

DECISION

**2026 NSRAB 37
M12446**

NOVA SCOTIA REGULATORY AND APPEALS BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

IN THE MATTER OF AN APPLICATION by **FACILITY ASSOCIATION** for approval of amendments to its existing rates and risk-classification system for private passenger vehicles

BEFORE: Julia E. Clark, LL.B., Vice Chair

APPLICANT: **FACILITY ASSOCIATION**

FINAL SUBMISSIONS: January 23, 2026

DECISION DATE: **March 19, 2026**

DECISION: **Application is approved with directions.**

I INTRODUCTION

[1] Facility Association (Facility) applied to the Nova Scotia Regulatory and Appeals Board to change its rates and risk-classification system for private passenger vehicles. Facility proposes changes to base rates that vary by coverage, but not territory, and seeks an overall increase of 11.0% that is equal to the rate level indication in its application. In addition to base rate changes, Facility proposed to expand the Class rating variable to Accident Benefits and Uninsured Automobile coverages, and to expand the Driving Record rating variable to Uninsured Automobile.

[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 Facility's application meets these requirements and approves the company's proposed rates and risk-classification system with the directions issued in this decision.

II BACKGROUND

[3] Facility applied under the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval (Rate Filing Requirements)*. The Board determined that it would consider the matter in a paper hearing process and issued a Hearing Order setting out a timeline for the application. Public Notice was published on the Board's website and in the Chronicle Herald and Cape Breton Post on September 27, 2025, inviting requests to intervene and public letters of comment. The Board did not receive any intervenor requests or letters of comment.

[4] Board staff engaged the Board's consulting actuary, Oliver Wyman Ltd., to review the application and prepare a report with recommendations on Facility's proposal, which was filed on December 19, 2025, after an exchange of information requests (IRs) between Oliver Wyman, Board staff, and Facility. Facility then submitted and received responses to IRs from Oliver Wyman, followed by Facility's final rebuttal evidence on January 12, 2026. Board staff then 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 Facility. Aside from the correction of an editorial error, Facility informed Board staff that it had no further comments on the recommendation.

[5] Facility is not a typical insurer. It is an association in which all providers of automobile insurance in Nova Scotia must participate, as required by the *Insurance Act*. Facility describes its role as guaranteeing the availability of automobile insurance to those eligible to obtain it through the administration of automobile insurance residual market mechanisms. The Facility Association Residual Market acts as a "market of last resort". In other Canadian jurisdictions with compulsory automobile insurance requirements, Facility operates the same way. It insures approximately 11,900 private passenger vehicles in Nova Scotia.

III ANALYSIS

[6] The Board reviewed the evidence, including the application, the questions posed by Board staff and its consulting actuaries, and the responses from Facility, as well as the questions to Oliver Wyman from Facility, those responses, and Facility's rebuttal

evidence. The Board accepts the expertise of Facility's actuaries who prepared the filing, as well as the expertise of the Board's consulting actuary, Oliver Wyman.

[7] Board staff examined the evidence and all aspects of the ratemaking procedure to make the recommendations in the Staff Report. The materials from the record raised several issues staff referred to the Board to consider and determine. The Board will examine and discuss each of those issues in this decision:

- Indications:
 - Loss Trends;
 - Health Services Levy;
 - Tariff Provision;
 - Servicing Carrier Operator Costs and Fees;
 - Premium Financing Fees; and
- Changes to Rating Variables

For the following reasons, the Board accepted the staff indications as the value against which to judge Facility's proposal. These indications use Facility's assumptions except for the 2024 value for Health Services Levy, which replaces the value used by Facility.

Loss Trends

[8] Loss trends are assumptions that measure the annual rate of change of past and future claims costs over time. A company's selection of loss trends requires an analysis of experience data and the application of professional judgment to select trend rates that reasonably reflect the rates of change of past experience and are reasonably predictive of future rates of change for each coverage.

[9] Oliver Wyman reviewed the loss trends selected by Facility and accepted them as reasonable, other than for Direct Compensation Property Damage (DCPD).

Based on an estimate of +4.5% for severity trend and a frequency trend estimate of +1.7%, Facility estimated the loss cost trend at +6.3%.

[10] While accepting Facility's severity trend estimate, Oliver Wyman observed that Facility's frequency model included data starting from 2004, while DCPD was not introduced in Nova Scotia until 2013. Oliver Wyman was concerned about the frequency trend estimate of +1.7% resulting from that model, noting that its own review of data following the introduction of DCPD in Nova Scotia suggests a flatter frequency trend. Oliver Wyman presented an alternate model recognizing that pattern, producing a frequency trend of 0.0%. Using Facility's severity trend estimate and Oliver Wyman's frequency selection of 0.0% would amount to a +4.5% loss trend for an overall impact of -0.9% in the indications.

[11] Facility argued that Oliver Wyman's evidence did not demonstrate that its approach was unreasonable, only that it preferred an alternate model. Facility also noted that it uses indemnity only data for its models, while Oliver Wyman uses data that includes indemnity and allocated adjustment expenses. The Board has addressed this in past cases including in Board decision 2014 NSUARB 175. There is no additional evidence raised in this matter that this difference in practice would markedly impact trend estimate or selections from either party.

[12] Facility noted that including data from prior to DCPD reform provides more data and reduces the impact of small sample sizes. Its DCPD and Property Damage-Tort frequency model identifies the introduction of DCPD and separately modeled the pre- and post- DCPD reform. The model has an Adjusted R² value of 0.9722, which is higher than

the alternate model suggested by Oliver Wyman. This means there is a higher correlation between the observed data and the trend in Facility's model.

[13] Board staff noted that Facility excluded a high data point for 2015 based on its analysis that the point is an outlier. The Board noted in a past decision on Facility's rates (2021 NSUARB 119) that the first half of 2015 included bad weather events and saw an increased frequency of accidents. Board staff's view is that the exclusion of the 2015 data point from the frequency model is reasonable. This appears to be the most prominent difference between the two models, as indicated by Oliver Wyman, and is a question of judgment. The Board finds Facility's approach reasonable. Board staff recommend allowing Facility's estimate of the DCPD frequency and loss trends in these circumstances.

[14] The only concern identified by Oliver Wyman was the loss trends for DCPD. There was no disagreement on the loss trend estimates for other coverages. Nevertheless, the Board's role is to determine whether the selections and the resulting outcomes are just and reasonable. The Board has no evidence to suggest that the other loss trend estimates are unreasonable, and Board staff recommended the Board rely on Facility's loss trend estimates to develop the indications, including the DCPD loss trend.

Health Services Levy

[15] Facility used a value of \$42.70 for the Health Services Levy, relying on the General Insurance Statistical Agency (GISA) Exhibit AUTO1005-ATL for 2023, which was the most recent exhibit available when Facility was preparing the application. The 2024 version of that GISA exhibit indicates that the levy should be \$49.58. Oliver Wyman and Board staff suggest that the indications should use the most recent value of the Health

Services Levy. The Board agrees, as it did in the recent decision in *Co-operators General Insurance Company*, 2025 NSUARB 39. The use of the 2024 Health Services Levy value would increase the overall indication by 0.4%.

Tariff Provision

[16] In developing its indications, Facility included a 3.0% tariff adjustment on physical damages coverages in response to the current tariffs imposed by the United States government and the retaliatory tariffs imposed by the Canadian government. Facility noted that the United States imposed tariffs on Canadian goods that have significant implications for trade and costs of consumer goods. During preparation of the filing in 2025, Facility noted the following tariffs that it said will or may have impacts on automobile insurance claims, especially physical damage claims:

- 25% tariff on most Canadian imports not covered under the Canada-United States-Mexico Agreement (CUSMA);
- 50% tariff on steel, aluminum and related products; and
- 25% tariff on automobiles and parts that do not meet CUSMA rules.

[17] Because of the time it takes to develop credible experience data, the impact of tariffs is not yet observable in the data. Facility's view is that tariffs are actually impacting current claims because the costs of parts for repairs and replacement vehicles are increasing due to the tariffs. Facility indicated that claim costs for non-physical damage coverages may also be impacted, but its concern was principally the physical damage coverages. Facility said that failing to reflect any tariff impact in its rates would leave Facility underpriced. To address this, it proposed what it said was a conservative 3% tariff provision to physical damage coverages - DCPD, Collision, Comprehensive and Specified Perils.

[18] Facility estimated that 20% of claims costs come from total losses, which require replacement vehicles, and 80% from repairs which require parts and service. For each portion, Facility estimated the tariff impacts, as follows:

Repair Costs:

- For repair costs, Facility determined the share of auto parts imported to Canada from the US and determined that 43.4% of parts are potentially subject to tariffs;
- After applying the 25% tariff on the portion of parts it determined would use steel or aluminum, Facility estimated US Steel and Aluminum tariffs will have an 18% overall impact on parts costs;
- Facility determined the impact of tariffs on US parts made with foreign content to add 4% to the cost of those parts;
- Adding these impacts and multiplying against the 43.4% of parts potentially subject to tariffs, results in a repair cost severity increase of 5.7%;

Total Loss/Replacement Vehicles:

- For total loss/replacement vehicles, Facility determined the market share of vehicles broken down into the following categories:
 - made in Canada;
 - imported from US or Mexico under CUSMA;
 - imported from other countries; and
 - imported from US outside of CUSMA.
- For the vehicles imported from the US outside of CUSMA, Canada applies a retaliatory tariff of 25%. Facility determined the contribution to higher total loss costs by multiplying the market share of those vehicles;
- For the other categories, Facility determined a trickle-down tariff impact per category and multiplied that by the market share, resulting in a 3.2% contribution to higher claims severity for total losses of those vehicles.
- Adding the trickle-down impact and the retaliatory tariff impacts results in a total loss cost impact of + 7%.

[19] By weighing the repair cost impact (5.7%) and the total loss impact (7%) by 80% and 20%, respectively, Facility estimated the combined impact on severity is 6%. Facility noted that, based on the volatility of its assumptions, a range of 4-8% would be reasonable. Because of unknown variables and other factors that could impact the

estimates, Facility elected to temper the severity increase by using only 50% of the impact, lowering the selection to 3%, which it used in developing its indications.

[20] Oliver Wyman acknowledged that the interconnected Canada-US trade and manufacturing relationships impact the automobile industry. However, Oliver Wyman felt that the relationship between US tariffs and auto parts costs used in Canadian collision repairs was more complex than Facility's calculations portray. Oliver Wyman recommended the Board reject the 3% tariff impact because of the significant uncertainty around the ongoing use of tariffs and their true impacts. Removing the provision would lower the overall indications by 1.3%.

[21] In rebuttal evidence, Facility noted that despite the uncertainty, recent patterns demonstrate that tariff levels have settled at higher rates. It underscored that an actuary's role is to estimate and price for future events, which involves quantifying for uncertainty. It argues their predictions are made on the best information available.

[22] Facility justified its calculations of the potential impact of tariffs, while acknowledging that the assumptions do not account for all of the unknown variables that might impact the estimates. Board staff note that the United States increased the tariff on aluminum and steel to 50% on June 4, 2025. Canada has removed the 25% retaliatory tariffs on CUSMA-related products, and potential legal challenges may change the impact of tariffs over time. These "point in time" calculations do not account for future government or manufacturers' interventions.

[23] However, the province's prior approval system requires insurers to submit their rate proposals for the Board's review before they can implement any rate changes. Under this model, insurers must justify their proposed changes with the supporting data

and detailed actuarial analysis available at the time of filing. This assessment is also a “point in time” process. Facility’s rate application occurs at a time where there is a reasonable expectation of impacts from cross-border tariffs but uncertainty about the overall effect.

[24] Removing the tariff provision as recommended by Oliver Wyman would reduce the overall indications by 1.3%. However, Facility also notes that it incorporated a tariff provision that is lower than the minimum its evidence indicates is warranted. Stronger impacts of inflationary factors and tariffs risk worsening Facility’s under-recovery if the tariff provision is eliminated and rates are lowered to match the indications. However, to account for the uncertainty, Facility elected for a conservative approach, taking 50% of the level calculated for tariff impact. The Board finds this reduction helps address the uncertainty underpinning the assumptions and the reliance on judgment rather than clear trend evidence.

[25] The Board’s role is to ensure that rates are just and reasonable. The Board finds that based on the information in this application, it is reasonable to include a 3% tariff provision in Facility’s indications until such time as (a) tariffs are modified or removed, or (b) the experience data demonstrates the impact (if any) of tariffs on claims costs. In the event the tariffs relied on in Facility’s application be permanently removed within six months of this decision, Facility must, within two months of the date of the tariff removal, file a Section 155B Overall Decrease application to remove this provision from rates. In addition, the Board directs Facility to collect and report to the Board on the impact (if any) of tariffs on claims costs in its experience data in or before its next mandatory application for private passenger vehicles.

[26] The Board also directs Facility to quantify the impact of the tariff provision on each coverage that it impacts, providing the Board with the difference between the indications (at 11% Return on Equity) with and without the tariff provision, within 15 days of the Board's order in this matter.

Servicing Carrier Operating Costs and Fees

[27] Under its "Plan of Operation," which is required under the *Insurance Act*, Facility has entered into agreements with companies who operate as servicing carriers to administer automobile insurance policies using Facility's rates. The servicing carriers are responsible for all aspects of administering a policy, including collecting premiums, issuing policies and renewal documents, and processing, adjusting and paying claims.

[28] Facility's Plan of Operation sets out the details of how servicing carriers are compensated. It establishes compensation terms including 9% of written premiums (including commissions) for servicing carrier operating costs and a 1% servicing carrier fee. Facility's calculations for its indicated rate level needs include these costs and fees for a total of 10%. The operating costs exclude claims expenses, which are reimbursed in Nova Scotia at 12% of earned premium.

[29] In an earlier decision (2023 NSUARB 215) the Board noted that Facility's arrangement had recently been reduced to a single servicing carrier. At that time, Facility provided information suggesting that the actual servicing carrier operating costs were lower than the allowances established in the Plan of Operation. The Board asked Facility to file additional information on its operating costs under the single servicing carrier model, which Facility provided in the current application.

[30] In response to Board IR-7, Facility broke out the Nova Scotia information on the servicing carrier's expenses for the years 2022-2024. That response suggests that the actual servicing carrier costs averaged lower than 10% over those three years. Facility said that this average does not capture all elements that the 10% servicing carrier operating costs and fees provision of the Plan of Operation is intended to cover.

[31] Facility argued that the 10% reimbursement allocation remains appropriate for Nova Scotia. First, Facility said the calculated costs include ongoing IT maintenance, but do not include any amount for investment in IT software and hardware for service enhancements. Facility outlined a planned annual investment for this category of service. In addition, Facility notes that the servicing carrier should be allowed some amount of return, or profit, for administering the business. It says a three-year period may not be the most appropriate term to assess whether the compensation is reasonable, because the servicing carrier operating costs and fees were established at a level intended to be fair and reasonable over the long term. Facility also noted its obligation, under the Plan of Operation, to pay the 10% value whether or not the servicing carrier's costs exceed or fall below that level. The Plan of Operation is signed by the superintendents of insurance across the jurisdictions where Facility operates and is required under the *Act*.

[32] Oliver Wyman suggested that the Board should lower Facility's estimate for servicing carrier operating costs and fees from 10% to a level consistent with the estimate of the average operating costs for Nova Scotia over the past three years. Oliver Wyman also asserted that current policy holders should not be burdened with the potential expense of IT modernization investments because the benefit of those investments will not be realized for some time. Facility responded that those investments are not aimed at

growing the business. They are intended to better service its current customers while keeping the residual market as small as possible.

[33] Facility explained that it is currently developing an independent rating engine that is designed to: centralize and automate ratings; ensure consistency and accuracy; and integrate with broker and carrier systems. Facility said:

We note that ongoing IT investments of varying scales are common practice across the insurance industry to improve efficiency and effectiveness to better serve customers and those costs are typically included in expenses assumptions in insurers' rate filings. For FA, IT investments are planned in upcoming years by our Servicing Carrier to improve efficiency in administering FA policies. If the actual costs exceed the Servicing Carrier Operating Cost, FA will not reimburse the Servicing Carrier for any expenses beyond those outlined in the Plan of Operations. In future rate filings, FA will continue to reflect only the Servicing Carrier Cost paid to the Servicing Carrier to FA, rather than the actual costs the Servicing Carrier incurred.

[Exhibit F-13, pp. 8-9]

[34] Facility also argued it was inappropriate to evaluate these costs over the short term, as the operating costs are intended to be established a level suitable for the long term. Further, that the expense ratio paid by Facility is in line with the expense ratios generally reported in the standard market. However, as standard market companies are not required to provide service to all vehicle classes to every segment of the market, Facility said it was reasonable to assume its servicing carrier costs would be higher. Facility compared its 10% provision to industry using available data for 2021 and 2022, the best available comparisons. While 10% was higher than the weighted industry average, it was within the 80th percentile.

[35] Board staff recommended that Facility continue to use the existing servicing carrier costs and fee level of 10%. Based on the evidence in this proceeding, the Board agrees.

[36] In response to Board IR-2, Facility noted that it does not have a specific schedule by which it must review the servicing carrier costs and fees set out in the Plan

of Operation. The levels were last reviewed, approved and made effective for February 1, 2003. The Board urges Facility to continue its review the cost reimbursement levels, given that they are over 20 years old and technology has changed significantly in that period. If warranted, Facility should consider changes to the Plan of Operation and address this issue with the Superintendent of Insurance. Nevertheless, the Board's role is to determine whether Facility's proposed rates are just and reasonable. Facility must justify the expenses on which it bases its rates. The Board directs Facility to continue to compile data on the servicing carrier operating costs, including any planned IT maintenance costs, and to provide this information in its next mandatory private passenger filing. The Board expects Facility to also provide support for a reasonable profit to be earned by the servicing carrier.

Premium Financing Fees

[37] Facility's servicing carrier offers premium financing to its customers, allowing a customer to pay the premium in installments and collecting a fee for doing so. Oliver Wyman notes that Facility's rate indication does not consider these installment fees. For standard companies, the Board expects the extra revenue from these fees to be reflected in the indications either as direct revenue or by reducing variable expenses. Oliver Wyman noted Facility's data suggest a premium financing fee of 2.42% of written premium. After an adjustment for costs associated with running that program, Oliver Wyman suggested Facility should reduce variable expenses by 2% to offset the fees.

[38] Facility argued that finance fees account for credit risk and do not form part of the insurance premium:

In this particular case, the service is effectively the provision of a loan to a policyholder in the amount of the insurance policy premium, with loan repayment scheduled over the course of the policy term. The direct costs incurred by the loan provider include the direct

costs of administering the program, and the uncertainty of the cash flows reflect the credit risk that is borne by the loan provider (i.e. that the loan is not repaid either on time, or completely), and the investment income opportunity costs of the funds (the investment income that could have been earned on the funds had they not been used in providing a loan on behalf of the policyholder). This is no different that if the insured went to a premium finance company to finance the premium. It is not part of the insurance premium as it is a loan to finance the premium.

[Exhibit F-10, p. 10]

[39] The issue of higher premium financing arose in a past decision (2019 NSUARB 15) issued after an oral public hearing on private passenger and taxi rates. At that time, the Board found that the premium financing is a financial service between the servicing carrier and the policy holder, and Facility did not handle or receive any of the finance fees. The policy holder is buying a service where the servicing carrier pays the upfront cost of the full-year premium to Facility, which it then collects, along with the financing fee, from the policy holder over the course of the year. Facility reiterated in its reply evidence that it does not directly engage with the customer to offer premium financing.

[40] The Board accepted the premium financing fee arrangement as equivalent to a third-party financing arrangement, and accepted Facility's approach of applying no offset for premium financing fees, stating at para. 59:

The Board accepts the Facility approach of applying no offset for premium financing fees and does not require Facility to make any adjustment for the financing fees collected by its Servicing Carriers for taxis and private passenger vehicles.

Nothing has changed in this regard. The Board finds no cause to revisit its earlier decision and does not require an adjustment to Facility's indications to offset premium financing fees.

Comparison of Proposed Rates to Indicated Rates

[41] Facility's proposed rate changes produce rates equal to its alternate indications (using the Board-approved ROI of 11%) for all coverages:

Coverage	Proposed Change	Indicated Change
Bodily Injury	+25.7%	+25.7%
Property Damage-Tort	-4.7%	-4.7%
Direct Compensation Property Damage (DCPD)	-9.1%	-9.1%
Accident Benefits	-10.1%	-10.1%
Uninsured Automobile	-4.2%	-4.2%
SEF#44	-4.2%	-4.2%
Collision	+9.6%	+9.6%
Comprehensive	+16.2%	+16.2%
Specified Perils	+8.0%	+8.0%
Total All Coverages	+11.0%	+11.0%

[42] With the changes to the Health Services levy to use the 2024 value, the total all coverages indication would increase by 0.4%. Given this results in negligible changes by coverage, the Board does not require any changes to the rates. Facility estimates that the proposed rates would produce a return on equity at the 11% target resulting in a 6.1% profit provision.

[43] Board staff recommend the Board approve the rate changes. The Board finds that the proposed rates are reasonable and approves them.

Changes to Rating Variables

[44] Facility, like other insurers, uses characteristics of vehicles and drivers to determine the premium to charge a client. These are “rating variables.” The premium is determined by applying differentials to each segment within a variable.

[45] In this application Facility proposed to expand the use of its Class rating variable to Accident Benefits coverage, and to expand its Class and Driving Record rating variables to Uninsured Automobile. These changes support its goal to simplify and harmonize rating rules across the provinces where it operates.

[46] Facility will set the initial differentials for the rating variables at 1.00, resulting in no immediate impact on rates. Oliver Wyman offered no comments on this aspect of

the application. Board staff recommend the Board approve the expansion of the Class and Driving rating variables as proposed in the application. The Board approves the request, with the caution that, prior to changing the differential to any value but 1.00, Facility must file an application including supporting rationale for why the variables should be applied to these coverages and explanations and support for its proposed differentials.

IV SUMMARY

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

[48] The Board finds the proposed rates are just and reasonable and approves the changes effective 100 days from the date of the Board's order approving the revised rates for new business and renewal business, rounded to the first of the following month. This results in an effective date of July 1, 2026.

[49] The Board issued the following directions:

- Facility must quantify the impact of the tariff provision on each of coverage it impacts in this application, providing the Board with the difference between the indications (at 11% Return on Equity) with and without the tariff provision, within 15 days of the Board's Order in this matter;
- Facility must collect and report to the Board on the impact (if any) of tariffs on claims costs in its experience data in or before its next mandatory application for private passenger vehicles;
- Facility must continue to compile data on the servicing carrier operating costs, including any planned IT maintenance costs, and to provide this information in its next mandatory private passenger filing, with support for a reasonable profit to be earned by the servicing carrier.

[50] Because Facility is not an insurance company but is supported by member insurance companies doing business in Nova Scotia, it does not provide any financial information. However, recent mandatory filings of its member companies have satisfied

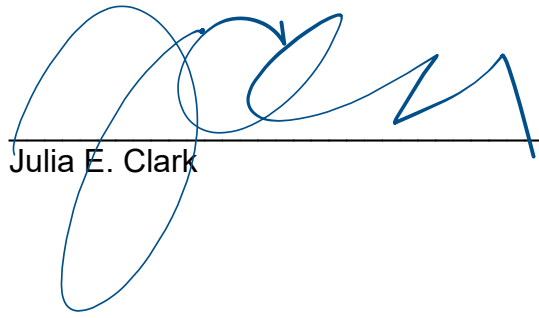
the Board, under Section 155I(1)(c) of the *Act*, that the proposed changes are unlikely to impair the solvency of Facility's member companies.

[51] 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 Facility for private passenger vehicles is August 1, 2027.

[52] Board staff reviewed Facility's Automobile Insurance Manual filed with the Board and did not find any instances where the Manual contravened the *Act* and *Regulations*. The company did not propose any changes to its Manual other than its rates. The company must publish an electronic version of its Manual, updated with the rate changes approved in this decision, by the effective date of the rate changes.

[53] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 19th day of March 2026.



Julia E. Clark