New Brunswick Insurance Board

DECISION

IN THE MATTER:
Of a rate revision application for **PEMBRIDGE INSURANCE COMPANY**
With respect to automobile insurance rates for
PRIVATE PASSENGER VEHICLES

Written Hearing Date: April 22, 2020
Heard at Saint John, New Brunswick

PANEL:	Mr. Marven Grant	Vice-Chair
	Ms. Elizabeth Turgeon, LL.B.	Member
	Mr. Robert McSorley	Member

Decision Rendered: May 12, 2020

Board Reference 2019-225

Summary

[1] Pembridge Insurance Company (the "Applicant" or "Pembridge") filed a Rate Application with respect to automobile insurance rates for Private Passenger (PPV) in New Brunswick requesting approval for an average rate increase of 8.49%, based on an indicated average rate increase of 24.19%.

[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 to conduct a written hearing (the "Hearing") on April 22 , 2020 in Saint John.

[3] In compliance with subsection 19.71(3) of the *Act,* the Board provided to the Office of the Attorney General ("OAG") and to the Consumer Advocate for Insurance ("CAI"), all documents relevant to the Hearing.

[4] On April 1, 2020, the OAG declined the opportunity to intervene in this matter.

[5] On April 14, 2020 the CAI advised the Board of her intention to not intervene in this matter.

[6] The Panel, after examining the evidence in its entirety, approves the rate change of **+8.49%** proposed by the Applicant.

[7] As requested, the approved rates will be effective on September 2, 2020 for new business and November 1, 2020 for renewal business.

[8] For the purpose of the written hearing the Panel accepted the following exhibits as part of the Record:

1.

EXHIBIT	DESCRIPTION	DATE
1	Original Filing	Sept 16, 2019
2	*Eckler Request for Missing Information	Oct 17, 2019
3	Response to Request from Eckler	Oct 17, 2019
4	Round 1 Questions from NBIB	Oct 21, 2019
5	Round 1 Response to NBIB	Oct 24, 2019
6	Request UBI Update from NBIB	Oct 30, 2019
7	Response with UBI Update to NBIB	Nov 4, 2019
8	Round 1 Questions from Eckler	Dec 12, 2019
9	Round 1 Response to Eckler	Jan 8, 2020
10	Round 2 Questions from Eckler	Jan 17, 2020
11	Eckler Follow-up Comment	Jan 18, 2020
12	Round 2 Response to Eckler	Jan 23, 2020
13	Round 3 Questions from Eckler	Feb 10, 2020
14	Round 3 Responses to Eckler	Feb 13, 2020
15	Request from Eckler for correct exhibit	Feb 16, 2020
16	Response with correct exhibit	Feb 16, 2020
17	Actuarial Review Summary	Mar 4, 2020
18	Final Submission Pembridge	Apr 14, 2020

*Board's Consulting Actuaries

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 a rate revision application for the PPV category on September 16, 2019 proposing an average increase of +8.49%, a proposal that automatically triggered a hearing before the Board.

[11] The Board issued a Notice of Hearing on March 27, 2020 and convened a Panel to conduct a written hearing on the matter. The OAG advised they would not be intervening in this matter and the Consumer Advocate for Insurance also provided notice that she would not be intervening in the rate hearing.

[12] The only pre-hearing written submission received by the Panel was from the Applicant.

2. Evidence before the Panel

Pembridge Insurance Company

[13] The Applicant's Filing forms the main portion of its submission and the evidence before the Panel.

[14] Pembridge initially proposed an overall average rate increase of +8.49% and their indication was +24.54%. The Applicant proceeded to make 3 amendments to its rate application between the date of filing and the Hearing. In its last amendment, the Applicant maintained the request for an overall rate increase of +8.49%, on the basis of a rate indication of +24.19%.

[15] The following sets out Pembridge's final amended indicated and proposed average rate changes to the existing rates by coverage:

Coverage	Indicated	Proposed
Bodily Injury Tort (BI)	32.35%	10.37%
Property Damage Tort (PD)	135.38%	24.18%
Property Damage – Direct Compensation (DCPD)	34.36%	11.64%
Accident Benefits (AB)	21.21%	7.94%
Uninsured Auto (UA)	7.10%	0.00%
Collision	11.37%	4.11%
Comprehensive	15.38%	6.68%
Specified Perils (SP)	15.38%	7.32%
Underinsured Motorist (UM) – SEF44	-59.09%	0.00%
Total	24.19%	8.49%

[16] The rates contained in the Filing are estimated assuming a target return on equity (ROE) of 12.00%, a 9.02% target return on premium (ROP) a pre-tax investment rate on cash flow and investment rate on capital (ROI) of 1.77%, and a 1.7:1 premium to surplus ratio. The implied ROE based on the selected rate change of +8.49% is 2.81%. The proposed overall average rates would increase from the current average of approximately $956 to approximately $1,037.

[17] In its Final Submission made to the Panel, Pembridge provided the following reasoning for its proposed increase:

> "This report summarizes how Pembridge modified its methodologies and assumptions used to develop actuarial indications in order to address the issues raised by the Panel in last year's decision. With the additional support provided, we believe that actuarial indications and the proposed rate change presented in this fling are just and reasonable.
>
> Pembridge is proposing an average increase of 8.49%, which would only partially address the high indicated rate change required to hit target profitability, as we want to achieve a balance between the goals of rate adequacy and minimizing the impact on our customers.

[18] The Applicant submits that the Filing was prepared utilizing sound actuarial methods and practices, that the assumptions contained therein are reasonable and that the Filing has been prepared in accordance with the filing guidelines issued by the Board.

3. Analysis and Reasons

[19] The Panel has reviewed all of the written evidence before it, along with the Applicant's final written submission.

[20] The evidence and submission before the Panel raised some material issues for consideration. The Panel examined each issue individually and determined as follows:

1) Development – Loss development factors beyond 132 months

[21] During the review of the Applicant's Filing, it was noted that there had been development of BI claims beyond 132 months, yet this development was not taken into account for the Applicant's calculations. When this was brought to the Applicant's attention during the questioning process with the Board's consulting actuaries, the

oversight or decision to exclude that development was reversed with the insertion of development factors for these intervals. While the change did not materially affect the indications, it better reflects the data and was reasonable.

2) Support for Trend Analysis

[22] In its decision dated March 5, 2019, a previous Panel of the Board considered the Applicant's previous filing. At that time, the Panel noted insufficient support for the trend analysis and wrote:

> "[29] The Panel therefore expects the Applicant, for the purpose of its future filings, to provide the Board with additional and sufficient support on the validity of the models used in its trend analysis."

[23] While the Panel recognized that the trend selections adopted by the Applicant are in line with the Industry average trends, panels reviewing a filing seek to understand the methodologies employed by applicants, including other models considered, and the reasons for choosing one model over another. This allows the regulator to consider and grant appropriate weight to the application of actuarial judgment in the modelling process. Faced with last year's reminder that additional support for the validity of its models was necessary, the Applicant provided general comments regarding data used and the application of trends, along with p-values, but no detailed description of the Company's processes for the trend analysis. Some additional information was gleaned through the various rounds of questioning with the Board's actuaries, Eckler, but the full particulars were only provided in the final written submission. The spirit of the previous Panel's decision, and now of this decision, is that detailed descriptions of trend methodologies and rationale for selected assumptions, akin to that provided in the final submission should be included within the Filing itself.

3) Outliers in the Trend Analysis

[24] Assembled data forms the foundation for trend selection processes. As part of its trend selection process in this Filing, the Applicant excluded certain data points without explaining the basis for the exclusion of those data points as 'outliers'. The Applicant did not readily identify in the Filing which points were being excluded, and acknowledged that it relied on judgment to identify the points, rather than employing an explicit statistical test.

[25] For future filings, the Panel recommends the adoption of an either an outlier test or additional disclosure of how actuarial judgment was applied to select the individual data points that the company proposes to exclude. This allows the Panel to consider the reasonableness of the application of judgment, an exercise that cannot be done as effectively without those particulars. For the purposes of the present filing, the Panel accepts the judgment decisions to exclude the outliers.

4) MIR Adjustment Factors

[26] The Applicant's bodily injury trend analysis is based on data that is wholly post - MIR reform of 2013. In previous filings, Allstate had used a longer experience period for its trend analysis, and made specific adjustment to the data to reflect the MIR reform.

[27] Pembridge's rationale for the change in methodology was the desire to remove some of the uncertainty in the trend analysis that results from the addition of the reform variable to modify the pre-2003 reform experience. The Applicant's view is that the addition of this judgmental element adds unnecessary uncertainty to the trend as the post reform data was now of a sufficient volume to be predictive.

[28] During the review process, Pembridge was asked to perform some sensitivity analysis of the change in MIR adjustment factors on the resulting BI trends. Using last year's MIR adjustment factor and 15 years of data would result in a difference in the trend of

a mere 0.04%. The change in methodology, therefore, produces a similar result and is a reasonable approach for this Filing.

5) Large Losses

[29] For the determination of the expected loss ratio, the Applicant adopts a method to adjust for their large losses. Pembridge considered five (5) years of history, to determine a large loss adjustment factor which is then applied to the loss ratios excluding large losses.

[30] Large losses, particularly in a short data history period such as five (5) years, tend to exhibit a great deal of volatility from one year to the next. In response to questions from the Board's actuary, the company's explanation for the use of the short time period to determine a large loss adjustment is that it only had available 5 years of corresponding on-level premiums. Responding to questions from Eckler, the Applicant confirmed its intention to base large loss adjustments on ten (10) years of data in future filings. In the view of the Panel, a better practice for determining large loss adjustments would be to consider data over a longer-term horizon than the currently assessed five (5) years, and this would be the expectation for future filings.

6) Premium Trends

[31] The Panel notes that in this Filing, the Applicant used its own mix of business by vehicle rate group, instead of using the annual rate group drift assumptions published by the Insurance Board of Canada. This was done in accordance with the panel's decision from the previous filing and is accepted as a reasonable change in methodology.

7) Profit Provisions – Premium to Surplus Ratio

[32] As noted above, in the calculation of its overall rate level change need, Pembridge includes a profit provision targeting a premium to surplus ratio of 1.7 to 1.

[33] The Applicant stated that the average historical premium to surplus ratio over the last five years has been 1.85:1 for the Allstate Canada Group. In response to questioning regarding the choice of 1.7 :1 as a premium to surplus ratio in light of these historical averages, the company explained it as a decision to take a more conservative approach and keep the same ratio as it applied last year. In the Applicant's view, it would be premature to revise the assumption at this time. The Board's actuaries requested sensitivity analysis and was advised that changing the ratio to 1.85:1 would change the overall indicated rate only by -1.31%. In these circumstances, favouring the consistent approach, the Panel accepts the Applicant's assumption as reasonable. Should the Company's future filings adopt a different assumption, the Panel would explain fulsome explanations for the revision.

8) Profit Provisions – Return on Surplus

[34] An important element of the return on equity anticipated by the Applicant is the return on surplus, that is, the expected rate of return on the surplus funds that a company holds. Historically, the Applicant estimated this by using the risk-free rate loaded by a factor based on a 2003 publication from IAO Actuarial Consulting Service Inc.

[35] During the questioning process by the Board's consulting actuaries, the Applicant revised this assumption, removed that loading factor and adopted the risk-free rate. This 1.77% rate of return is the same rate assumed for the return on policyholder funds. This change led to an increase in the overall indicated average rate level change of +1.09%.

[36] While some companies adopt a higher rate of return on surplus funds compared to the return on policyholder funds, the change in methodology to remove the loading factor and use of the same rate as the return on policyholder funds is actuarially sound and not unusual. Based on the circumstances of this particular case, this change in methodology was found to be reasonable.

9) Credibility Standards

[37] Credibility standards serve to identify the number of claims a company accepts as a reliable volume of experience sufficient to be predictive. There are varying methods used for determining that standard, creating a range of reasonable assumptions. The Applicant's Filing had used 1800 claims as a full credibility standard for BI, UA and SEF44, which appeared to the Panel to have been on the low end of the range compared to other insurers.

[38] In responding to questions from the Board's consulting actuaries, and in light of updated data available by that time, Pembridge revised its credibility standard from 1800 to 2700 for BI, UA and SEF44, which decreased the overall indicated average rate level change by only 0.05%. This was subsequently amended following discovery of a calculation error, to a credibility standard of 2500 for BI, UA and SEF44, with a resultant increase in the overall indication of 0.01%.

[39] The Applicant's revised credibility standard for BI, UA and SEF44 has a negligible impact upon indicated rates and in the circumstances of this particularly Filing, it is accepted as a reasonable assumption. A cautionary note for future Filings, the Panel would have preferred to have the particulars of the calculations of the full credibility standards contained within the original Filing, rather than necessitating further probing and questioning by the Board's consulting actuaries.

4. Decision

[40] For the reasons set out above and based on the evidence as a whole, the Panel finds that the rates proposed to be charged by the Applicant, as set out in this Filing, as amended, are just and reasonable.

[41] The Applicant is therefore **approved to adopt the proposed average rate change of +8.49%** as filed.

[42] The approved rates will be effective on September 2, 2020 for new business and November 1, 2020 for renewal business.

[43] This decision is a fulsome consideration of the Applicant’s filing, dated 16 September 2019. It bears repeating that, in addition to the consideration of applications for rate increases, the Board is mandated with the general supervision over auto insurance rates in the Province of New Brunswick. As a result of the world-wide Covid-19 pandemic, many insurers, including the Applicant, have introduced temporary measures to support their customers during this uncertain time, and recognizing changing insurance risks. Considering the absence of available data related to the impact of Covid-19 on this industry at this time, this Panel’s decision does not integrate considerations related to Covid-19 impact; nevertheless, the Board continues to monitor the ever changing circumstances and the temporary measures put in place by each insurer to ensure rates are as just and reasonable as possible.

Dated at Saint John, New Brunswick, on May 12 , 2020

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Marven Grant, Panel Chair
Vice-Chair, New Brunswick Insurance Board

WE CONCUR:

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Elizabeth Turgeon, Board Member

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Robert McSorley, Board Member