New Brunswick Insurance Board

DECISION

IN THE MATTER:
Of a rate revision application for the Facility Association
With respect to automobile insurance rates for
Taxis and Limousines

Written Hearing by videoconference held:

September 23, 2020
Written Hearing

PANEL:	Ms. Marie-Claude Doucet, LL.B.	Chair
	Ms. Francine Kanhai	Member
	Ms. Elizabeth Turgeon, LL.B.	Member

APPEARANCES:

Applicant: **Facility Association**

Decision Rendered: October 27, 2020

Summary

[1] The Applicant, Facility Association, (the "Applicant" or "FA") filed a rate revision application (the "Filing"), requesting approval for a proposed average rate change of 0.0%, based on an indicated average rate increase of 10.5% for automobile insurance rates for Taxis and Limousines in New Brunswick.

[2] Pursuant to subsection 267.5(1) of the *Insurance Act,* R.S.N.B., 1973 c. I-12 (the "*Act*"), the New Brunswick Insurance Board (the "Board") convened a Panel of the Board (the "Panel") and conducted a written hearing (the "Hearing") on September 23, 2020.

[3] Both the Office of the Attorney General ("OAG") and the Consumer Advocate for Insurance ("CAI") were notified of the Hearing, but both declined the opportunity to intervene.

[4] On September 23, 2020, following the Hearing, the Panel ordered the Applicant to provide revised overall and individual coverage indications resulting from the following:

1) *For all coverages, while maintaining the premium-to-surplus ration of 2:1, modify the ROI 2.26%, which relies on*
    a. *The proportion of government bonds versus corporate bonds as reported in MSA Researcher, B04 - Total Canadian Property Casualty Industry (Ex ICBC-SAF, Ex Lloyd's), page 40.22 as at 2019.4 (YTD);*
    b. *Bank of Canada selected marketable bonds average yields for 1-3 year, 3-5 year, 5-10 year and over 10 year as at December 30, 2019;*
    c. *Bank of Canada selected treasury bill yields for 3 months as at December 30, 2019;*
    d. *Corporate bonds nominal yield to maturity compounded semi-annually as at December 31, 2018 (as available in the CIA Report on Canadian Economic Statistics 1924 – 2018: Final Release – Tables or equivalent sources); and*
    e. *Investment expenses at 0.15%*
2) *For all coverages, modify the post-tax ROE to 10%.*

[5] The requested changes resulted in decreased average rate indications as detailed in the table at paragraph 13 below. This information was considered by the Panel prior to rendering this decision.

[6] The Panel, after examining the evidence, determines that the Filing submitted by the Applicant must be modified. The Applicant is ordered to incorporate changes to the Filing as noted in paragraph [4] above and is approved to adopt the proposed average rate change of 0.0% for the reasons set out herein.

[7] The approved rates will be effective on March 1, 2021 for new business and March 1, 2021 for renewal business.

Exhibits

[8] In the Hearing process, the Panel accepted the following exhibits from the Applicant as part of the Record as shown below:

EXHIBIT	DESCRIPTION	DATE
1.A	Original Filing Part 1.A	April 24, 2020
1.B	Original Filing Part 1.B	April 24, 2020
1.C	Original Filing Part 1.C	April 24, 2020
2	Round 1 Questions from KPMG	May 20, 2020
3	Round 1 Response to KPMG	May 22, 2020
4	Round 2 Questions from KPMG	June 3, 2020
5	Round 2 Response to KPMG	June 4, 2020
6	KPMG Actuarial Review Summary	June 23, 2020
7	Round 1 Questions from NBIB	June 24, 2020
8	Round 1 Response to NBIB	June 30, 2020
9	Letter Submission from FA	August 17, 2020

1. Introduction

[9] The Board is mandated by the Legislature with the general supervision of automobile insurance rates in the Province of New Brunswick. In order to fulfill that mandate, the Board exercises the powers prescribed by the *Act*. One key responsibility for the Board is to ensure that rates charged or proposed to be charged are just and reasonable. Under the *Act*, each insurer carrying on the business of automobile insurance in the province must file with the Board the rates it proposes to charge at least once every 12 months from the date of its last filing. An insurer must appear before the Board when:

a. The Insurer files for a rate change more than twice in a 12-month period, or

b. The Insurer files rates where the average rate increase is more than 3% greater than the rates charged by it within the 12 months prior to the date on which it proposes to begin to charge the rates, or

c. When the Board requires it to do so.

Procedural History

[10] The Applicant filed this Application for the Taxi and Limousines category on April 24, 2020. The original overall indication of the Filing was 10.5% and the Applicant sought an overall average rate change of 0.0%.

[11] Though the proposed rate change was 0.0% which is below the legislative threshold that triggers a hearing, the Board exercised its authority to hold a hearing in the circumstances of this Filing as FA is the market of "last resort" and consumers placed there will have no other insurance options. The Board issued a Notice of Hearing on July 23, 2020 and convened a Panel to conduct the Hearing on the matter. Both the OAG and the CAI declined to intervene.

[12] Prior to the Hearing, the Board and its consulting actuaries, KPMG, delivered a total of three rounds of questions to the Applicant, to which answers were provided. The Applicant delivered a final written submission prior to the Hearing.

2. Evidence and Positions of the Parties

Facility Association

[13] The Applicant presented its Filing to the Board with an overall original indication of +10.5% and proposed to select an average rate change of 0.0%. The following sets out the initial indicated changes to the existing rates by coverage, along with the revisions provided on September 25, 2020 as requested by the Panel:

	Initial indication	Revised indication
Bodily Injury (TPL-BI	+ 18.4%	+11.0%
Property Damage (TPL-PD)	+ 18.4%	+11.0%
Property Damage – Direct Compensation (DCPD)	+ 6.0%	-0.6%
Accident Benefits (AB)	+ 7.8%	+1.5%
Uninsured Auto (UA)	+ 13.0%	+6.9%
Collision	- 3.6 %	- 6.7%
Comprehensive	- 7.9%	- 11.1%
Specified Perils (SP)	+ 3.8%	+0.2%
Total	**+ 10.5%**	**+4.0%**

[14] Both in the Filing and after the requested revisions, the Applicant proposed to make no changes to its current rates.

[15] The indicated rates contained in the initial Filing are estimated assuming a target return on equity (ROE) of 12%, an implied ROE of a pre-tax investment rate on cash flow (ROI) of 1.32% , an investment rate on capital of 1.32% and a 2:1 premium to surplus ratio.

[16] In its Final Submission made to the Panel, the Applicant provided the following reasoning for proposing a 0.0% change to rates in face of an average indicated rate increase of 10.5%:

> As you are aware, Facility Association filed for 0% change for PPV and Taxi business in New Brunswick. This was a conscious and deliberate decision made by the Facility Association Board in light of the impact the pandemic has had on the broader economy and the financial pressures that families and individuals have endured. [Record, p. 805]

3. Analysis and Reasons

[17] The Panel has reviewed all of the written evidence before it including the submission of the Applicant.

[18] The Filing was reviewed and found to be compliant with the Board's Filing Guidelines as well as any applicable information bulletins. The overall methodology employed in the rate filing, prepared by the Applicant's actuary who is a Fellow of the Canadian Institute of Actuaries, follows generally accepted actuarial approaches including methodologies, data, assumptions and judgment. With the exception of the ROE and ROI analysis, the Panel accepted the Applicant's evidence as satisfying its evidentiary burden that the rates proposed to be charged are just and reasonable in all of the circumstances.

[19] The Panel determines that FA must modify some of the assumptions, calculations and methodology related to ROE and ROI, as requested on September 23, 2020. The requested revisions were provided on September 25, 2020.

[20] The Panel addresses each of the substantive issues individually below:

A. Loss Trends

[21] The selection of appropriate loss trends require the analysis of past data and the application of professional judgment. For the majority of the trend selections, the Applicant relied upon methodologies and assumptions that had been approved by the Board in the prior filing. However, there were some trend assumptions and/or methodologies that were not consistent with the prior filing as discussed below.

(a) Accident Benefits

[22] The Applicant has changed its methodology for the loss trend analysis for Accident Benefits (AB). In this Filing, FA has split AB coverage into sub coverages: Medical Expenses, Disability Income, Death Benefits and Funeral Expenses – each with its own individual trend.

[23] In considering the reasonableness of this approach, the Panel noted that the differentiation would facilitate detection of specific types of changes but would also split the already limited data into smaller data sets, with much more volatility.

[24] At the request of the Board's actuaries, KPMG, the Applicant performed sensitivity analysis to determine the impact upon indicated rates if the prior methodology had been used.

[25] There was no impact upon the AB coverage or on the overall indicated rate. The Panel is satisfied that the approach to consider more granular data is reasonable, even though data is limited, and in light of the fact that there is no impact on indicated rates.

[26]

(b) Other Trends

[27] With respect to the loss trends for other coverages, the Applicant has maintained a fairly consistent approach though its data remains limited. It is noted that commercial data is used

for loss trending purposes, as taxi data alone is not sufficiently credible. While R-squared indicates a sub-optimal model for Bodily Injury (BI) severity trend, p-values and an inspection of the residuals suggest that the chosen model is adequate. While R-squared and the residual graphs indicate a sub-optimal model for Comprehensive (COM) severity trend, p-values suggest that the model design is appropriate.

[28] The residual graphs and other considerations used by the Applicant to assess their modelling of loss costs, and the examination of loss cost trends as a whole, satisfies the Panel that the severity trends for BI and COM adopted by the Applicant are reasonable in these circumstances. The Panel also noted that alternative models although reasonable, did not perform better on a goodness of fit criterion.

B. <u>Selection of Return on Equity</u>

[29] In the development of its indicated rate change, the Applicant uses a target ROE of 12%, as selected by the FA Board and determined to be appropriate for this years' Filing.

[30] The Panel recognizes that FA insures almost the entire Taxi insurance market in the Province of New Brunswick. The Taxi industry undeniably provides many essential services of social consequences within New Brunswick. The Panel recognizes the importance of those services and accepts that it is in the general public interest that the Taxi industry rates remain just and reasonable. Reasonable rates will ensure that the Taxi industry is able to maintain service availability.

[31] Following a public hearing last year, a prior panel recognized the social public service fulfilled by the taxi industry in this Province, and ordered the Applicant to adopt a target ROE of 10% for the purpose of the development of its rate indication. The same reasoning holds true for the current Filing, and the Panel again orders that the Applicant modify the Filing to assume a target ROE of 10%. According to sensitivity testing, this will reduce the indicated rate by 2.2 % point.

[32] The Panel reiterates that it will continue to monitor the reasonability of the ROE targeted by automobile insurers on each application on a case-by-case basis.

C. Selection of pre-tax Return on Investment

[33] The process of developing rates that are just and reasonable requires Applicants to account for the revenue received from sources other than directly from policyholders. One source of these funds is investment income that is received on surplus funds held by insurers. Generally, these surplus funds stem from two sources: short-term cash flow and accumulated equity (surplus) and are invested using different approaches, i.e. short-term and long-term respectively. Generally, the higher the overall investment return, the lower the overall rate indications.

[34] The Applicant prepared its Filing by selecting a pre-tax return on investments (ROI) of 1.32% for cash flow and surplus. This ROI is assumed by the Applicant on the basis of an estimated return on a risk-free portfolio of investments.

[35] In FA's prior filing, following a hearing, that panel concluded it would be appropriate to select an ROI consistent with the insurance industry's actual mix of bond yield rates based on the distribution of such investments as compiled by MSA Research. This approach remains the preferable and most reasonable approach to FA's ROI assumptions.

[36] As requested by this Panel on September 23, 2020, the Panel directs the Applicant to modify its ROI, maintaining a 2:1 premium to surplus ratio, such that it relies on:

a. The proportion of government bonds versus corporate bonds as reported in MSA Researcher, B04 – Total Canadian Property Casualty Industry (Ex ICBC-SAF, Ex Lloyd's), page 40.22 as at 2019.4 (YTD);
b. The Bank of Canada selected marketable bonds average yields for 1-3-year, 3-5-year, 5-10 year and over 10 year as at December 30, 2019;
c. The Bank of Canada selected treasury bill yields for 3 months as at December 30, 2019;

d. Corporate bonds nominal yield to maturity compounded semi-annually as at December 31, 2018 (as available in the CIA Report on Canadian Economic Statistics 1924-2018: Final Release – Tables or equivalent sources); and

e. Investment expenses at 0.15%.

[37] Based on the above, the Panel orders the Applicant to use an assumed ROI of 2.26%. Based on the response to the directions above, the impact of this one change on the overall indication would be -3.7%.

4. Decision

[38] For the reasons set out above, the Panel finds that the Applicant's Filing is not just and reasonable in its entirety and therefore orders the following changes to be made:

1) For all coverages, while maintaining the premium-to-surplus ratio of 2:1, modify the ROI 2.26%, which relies on:
   a. The proportion of government bonds versus corporate bonds as reported in MSA Researcher, B04 – Total Canadian Property Casualty Industry (Ex ICBC-SAF, Ex Lloyd's), page 40.22 as at 2019.4 (YTD);
   b. The Bank of Canada selected marketable bonds average yields for 1-3-year, 3-5-year, 5-10 year and over 10 year as at December 30, 2019;
   c. The Bank of Canada selected treasury bill yields for 3 months as at December 30, 2019;
   d. Corporate bonds nominal yield to maturity compounded semi-annually as at December 31, 2018 (as available in the CIA Report on Canadian Economic Statistics 1924-2018: Final Release – Tables or equivalent sources); and
   e. Investment expenses at 0.15%.
2) For all coverages, modify the post-tax ROE to 10%.

[39] The impact of these changes was calculated at the Panel's request in the Applicant's response of September 25, 2020, decreasing the rate indications from an average of 10.5% to an average indicated increase of + 4.0%.

[40] The Applicant is ordered to incorporate changes to the Rate Application as set out above and is **approved to adopt the proposed average rate change of 0.0%.**

[41] The approved rates will be effective on March 1, 2021 for new business and March 1, 2021 for renewal business.

Dated at Saint John, New Brunswick, on October 27, 2020.

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Marie-Claude Doucet, Panel Chair
Chair, New Brunswick Insurance Board

WE CONCUR:

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Ms. Francine Kanhai, Board Member

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Ms. Elizabeth Turgeon, Board Member