DECISION **2025 NSUARB 54**
M12059

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT

- and -

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

BEFORE: Jennifer L. Nicholson, CPA, CA, Member

APPLICANT: **ECHELON INSURANCE**

FINAL SUBMISSIONS: February 7, 2025

DECISION DATE: **March 24, 2025**

DECISION: **Application is approved.**

I INTRODUCTION

[1] Echelon Insurance 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 5%. In addition to changes to rates, the company also asked the Board to approve its adoption of the 2025 CLEAR Table and the proposed changes to two endorsements.

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

II ANALYSIS

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

issues. Board staff consider that Echelon satisfactorily addressed all other aspects of the ratemaking procedure in its application and IR responses.

[5] Based on Board staff's review of the filing, further discussion is required for (a) the profit provision, (b) the Health Services Levy, (c) the complement of credibility and (d) the effective dates. Echelon resolved any other issues raised during the information request process.

Profit Provision

[6] Echelon used a model that starts with a target return on equity (ROE) and an assumed premium to surplus ratio to develop a target underwriting profit provision and to determine the Board's profit provision. Echelon used a 12% ROE and a premium to surplus ratio of 1.78:1. Using these inputs produces an 8.3% profit provision, which falls outside the Board's range of 5.5% to 7%.

[7] The Board generally requires insurance companies to use a target ROE of 10% unless the company can demonstrate it differs from the industry. This was decreased from the industry norm of 12% more than a decade ago due to excessively high profits.

[8] Echelon explained that as a non-standard insurer, the company insures drivers that standard market carriers do not want to insure due to inexperience or a poor driving record. Echelon believes it should attract a higher return than standard carriers because it takes on these higher risks.

[9] To account for this higher risk and increase of the profit provision, Echelon could use the higher 12% ROE target or use a premium to surplus ratio below the standard 2.0:1. In its application Echelon applied both elements, creating a higher profit provision than the Board has allowed for Facility Association. Facility Association is the

insurer of last resort and should insure higher risks than the non-standard policies that Echelon seeks to write.

[10] Under similar circumstances in Echelon's last application, the Board, in 2023 NSUARB 34, ordered Echelon to use a target ROE of 11% and a 2:1 premium to surplus ratio to produce its indications. Board staff recommend the Board require Echelon to use the same ROE and premium to surplus ratio in this filing. The Board agrees.

Health Services Levy

[11] In its indications, Echelon used a Health Services Levy amount of $42.70 per vehicle which it obtained from an outdated 2023 General Insurance Statistical Agency exhibit.

[12] The Health Services Levy estimated for 2024 is $49.58 per vehicle.

[13] Board staff recommend the Board require Echelon to reflect the higher Health Services Levy and the Board agrees.

Complement of Credibility

[14] When its data is not 100% credible, Echelon assigns the remaining credibility to its selected complement of credibility, which starts with the unused, or residual, indications from the previous application and applies the net of loss cost trends and premium trends to bring the residual indications to the current level. This methodology is commonly used by other companies.

[15] When developing the complement, Echelon used its original indications from the previous filing. However, in that proceeding the Board required changes to the assumptions to assess the reasonability of the proposed rates. These Board-approved

indications are the ones to be used when determining the complement of credibility using the Echelon methodology.

[16] Replacing the Echelon indications with the Board-approved indications in the complement, results in a significant decrease in the overall indication.

[17] Board staff recommends the Board require Echelon to use the Board-approved indications from the previous filing when developing the complement of credibility for this filing. The Board agrees.

Effective Dates

[18] Echelon noted that its indications varied if the effective dates changed. Echelon based its indications on the assumption its proposal would be effective on March 1, 2025, for new business and May 1, 2025, for renewal business. Given the timing of the filing of its application, these dates were not achievable.

[19] Echelon suggested revised effective dates of July 1, 2025, for new business and September 1, 2025, for renewal business.

[20] Board staff recommends the Board require Echelon to use these suggested revised effective dates when developing its indicated rate level needs. The Board agrees.

Comparison of Proposed Rates to Recommended (Staff) Indications

[21] For those coverages where Echelon proposed changes, the proposal follows the direction of the staff indicated changes, but the sizes of the proposed changes are lower than indicated. The proposal results in lower than indicated rates for these coverages.

[22] Echelon said the proposed rates would produce a negative ROE of about 4%. This level is well below the low end of the Board’s range and the 11% Board staff

recommends the Board should allow. When asked why the company chose to only take a portion of the indicated increase, Echelon noted that its volume of business had declined over the past three years, during which time it took two rate increases (2021 and 2023) that may have reduced client retention. Echelon introduced a credit-related variable in early 2024 and wants to assess the impact of that change before making large increases in rates. This approach balances affordability with the need to monitor ongoing developments with the portfolio.

[23] Echelon supported its proposed rates. Board staff recommends the Board approve the proposed changes. The Board agrees.

Other Observations

CLEAR Table Change

[24] To assign rate groups for physical damage coverages and Accident Benefits, Echelon currently uses the 2024 CLEAR (Canada, Collision, and Direct Compensation Property Damage combined). The company proposed the adoption of the 2025 version of this table.

[25] Echelon off-balanced the adoption of the new CLEAR Table to make the change revenue-neutral. The off-balance calculations look reasonable.

[26] Board staff recommends the Board approve the introduction of the 2025 CLEAR Table and the associated off balancing of the impact of the table change. The Board agrees.

Endorsement Changes

[27] With the stated goal of better serving its clients, Echelon proposes changes to two of its endorsements to expand the coverage available. Echelon will add two new

maximum coverage limits to its NSEF#20 – Loss of Use endorsement. This endorsement provides for expenses to cover rental of a substitute vehicle, including taxis and public transportation, where the client has lost use of the insured vehicle due to a collision or another insured peril. Echelon offers a maximum limit of $900 for such expenses. Recognizing the higher costs of rental vehicles and the longer repair times, Echelon will add $1,200 and $1,500 maximum amount options. These new levels allow the client to select an appropriate level for their circumstances. Echelon based the premiums for the new levels on the relationship of the premium to coverage for its current level.

[28] Echelon will also add a new maximum limit to its NSEF#27 – Legal Liability for Damage to Non-Owned Automobile(s) endorsement. This endorsement extends the physical damage coverage under the policy to cover a non-owned vehicle when the insured agrees to be responsible, or is responsible by law, for damage to it. Instead of having only a $30,000 maximum value, Echelon will add a $50,000 option. Echelon based the premiums for the new level on the relationship of the premium to coverage for its current level.

[29] Echelon supported its changes to its endorsement offerings. Board staff recommends the Board approve the proposed expansion of coverage and the associated premiums for these two endorsements. The Board agrees.

III SUMMARY

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

[31] The Board finds the proposed rates are just and reasonable, and approves the changes effective July 1, 2025, for new business and September 1, 2025, for renewal business.

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

[33] 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 Echelon for private passenger vehicles is January 1, 2027.

[34] Echelon proposes no changes to its Automobile Insurance Manual, apart from those required to implement the proposed endorsement changes.

[35] Board staff reviewed Echelon'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.

[36] An order will issue accordingly.

DATED at Halifax, Nova Scotia, this 24th day of March, 2025.

Jennifer L. Nicholson