New Brunswick Insurance Board

DECISION

IN THE MATTER:
Of a rate revision application for the Primmum Insurance Company
With respect to automobile insurance rates for
Private Passenger

Hearing Dates: September 16 and October 22, 2020
Written Hearing

Held by Video Conference

PANEL:	Ms. Marie-Claude Doucet, LL.B.	Chair
	Ms. Heather Stephen	Member
	Mr. Georges Leger	Member

Applicant:

Primmum Insurance Company

Intervenors:

Consumer Advocate for Insurance

Decision Rendered: November 24, 2020

Summary

[1] Primmum Insurance Company (the "Applicant" or "Primmum") filed a Rate Revision Application (the "Filing" "Application") with respect to automobile insurance rates for Private Passenger Vehicles (PPV) in New Brunswick requesting approval for a proposed average rate increase of +23.88% (20.85% after capping) based on an amended indicated average rate increase of +43.78%.

[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") to conduct a Written Hearing (the "Hearing") on September 16, 2020 by video conference.

[3] In compliance with subsection 19.71(3) of the *Act,* the Board provided to the Office of the Attorney General ("OAG") all documents relevant to the Hearing. This documentation was also provided to the Consumer Advocate for Insurance ("CAI"). Pursuant to subsection 19.71(4) of the *Act*, the OAG initially intervened, questioned the Applicant by way of written interrogatories and thereafter withdrew from further participation in the hearing process. The CAI intervened, questioned the Applicant by way of written interrogatories, and presented a written submission for the Panel's consideration.

[4] On September 30, 2020, following the Hearing, the Panel delivered additional queries for the Applicant related particularly to the proposed introduction of Client Assessment (CA), which relies on the credit score information of the insured, as a new rating variable.

[5] The Panel, after examining the evidence and submissions made by the parties, determines that the average rate increases proposed by the Applicant are just and reasonable in these circumstances.

[6] The approved rates will be effective on February 22, 2021 for new business and March 22, 2021 for renewal business.

Exhibits

[7] As part of the Hearing process, the Panel accepted the following Exhibits as part of the Record as shown below:

EXHIBIT	DESCRIPTION	DATE
1	Primmum Original Private Passenger Rate Filing	March 31, 2020
2	Round 1 Questions from KPMG	April 16, 2020
3	Round 1 Response to KPMG	April 22, 2020
4	Round 2 Questions from KPMG	April 30, 2020
5	Round 2 Response to KPMG and Amendment	May 6, 2020
6	Round 3 Questions from KPMG	May 11, 2020
7	Round 3 Response to KPMG and Amendment	May 15, 2020
8	Round 4 Questions from KPMG	May 19, 2020
9	Round 4 Response to KPMG	May 22, 2020
10	KPMG Actuarial Review	June 10, 2020
11	Round 1 Questions from NBIB	July 14, 2020
12	Round 1 Interrogatories Questions from CAI	July 17, 2020
13	Round 1 Response to NBIB	July 20, 2020
14	Round 1 Further Response to NBIB	July 27, 2020
15	Round 1 Interrogatories Questions from OAG	July 31, 2020
16	Round 1 Interrogatories Response to CAI	August 7, 2020
17	Round 1 Interrogatories Response to OAG	August 7, 2020
18	Final Submission from CAI	August 25, 2020
19	Final Submission from TD Group	September 4, 2020
20	Additional Interrogatories Questions from the Board	September 30, 2020
21	Interrogatories Response to the Board	October 16, 2020

1. Introduction

[8] 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

[9] The Applicant filed a rate revision application for the PPV category on March 31, 2020. The original overall rate change indication of the Filing was +43.43% and the Applicant sought an overall average rate increase of 23.88% before capping (20.85% after capping).

[10] Following questions from KPMG, the Board's consulting actuaries, the Applicant submitted an Amended Filing on May 6, 2020, increasing its rate change indication to +43.78%, but with no changes to the proposed average rate increase.

[11] The Board issued a Notice of Hearing on June 24, 2020 and convened a Panel of the Board to conduct a Written Hearing to consider the Application. The OAG initially intervened and, after one round of interrogatory questions, withdrew from any additional interventions as of August 18, 2020. The CAI intervened, questioned the Applicant by way of written interrogatories, and provided a written submission for the Panel's consideration.

[12] The Panel received a final written submission from the Applicant.

[13] Finally, the virtual written Hearing in this matter was held on September 16, 2020 and resumed on October 22, 2020 further to an adjournment.

2. Evidence and Positions of the Parties

Primmum Insurance Company

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

[15] Primmum presented its Filing to the Board with an overall original rate change indication of +43.43% and proposed to select an overall average rate increase of 23.88% before capping (20.85% after capping). The Applicant amended its rate application on May 6, 2020 reaching an overall rate change indication of +43.78%, maintaining its overall average rate change selection.

[16] The following sets out the amended indicated and the proposed changes to the existing rates by coverage:

Coverage	Indicated	Proposed (before capping)	Proposed (after capping)
Bodily Injury (BI)	47.24%	18.47%	16.33%
Property Damage (PD)	19.73%	19.91%	17.08%

Property Damage - Direct Compensation (DCPD)	10.30%	0.35%	- 1.86%
Accident Benefits (AB)	54.88%	29.37%	27.36%
Uninsured Auto (UA)	14.98%	30.43%	27.41%
Collision	50.15%	39.87%	35.60%
Comprehensive	83.55%	64.61%	57.66%
Specified Perils (SP)	N/A	N/A	N/A
Underinsured Motorist (UM) – SEF44	- 5.75%	-13.85%	-15.88%
Total	43.78%	23.88%	20.85%

[17] The rate indication calculations detailed in the Filing incorporate various assumptions, including a target return on equity (ROE) of 12%, an implied ROE significantly lower than target, a pre-tax investment rate on cash flow (ROI) of 1.55%, an investment rate on capital of 2.53% and a 2:1 premium to surplus ratio. If the Applicant's proposed average rate changes are approved, average rates would increase from the current average of approximately $1,235 to approximately $1,530 (before capping) and $1,493 (after capping).

[18] In its Final Submission made to the Board, Primmum provided the following reasoning for its proposed rate increase.

> Stability of rates is an important factor in the insurance industry and the Group wants to avoid large swings in premium from one term to another.
>
> Amongst the questions received from the Office of the Attorney General's consultant (OW), the Group was asked to provide sensitivity testing for alternate hypotheses. For the various sensitivity testing, the lowest resulting indication stands at +40.0% (compared to +43.8%), which is still well above the +20% proposed rate change. While OW questions were relevant, the Group believes its hypotheses to be reasonable and in accordance with Actuarial Standards of Practice (ASOP) and will continue to apply the same type of methodology for future filings.
>
> […]
>
> […] the Group believes that its ask for a +20% rate change is justified and is the correct course of action. It is an important step toward re-establishing sustainable rates. This increase would partially address the high indicated rate change required to hit the target profitability, while striking the right balance

> between rate adequacy and the impact on our customers. Moreover, the Group believes the difference between the suggested rate increase of +20% and the rate indications leaves enough room to account for the potential effect of COVID-19 on our loss experience. [Record p. 1676]

[19] The Applicant's submission submitted that the Filing was prepared utilizing sound actuarial methods and practices, that the assumptions contained therein are reasonable and that the Filing has been completed in accordance with the Filing Guidelines issued by the Board.

<u>Office of the Attorney General</u>

[20] The OAG was provided with the Filing and all related documents. The OAG was also given the opportunity to query the Applicant through the written interrogatory process. The OAG delivered one set of interrogatories to the Applicant. Following the delivery of the responses to those interrogatories, which form part of the Record, the OAG withdrew as an intervenor.

<u>Consumer Advocate for Insurance</u>

[21] The CAI intervened and participated in the interrogatory process by submitting one round of questions to the Applicant. These queries and the responses provided by the Applicant form part of the Record. The CAI also filed a written submission opposing the level of rate increase sought by the Applicant and questioning the appropriateness of the introduction of "Client Assessment" to the rating process.

[22] In her written submission, the CAI submitted that the insurance rates in New Brunswick have to be just and reasonable. The CAI argued:

> TD and its affiliated companies applied to amend their currently approved private passenger vehicle insurance rates. The proposed increase rate for private passenger vehicle are an average of […] 20,85% for Primmum […]. Those amendments represent significant increases for the Consumers of New Brunswick.

The New Brunswick Insurance Board's mandate is to ensure that New Brunswick insurance rate are just and reasonable. We submit that rates must also be just and reasonable for the consumers of New Brunswick.

TD and its affiliated companies are introducing credit score in their rating process. Using credit score could negatively impact availability and price offered to insureds who can least afford insurance. For example, seniors, unemployed, new comers to Canada could have difficulties affording insurance because of a low credit score that could translate into higher premiums. We must also note that having no mortgage and no debt could also have a negative impact on an insured credit score. Significant life events such as sickness, job loss and identity theft could lead to financial hardship who will impact credit score. Insurers are already using driving records to determine risks. We submit that insurers should not be able to use credit score for rating. Newfoundland and Ontario do not permit it.

The Office of the Consumer Advocate for Insurance maintains that the return on equity ask by companies is too high and does not reflect what other provinces are permitting. Why should consumers of New Brunswick pay more than our neighbors. We submit that the ROE should be align with other provinces. Is a return of 12%, after tax, is just and reasonable? We have to remember that ROE has a massive impact on premiums. We submit that insurers doing business in other Atlantic provinces and Ontario are not getting a ROE of 12%.

The Covid-19 Pandemic has greatly reduced the number of cars on the road in New Brunswick. Therefore, adjustments should be applied since the actual loss experience that will emerge for 2020 and 2021 will be materially less than the rate indication model forecasts presented. Therefore, we can predict a reduction in auto accident and claims. The absence of traffic on the roads will likely contribute to a loss ratio drastically lower than what was expected. This pandemic should be taken inconsideration.

The CAI reiterates to the Board that automobile insurance is mandatory in New Brunswick and therefore, rates should be reasonable, affordable and fair. With huge increases requested by the present insurers, we submit the consumers of New Brunswick may have difficulties paying their insurance premiums.

We submit that the proposed increases are high. Those increases requested by TD and its affiliated companies are neither just nor reasonable. [Record, pages 1670-1671]

3. Analysis and Reasons

[23] The Panel has reviewed all of the written evidence in the Record, including the Applicant's responses to the additional queries from the Panel and the final submission of the Applicant and CAI.

[24] The Panel recognizes and accepts the actuarial expertise of the Applicant's actuaries who prepared the Filing and responded to the additional inquiries from the Board and other Parties.

[25] The Filing raised a number of issues for the Panel to consider and determine. Each of those issues is discussed individually below:

1) GLM and Capping

[26] The Applicant used Generalized Linear Models (GLM) in the Filing to predict the insurance loss costs for given risk profiles. This common approach offers a statistical framework that allows to adjust for distributional bias between rating variables. In other words, the GLM approach does not assume an equal and uniform distribution of vehicles across each rating variable, but rather recognizes the concentration of vehicles in given combinations of rating variables. This approach also enables the modeler to adjust for interactions between rating variables; it provides the mean to reflect on the insurance loss costs the amplifying or offsetting effect stemming from the combinations of rating variables.

[27] Primmum's approach in the current Filing is to amend the existing surcharge differentials for rating variables such as Minor Convictions, Major Convictions, License Suspensions and comprehensive claims. There can be concerns with this approach in instances where, as observed in the present case, the data is too thin to perform a reliable statistical analysis.

[28] Primmum outlined its desire to eliminate or at least reduce cross subsidization from the "lower risk" no conviction group to "higher risk" groups and avoid adverse selection. The proposed

changes for each variable result in a logical progression of differentials devoid of reversals. The Applicant relies on non-statistical rationale, such as judgment and the Applicant's experience in other jurisdictions, to select proposed surcharge differentials that it deems to be a more reasonable reflection of the risk. Further, the Applicant argues that a decreasing surcharge for aging convictions may act as an incentive for drivers to adopt more prudent driving habits.

[29] The Panel is of the view that the Applicant's surcharge methodology, based on actuarial judgement and company experience in other jurisdictions, is reasonable in these circumstances. The effect is negligible, affecting only a fraction of a percent of the Applicant's exposures and is mitigated by the capping and cupping proposed in the Filing. The Panel agrees that the Applicant's approach in this regard is just and reasonable.

[30] With respect to cupping/capping, the Applicant proposes to change from the current range of -15%/+15% to -5%/+35%. The rationale for the change is to ensure financial viability in light of the significant rate change indication of over 43%. Additionally, the current cupping/capping boundaries would counteract the proposed overall rate change of 23.88%, which was selected with the aim to re-establish an adequately rated and sustainable portfolio.

[31] The Panel agrees that the adjustments to the cupping/capping boundaries are appropriate in light of the indicated rates and the consistent efforts to ensure that the premiums charged to customers are a reasonable reflection of their respective risk levels.

2) Trends

[32] The selection of loss cost trend rates requires the analysis of past data and the application of professional judgment. As specified in the Filing Guidelines issued by the Board, although loss cost trends can be analyzed directly, they are often derived by separately selecting frequency and severity trend rates reflecting past experience and future expected results. The selected frequency and severity trend rates are then combined to determine loss cost projection factors.

[33] For the Bodily Injury (BI) coverage, the Applicant has provided the statistical measurements related to both frequency and severity. Those statistical measures for frequency, in particular, appear sub-optimal, and indicate that the hypothesis of a 0% trend cannot be rejected. To adopt an alternative 0% frequency trend would slightly increase the BI rate indication.

[34] Similarly, the goodness-of-fit statistics for the Property Damage - Direct Compensation (DCPD) trend analysis are such that the hypothesis of 0% frequency trend cannot be rejected. To adopt an alternative 0% frequency trend would similarly result in a negligible increase in DCPD rate indication.

[35] The frequency and the severity trend models for Accident Benefits (AB) also exhibited sub-optimal goodness-of-fit statistics. Similarly, the frequency models for Collision (COL) and Comprehensive (COM) indicated that the hypothesis of 0% trend cannot be rejected. At the request of the Board's consulting actuaries, the Applicant conducted sensitivity analyses assuming 0% frequency trend. The AB rate indication decreased from +51.1% to +30.4%, the COL rate indication decreased from +50.2% to +43.1%, while the COM rate indication decreased from +85.0% to 78.7% with the alternative set of trends.

[36] It is noted that the alternative rate indication reflecting all alternative sensitivity testing trends remain above the proposed rate changes. While this would not affect the current year's proposed rates, the Panel considered the potential effect on complement of credibility calculations for future filings.

[37] The Applicant's response acknowledged some sub-optimal statistical measures stemming from their trend models and pointed to the absence of an alternative that exhibits a better fit. Furthermore, the Applicant noted that selection of trends was done in such a way that many elements were considered, including actuarial judgment and the goodness-of-fit metrics.

[38] For instance, in performing the BI trend modeling, the Applicant used 8 years of historical data, as suggested in relation to previous filings, in recognition of the length of time needed for these

claims to mature. The Applicant's trends also reflected a business decision to seek stability in the trend selection and avoid large swings in premiums.

[39] Likewise, for the selection of AB trends, the Applicant applied an approach that it deems conservative. The selections sought to minimize trend dislocations and fluctuations. Given that it is a long tail coverage, the Applicant used 8 years of data in its trend analysis. The Applicant noted that the approach is consistent with the prior ruling from the Board.

[40] The Applicant provided similar rationales in relation to Collision and Comprehensive coverages, with the distinction that, as short tail coverages, the Applicant applied the past decision of the Board and assessed the trends using 5 years of data.

[41] The Panel accepts the Applicant's trend models as reasonable in these circumstances.

3) Other notable changes

[42] The Panel notes that the Applicant has modified its approach in a number of other key areas:

a) updated weights allotted to loss development method, Bornhetter-Ferguson method, and ELR method,
b) new process in setting up in BI case reserves,
c) introduction of AB premium trend, as well as
d) the reporting and treatment of 'other expenses'.

The effect of changes a) and c) is negligible. The approach adopted for changes b) and d) is actuarially sound. The Panel saw no grave concerns and accepts them as reasonable for this Filing.

4) Credit Score

[43] The most significant change in the Applicant's Filing is the adoption of the new rating variable, Client Assessment, for each consenting insured. The Client Assessment is created using the client's credit score information, as obtained from third-party credit reporting agencies, Equifax and TransUnion.

[44] The Applicant seeks to introduce Client Assessment as an additional rating variable, to offer insureds with a discount, on the basis of what is stated to be a clear observed correlation between Client Assessment and historical loss costs. To fail to consider this variable, the Applicant argues, would result in a serious cross-subsidization of cost between customers, in violation of the following statement of Principles of the Casualty Actuarial Society:

> **Principle 4** : A rate is reasonable and not excessive, inadequate or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associates with an individual risk transfer.

[45] While compliance with the Principles of the Casualty Actuarial Society is important, it is but one factor that the Panel must consider in determining whether a proposed rate is 'just and reasonable'.

[46] First, the Panel must ensure that the proposed rating variable using credit score, is not prohibited by legislation in New Brunswick, as it is in some other Canadian provinces. Despite some public discussion several years ago by legislators in this regard, no legislation was ever enacted which prohibited this approach, and the current applicable legislation and regulation do not prohibit the use of credit score as a rating variable.

[47] Secondly, the Panel considered whether the Client Assessment / Credit rating is predictive of risk. The Applicant relied upon five (5) years of its own data for New Brunswick automobile insurance in developing this evidence.

[48] To demonstrate the enhanced predictive value of Client Assessment, the Applicant presented the Board with AIC, BIC and chi-squared statistical evidence, as well as graphical evidence. The goodness-of-fit statistics showed the improved predictive value of the model with credit score information for the BI and AB coverages. The analysis indicates a neutral effect on the model predictiveness for DC and PD coverages. While the statistical evidence is less conclusive for COL and COM, the graphical evidence shows a strong and consistent correlation between the Client Assessment and the respective loss costs.

[49] The Applicant argued that this correlation means rates are reasonable insofar as they are aligned with the actuarial best estimate of the expected loss cost for each risk profile, and this is the fairest approach for drivers.

[50] In terms of the evidence presented by the Applicant, the Board is satisfied that the evidence demonstrates a clear consistent and significant correlation between its Client Assessment and historical loss cost.

[51] Correlation notwithstanding, as this is a matter of first step in the Board's analysis, the Panel's considerations went further to evaluate whether the use of that rating variable is just and reasonable in all other circumstances.

[52] The Panel acknowledges that there are, on occasion, public concerns with respect to the use of credit score in rating automobile insurance. An individual's credit score is driven by several factors including payment history, used credit v. available credit, credit history, public record and inquiries. While predictions may fairly be drawn about the expected driving habits of financially responsible insureds, the Panel also considered how other external factors such as systemic disadvantages and the current pandemic, might adversely affect these factors.

[53] The Applicant argues that these systemic concerns are addressed by its proposal to perform a soft implementation of the new rating variable, only selecting a percentage of the indicated lift.

This, the Applicant argues, serves to mitigate any potential systematic credit score information downgrade.

[54] The Panel is satisfied with the evidence in the Record that creditors and credit reporting agencies are taking steps to minimize or smooth some of these potentially negative impacts. In addition, the Panel accepts that the Applicant has further reduced the potential impact by proposing to reflect only a percentage of the indicated lift in rates. The annual nature of filings also means that this approach will be revisited in one year's time, to ensure no long-term effect on rates goes unsubstantiated.

[55] While the CAI raised some valid concerns about the potential impact of this new rating variable in her submission, the OAG, representing the public interest, withdrew from intervention in this Hearing.

[56] It is noted that the Board assesses the introduction of a rating variable such as Client Assessment or credit score on a case-by-case basis, based on the specific merits of each filing at hand. The Panel's conclusion on this issue, based upon the evidence in the Record, is that the utilization of Client Assessment as a rating variable results in the loss costs being more fairly allocated among insureds, and in all other respects the approach is just and reasonable. For future filings, it is expected that the Applicant would update the Board regarding the impact of the implementation of the variable and confirm that the actual dislocation does not deviate significantly from that which was anticipated in this Filing.

[57] While beyond the Panel's responsibilities, or the Board's mandate, the Panel was very cognizant of the potential for concern over the use of insured's private personal credit information, transparency and the requirement for consent. Credit scores may be outdated by the time they are applied to the proposed premiums, within the timeframe the Applicant proposes to renew these scores. The requisite consent, while obtained, may not be well understood by every insured. It bears repeating here that every insurer conducting business in New Brunswick is required to comply with privacy and other applicable legislation and must answer to the Superintendent of Insurance in respect of the business of insurance. Given the

importance of transparency and privacy concerns with the introduction of credit score information as a rating variable, the Board will explicitly be communicating those concerns to the Superintendent of Insurance. Nothing in this decision should be interpreted to derogate from those requirements or the oversight by the Superintendent.

5) Selection of Return on Equity

[58] The CAI questions in her closing submission whether a target Return on Equity (ROE) of 12% is just and reasonable. The CAI argues that such ROE is too high and does not reflect the ROE allowed in other Atlantic provinces and in Ontario.

[59] The Panel was not provided with any evidence that challenged the reasonableness of a 12% Target ROE. While other regulators may arrive at a different conclusion in the specific circumstances of their jurisdictions, this Panel is satisfied that a target after-tax ROE of 12% is reasonable in these specific circumstances and in light of the current market conditions. This conclusion is strengthened by the fact that the implied ROE, in the instance where the proposed average increases would be permitted, results in a negative return.

[60] The Panel however reiterates that there is no benchmark for target ROE in New Brunswick and that every applicant's target will be assessed on a case-by-case basis.

4. Decision

[61] For the reasons set out above, the Panel finds the Applicant's Filing is just and reasonable and the Applicant is **approved to adopt the proposed average rate change of 23.88% {capped} 20.85% {after capping}.**

[62] The approved rates will be effective on February 22, 2021 for new business and March 22, 2021 for renewal business.

Dated at Saint John, New Brunswick, on November 24, 2020.

Marie-Claude Doucet, Panel Chair
New Brunswick Insurance Board

WE CONCUR:

Heather Stephen, Board Member

Georges Leger, Board Member