR) table and the off-balancing of the impact to make the change revenue neutral.

[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 United General's application meets these requirements and approves the company's proposed rates and risk-classification system.

II ANALYSIS

[3] United General applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (*Rate Filing Requirements*). Since the filing of this application, United General 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 United General. 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 considers that United 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:

- Premium tax;
- Profit provision (return on equity);
- Proposed rate changes; and,
- Adoption of 2024 CLEAR table.

Premium Tax

[6] As part of its expense provision, United General included a premium tax of 3% instead of the correct 4%. Board staff asked the company to provide indications using the correct premium tax, which it did. The overall indications increased slightly.

[7] Board staff recommends the Board require United General to use a 4% premium tax rate in its 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 5.3%-6.7% as reasonable.

[9] United General proposed a rate of return on equity of 12% in its indications and a premium to surplus ratio consistent with the previous application to reflect profit in its rates. The resulting profit provision is 9.0%, which exceeds the top end 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 believe this resulted from its requiring companies to use 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 GISA report show positive returns on equity, in part due to the impacts of the pandemic.

[11] When asked why the Board should not require the company to use 10% for return on equity, United General explained that, as a monoline mutual insurer, it has limited ability to raise capital or to diversify its risk. For this reason, the company believes a 12% return is appropriate. The company also used this rationale to justify its selection of a 1.5:1 premium to surplus ratio instead of the more common 2:1 ratio.

[12] United General's limited ability to raise capital or diversify risks seems to warrant a higher profit provision. The profit provision can be increased by raising the target return on equity or lowering the premium to surplus ratio. The company decided to use 12% return on equity and a lower premium to surplus ratio. United General made similar statements to support this same choice in its previous application, but the Board ordered the company to use 10% and 1.5:1 premium to surplus ratio.

[13] The combination of the 10% return on equity and a 1.5:1 premium to surplus ratio produces a profit provision of 7.1%. This profit provision should be sufficient to address the company's concerns. As such, the higher return on equity of 12% is not warranted.

[14] As requested by Board staff, United General provided indications using a 10% return on equity along with the 1.5:1 premium to surplus ratio and the corrected premium tax rate. The overall indication decreases slightly from the original United General indications.

[15] Board staff recommends that the Board require United General to use a 10% return on equity and its selected premium to surplus ratio to determine the profit provision for its indications. The Board agrees.

Proposed Rate Changes

[16] Staff Indications use the 10% return on equity assumption and the correct premium tax rate. The differences between the Staff Indications and United General's original indications are small. Despite the small difference, Board staff recommends that the Board use the Staff Indications as the appropriate target to assess the reasonableness of United General's proposal. The Board agrees.

[17] For both mandatory and optional coverages, United General proposes rates that are below the Staff indicated levels. The company explained that it is satisfied with its current growth rate. After discussions with brokers and analysing the current competitor landscape, United General made the decision to propose a smaller than indicated increase.

[18] As the proposed overall change is lower than the Staff indicated change, United General proposed rates produced a return on equity of 8.53%, which is well below the company's original 12% target and below the Board's required 10% level.

[19] Board staff finds that United General supported the proposed changes to its base rates. Board staff recommends that the Board approve the proposed rate changes. The Board agrees.

Adoption of 2024 CLEAR Table

[20] United General currently uses the CLEAR (AB Alberta & Atlantic) – Collison, Comprehensive and DCPD Separated version of the 2022 CLEAR table to assign rate groups for physical damage coverages and Accident Benefits. In this application, the company proposed to adopt the 2024 version of this table. The Board approved this table for use in Nova Scotia effective December 1, 2023. United General off-balanced the impact of the change to make the adoption of the new table revenue-neutral.

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

SUMMARY

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

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

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

[25] 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 United General for private passenger vehicles is June 1, 2026.

[26] Board staff reviewed United General's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. The company does not have to file an updated electronic version of its Manual because the proposal does not impact the Manual.

[27] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 26th day of June, 2024.

M. Kathleen McManus