

# New Brunswick Insurance Board

## DECISION

IN THE MATTER:

Of a rate revision application for the Insurance Company of Prince Edward Island  
With respect to automobile insurance rates for  
**PRIVATE PASSENGER VEHICLES**

Hearing Date: February 20, 2020  
Written Hearing

Held at Saint John, New Brunswick

<b>PANEL:</b>	Mr. Marven Grant	Vice - Chair
	Ms. Ferne Ashford, LL.B.	Member
	Mr. James Jessop	Member

### APPEARANCES:

**Applicant:** Insurance Company of Prince Edward Island

**Intervenors:** Consumer Advocate for Insurance  
Ms. Michèle Pelletier Consumer Advocate

**Decision Rendered:** April 06, 2020

NBIB Reference 2019-085

## Summary

- [1] 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 (the “Hearing”) on February 20, 2020 at the Office of the Board, in Saint John. The purpose of the Hearing was to consider the rate revision application (the “Filing”), requesting approval for an average rate increase of 25.00%, based on an indicated rate increase of 32.37% submitted by the Insurance Company of Prince Edward Island (the “Applicant” or “ICPEI”) with respect to automobile insurance rates for Private Passenger Vehicles (“PPV”) in New Brunswick.
- [2] In compliance with subsection 19.71(3) of the *Act*, the Board provided all documents relevant to the Hearing to the Office of the Attorney General (“OAG”), as well as to the Consumer Advocate for Insurance (“CAI”). On January 27, 2020, the OAG notified the Board of its decision to not intervene. The CAI intervened and provided a written submission for the Panel’s consideration.
- [3] The Panel, after examining the evidence presented by the Applicant and the written submission from the CAI, determines that the average rate change proposed by the Applicant is just and reasonable. The Applicant is **approved to adopt the proposed average rate change of +25.00%**.
- [4] The approved rates will be effective on June 1, 2020 for new and renewal business.

## Exhibits

- [5] In the Hearing process, the Panel accepted the following exhibits from the Applicant and the CAI as part of the Record of Hearing as shown below. It should be noted that EY was

initially assigned to review this file on behalf of the Board and this responsibility was later assumed by KPMG following a change of actuaries by the Board.

<b>EXHIBIT</b>	<b>DESCRIPTION</b>	<b>DATE</b>
<b>1</b>	Original Private Passenger Rate Filing	April 4, 2019
<b>2</b>	Round 1 Questions from EY	May 31, 2019
<b>3</b>	Round 1 Response to EY and Amendment 1	August 5, 2019
<b>4</b>	Round 2 Questions from KPMG	August 23, 2019
<b>5</b>	Round 2 Response to KPMG and Amendment 2	August 28, 2019
<b>6</b>	Round 3 Questions from KPMG	September 5, 2019
<b>7</b>	Round 3 Response to KPMG	September 9, 2019
<b>8</b>	Round 4 Questions from KPMG	September 10, 2019
<b>9</b>	Round 4 Response to KPMG and Amendment 3	September 18, 2019
<b>10</b>	Round 5 Questions from KPMG	October 10, 2019
<b>11</b>	Round 5 Response to KPMG	October 21, 2019
<b>12</b>	Round 6 Questions from KPMG	October 24, 2019
<b>13</b>	Round 6 Response to KPMG	October 24, 2019
<b>14</b>	Round 7 Questions from KPMG	October 29, 2019
<b>15</b>	Round 7 Response to KPMG and Amendment 4	November 1, 2019
<b>16</b>	Round 8 Questions from KPMG	November 14, 2019
<b>17</b>	Round 8 Response to KPMG	November 14, 2019
<b>18</b>	KPMG Actuarial Review Summary	December 11, 2019
<b>19</b>	Written Submission from CAI	February 3, 2020

## **1. Introduction**

[6] 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,
- 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**

[7] The Applicant filed a rate revision application for the PPV category of insurance on April 4, 2019. The original overall indication of the rate filing was +32.76% and the Applicant sought an overall average rate increase of 25.00%.

[8] Following the Board's consulting actuaries' questions, the Applicant submitted an Amended Filing on August 28, 2019, decreasing its rate indication to +32.11%. The Applicant made further amendments on September 18<sup>th</sup> increasing its indication to +32.35% and again on November 1st further increasing the indication to +32.37%.

[9] The Board issued a Notice of Hearing on January 6, 2020 and convened a Panel of the Board to conduct a written hearing on the matter on February 20, 2020. The OAG notified the Board that it will not be intervening, and the CAI provided notice that it will only be filing a written submission for the Panel's consideration.

## 2. Evidence and Positions of the Parties

### The Insurance Company of Prince Edward Island

- [10] The Applicant's Filing forms the main portion of its submission and the evidence before the Panel.
- [11] ICPEI presented its Filing to the Board with an overall original rate change indication of +32.76% and proposed to select an average rate change of +25.00%. The Applicant amended its rate application on August 5, 2019, August 28, 2019, September 18, 2019, and on November 1, 2019, ultimately reaching an overall rate change indication of +32.37%, while its proposed selected rate change of +25.00% remained the same.
- [12] The following table sets out the amended indicated and proposed changes to the existing rates by coverage:

Coverage	Indicated Rate Change	Selected Rate Change
Bodily Injury (BI)	+ 56.6%	+ 42.5%
Property Damage (PD)	+ 59.7%	+ 45.0%
Direct Compensation Property Damage (DCPD)	+ 28.9%	+ 24.4%
Accident Benefits (AB)	+ 35.4%	+ 26.3%
Uninsured Auto (UA)	- 10.7%	- 7.9%
Collision	+ 23.2%	+ 17.3%
Comprehensive	+ 21.0%	+ 15.54%
Underinsured Motorist (UM) – SEF44	- 44.8%	- 34.1%
<b>Total</b>	<b>+ 32.37%</b>	<b>+ 25.0%</b>

- [13] The indicated rates contained in the Filing incorporate various assumptions including a target return on equity (ROE) of 12.04%, a pre-tax investment rate on cash flow and

investment rate on capital (ROI) of 2.65%, and a 2.29:1 premium to surplus ratio. The proposed average rates would result in an increase from the current average of approximately \$742 to approximately \$927.

- [14] The Applicant submits that the Filing was prepared utilizing sound actuarial methods and practices, in compliance with the Board's RFG-1 Rate Filing Guidelines and that the assumptions contained therein are reasonable.

### **Consumer Advocate for Insurance**

- [15] The CAI was provided with the Filing and all related documents and filed a written submission for the Panel's consideration.
- [16] The CAI argued that the rate increase requested by the Applicant is "non-reasonable and is neither just nor reasonable" and that the amendment represents a very substantial and significant increase for the consumers of New Brunswick who are required to use motor vehicles in their daily living.

### **3. Analysis and Reasons**

- [17] The Panel has reviewed all of the written evidence before it and the submissions of the parties.
- [18] As part of its review of the evidence and in its deliberations, the Panel noted several issues, the most substantial and impactful of which will be addressed individually below.

#### ***1) Determination of Ultimate Losses***

- [19] In projecting incurred losses to their ultimate amounts, the Applicant used an average of two methods: the Loss Development method based on industry loss development factors

(LDFs) selections and the Bornhuetter Ferguson (BF) method with judgmentally selected expected loss ratios (ELRs) based on the weighted average of the latest 5 years of the Company's historical calendar year incurred loss ratios.

- [20] Using the historical calendar year incurred loss ratios to select the ELRs creates a mismatch between the data used to select the ELRs and the data used in the provincial rate indication calculations. The Applicant did not provide appropriate justification that the approach used to select the ELRs was reasonable, in accordance with generally accepted actuarial practice, and appropriate in the circumstances. The Panel recognizes, however, that given the data groupings used in the Appointed Actuary Report (AAR), the selected ELRs from the AAR may not be a possible option for ICPEI.
- [21] For sensitivity testing purpose, the Applicant provided provincial indications based on projections of ultimate losses relying only on the loss development method (i.e., assigning 0% weight to the ultimate losses projected using the BF method) instead of the average of the two methods. This sensitivity testing shows that the overall provincial rate indication would increase by 0.3% point.
- [22] The Panel is of the opinion that projecting ultimate losses using an average of the Loss Development method based on industry LDFs selections and the BF method with the Applicant's selected expected loss ratios is not the most appropriate approach in these particular circumstances. However, since it was determined by the Panel that the impact of this projection was insignificant to the current Filing, the Applicant was not ordered to revise its calculation in this instance. In future filings, the approach used by the Applicant to select the ELR assumptions for the BF method should be supported by actuarial literature (for example, Casualty Actuary Society exam material-Estimating Unpaid Claims Using Basic Techniques by Jacqueline Friedland, Chapter 8- Expected Claims Technique).

## **2) Complement of Credibility**

[23] To the extent that a company's own loss experience is not credible, other sources of data such as industry data or IAO Actuarial Consulting Services AON Reed Stenhouse Inc. (IAO) can be used as a complement of credibility. In the previous year's filing, ICPEI used the expected loss cost as their complement of credibility. In the current Filing, the Applicant changed its provincial indication ratemaking methodology from a loss cost (pure premium) approach to a loss ratio approach. In turn, ICPEI also changed their complement of credibility methodology from expected loss costs to industry loss ratio. The Applicant submitted that other options, such as net trend and residual rate indication, were considered but were found to be unsatisfactory and did not address rate inadequacy. Further, the Applicant submitted that the profitability of both the Industry and the Company in 2013 was similar, observing that the industry's rate filing activity has been higher over the 2013 through 2017 period. As a result, using the industry loss ratio as a complement of credibility does not overstate the indication.

[24] The Panel considered whether or not the industry was an appropriate representation of the Applicant's own portfolio. Ultimately the Panel concluded that while ICPEI's book of business was certainly not identical to that of the industry, using this method would not cause a significant bias and was not overstating the complement of credibility in these circumstances.

[25] In light of the changes proposed by ICPEI with respect to its provincial indication methodology, and given the need for rate adequacy, the approach adopted by ICPEI with respect to their complement of credibility was found to be acceptable by the Panel.

### **3) Loss Trends**

[26] The Panel reviewed the Applicant's selected loss trends. For sensitivity testing purposes, ICPEI provided a few alternative provincial indications with reasonable statistical fit. These sensitivity tests were based on the following loss cost trend assumptions:

- a. For BI, ICPEI tested using a frequency trend based on the post-MIR trend indication under the model fit by ICPEI on the all-semesters data using a seasonality factor. This testing shows that the overall provincial rate indication would decrease by a 1.45% point.
- b. For AB, the high p-values shown for the post-MIR trends under all the frequency and severity models presented would indicate that a 0% trend cannot be rejected. For sensitivity testing purpose, ICPEI provided an alternative provincial indication based on a 0% trend for each of the frequency and severity trend components, post MIR. This testing shows that the overall provincial rate indication would increase by 0.4% points.
- c. For Comprehensive, the high p-values shown for the 2012-2017 trends under the selected frequency model presented would indicate that a 0% trend cannot be rejected. For sensitivity testing purpose, ICPEI provided an alternative provincial indication based on a 0% frequency trend for the 2012-2017 period. This sensitivity testing shows that the overall provincial rate indication would increase by 0.2% points.

[27] Given the minimal impact to the overall rate indication, and the recognition that the selection of model is based on actuarial judgement, the Panel accepts the chosen loss trends and finds that actuarial judgment was exercised reasonably in these circumstances.

#### ***4) Trends Past and Future***

[28] In previous filings, the Applicant utilized the same loss cost trends for past and future periods. In the current Filing, different loss costs trends were selected for past and future periods. While no sensitivity testing was performed, a comparison of selected past and future loss cost trends rates indicate that selecting the same past and future trend rates would increase the overall indication. While the Panel accepts this methodology for the purpose of this Filing, it is imperative that, in accordance with NBIB Filing Guidelines, the

Applicant include appropriate support and justification for the selection of future trend components in future filings.

#### **5) Investment Yield/Discount Rate**

[29] The NBIB Filing Guidelines and the Canadian Institute of Actuaries both provide guidance to insurers regarding the use of expected Return on Investment in the development of rates. For the purpose of the present Filing, the Applicant selected their discount rate based on the calendar year 2017 investment yield indicated in ICPEI's 2018 P&C-1 (i.e. 2.65%) that was filed with the Office of the Superintendent of Financial Institutions. They indicated that they did not feel the 2018 rate was representative since the return was around 1%.

[30] Sensitivity testing requested of ICPEI as part of the review process based on alternative forward-looking investment yields resulted in immaterial impact on the indicated rate change. The Panel believes that, as ratemaking is a prospective exercise, it would be more appropriate to select forward looking investment yields in future filings. In accepting the proposed Investment Yield/Discount Rate for the purposes of this Filing only, the Panel advises the Applicant that it must use forward looking investment yields in future filings and provide appropriate support for the selection of such yields.

#### **6) Profit Provision**

[31] For the calculation of its overall rate level change need, ICPEI included a profit provision targeting a return on equity (ROE) of 12.04% and a premium to surplus ("P/S") ratio 2.29:1.

[32] The CAI argued in her written submission that the adoption of a target ROE of less than 12% in the calculation of the indicated rates was more reasonable in the current market. She indicated that it was neither fair nor reasonable to allow New Brunswick policyholders to pay more than policyholders of other neighboring Provinces.

[33] The Panel is not persuaded by arguments surrounding treatment of ROE in other jurisdictions, in the absence of evidence to substantiate these arguments. While other regulators may arrive at different conclusions in the specific circumstances of their own jurisdictions, the Panel reiterates that there is no benchmark for target ROE in New Brunswick and that the Board continues to assess every applicant's target on a case-by-case basis.

[34] In addition, the 12% used in the filing for a target ROE is used by the Applicant for the purpose of calculating indicated rates, not to support a proposed rate increase. The rate increase requested by the Applicant, and which is granted by the Panel, results in an implied ROE lower than 12%. The Panel is of the view that this result is just and reasonable in the circumstances of the current filing.

## **4. Decision**

[35] For the reasons set out above, the Panel finds that the rates proposed to be charged by the Applicant, as set out in the Filing, on the whole, are just and reasonable and the Applicant is **approved to adopt the proposed average rate change of 25.00%**.

[36] The approved rates will be effective on June 1, 2020 for new and renewal business.

Dated at Saint John, New Brunswick, on April 06, 2020.

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Marven Grant, Panel Chair  
New Brunswick Insurance Board

WE CONCUR:

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Ferne Ashford, Board Member

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James Jessop, Board Member