DECISION **2025 NSRAB 49**
M12210

NOVA SCOTIA REGULATORY AND APPEALS BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **PAFCO 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: **PAFCO INSURANCE COMPANY**

FINAL SUBMISSIONS: May 8, 2025

DECISION DATE: **June 26, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] On April 9, 2025, Pafco Insurance Company of Canada (Pafco) applied to the Nova Scotia Regulatory and Appeals 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 2.0%. In addition to changes to rates, the company also seeks to: make changes to its territorial differentials; adopt the 2025 Canadian Loss Experience Automobile Rating (CLEAR) table; and make changes to the Automobile Insurance Manual, including 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 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 and responded to Information Requests (IRs) from Board staff and filed a revised application based on the IR process. 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 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 one

issue. Board staff consider Pafco satisfactorily addressed all aspects of the ratemaking procedure in its application and IR responses.

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

- Profit provision including target return on equity;
- Proposed rate changes;
- Changes to Territorial Differentials;
- Adoption of 2025 CLEAR Table; and,
- Changes to Automobile Insurance Manual.

Profit Provision

[6] 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.

[7] 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.

[8] In the previous Pafco application [2024 NSUARB 105], 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.

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

Proposed Rate Changes

[10] Based on the return on equity recommendation, the Staff Indications would equal the Pafco revised indications. Board staff recommend that the Board use the Pafco indications as the appropriate target to use to assess the reasonableness of the proposed changes. The Board agrees.

[11] For all coverages, Pafco proposed changes that are in the direction of the indicated change, but the size of the changes differ. For all coverages except Direct Compensation Property Damage (DCPD) and Collision, the proposed changes result in rates that are larger than indicated, while the opposite is true for these two coverages. While there is a small subsidy from mandatory coverages to optional coverages, the size of that subsidy does not warrant Board intervention.

[12] For Family Protection Endorsement (SEF#44), the company proposed leaving the current rate unchanged despite an indication for a large decrease. The indicated change would drop Pafco's current average premium well below the industry average premium. A large drop from the current Pafco level, which is already close to the industry level, does not seem prudent.

[13] The overall proposed increase is smaller than the overall indicated change. As a result, the proposed rates would produce a return on equity of below the allowed 12. Board staff recommend the Board approved the proposed changes to the base rates. The Board agrees.

<u>Territorial Definitions and Differentials</u>

[14] Pafco proposed no changes to its Territory definitions, but did propose changes to its territorial differentials.

[15] The company conducted an analysis of its territorial differentials. Pafco compared the combined ratios for each territory to the overall combined ratios for each coverage that uses Territory as a rating variable. After applying credibility weights to those relationships and using the current differentials as the complement of credibility, Pafco produced the indicated differentials. Using these indications and after considering the company's competitiveness (as measured by sales and quotes distribution), Pafco selected the proposed differentials by territory and coverage. The deviations from the indicated differentials were generally small. The analysis performed seems reasonable, as do the selected changes. Pafco did not off-balance the impact of the proposed changes but instead let them flow through to the overall proposed change.

[16] Board staff recommend the Board approve the proposed changes to territorial differentials. The Board agrees.

<u>Adoption of 2025 CLEAR Table</u>

[17] Pafco currently uses the 2024 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 2025 version of this table. The Board approved this table for use in Nova Scotia effective December 1, 2024. Pafco provided the impact by coverage of the table change. The impact overall was small. Pafco did not off-balance the impact but allowed the change to form part of the overall rate change.

[18] Board staff recommends the Board approve the proposed adoption of the 2025 CLEAR table. The Board agrees.

<u>Changes to Automobile Insurance Manual</u>

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

- requiring a motor vehicle report for all operators for new business with a requirement that the report must have been ordered within the last 30 days instead of the last 90 days. This change aligns the process with other provinces and with broker requirements.
- adding a declination rule for refusal to provide a correct driver's license for any operators. Also adding another declination rule for refusal to provide any required information needed to rate the risk properly, or withholding critical information for determining acceptability of the risk or material misrepresentation or failure to sign the application or any required form.
- adding a rule to allow for termination or rejection of a policy if it has been in effect for up to 60 days and Pafco has not received a vehicle inspection report within 30 days of it being requested of the insured, or the insured advises the requested report will not be provided. This rule allows Pafco to decline to cover a vehicle when it cannot pass an inspection. Pafco will also add a rule to decline coverage under these circumstances.
- no longer accepting premium payments via credit card and removing references to it in the manual. While current clients paying by credit card will be allowed to continue to do so, no new credit card payment plans will be allowed.
- not considering a lapse in coverage of 24 months or more as a ratable lapse if that lapse is a result of the insured being deployed outside of Canada on active military duty as long as they seek insurance within 60 days of their return to Canada.

[20] 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*.

[21] Board staff recommends the Board approve the proposed changes to the underwriting rules. The Board agrees.

III 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 August 3, 2025, for new business and September 26, 2025, for renewal business.

[24] 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.

[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 Pafco for private passenger vehicles is April 1, 2027.

[26] 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.

[27] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 26th day of June, 2025.

M. Kathleen McManus