New Brunswick Insurance Board

DECISION

IN THE MATTER:
Of a rate revision application for **THE CO-OPERATORS GENERAL INSURANCE COMPANY**
With respect to automobile insurance rates for
Private Passenger

Written Hearing Date: April 7, 2020

PANEL:

Ms. Marie-Claude Doucet, LL.B.	Chair
Ms. Elizabeth Turgeon, LL.B.	Board Member
Ms. Ferne Ashford, LL.B.	Board Member

Applicant: **The Co-operators General Insurance Company**

Intervenors:

Office of the Attorney General

Consumer Advocate for Insurance

Decision Rendered: May 04, 2020

Board Reference 2019-233

Summary

[1] The Applicant, Co-operators General Insurance Company ("Co-operators" or "CGIC") filed a Rate Application with respect to automobile insurance rates for Private Passenger Vehicles (PPV) in New Brunswick requesting approval for an average rate increase of 10.58%, based on an indicated rate increase of 10.83%.

[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 April 7, 2020.

[3] Pursuant to subsection 19.71(4) of the *Act*, the Office of the Attorney General ("OAG") intervened, questioned the Applicant by way of written interrogatories and presented written submissions. The Office of the Consumer Advocate for Insurance ("CAI") intervened as well, adopted the position of the OAG, and presented a written submission.

[4] Further to an exhaustive examination of the evidence, the Panel determines that the indication proposed by the Applicant is justified and reasonable.

[5] The Applicant is ordered **to adopt the proposed average rate change of 10.58%** for the reasons set out below.

[6] The approved rates will be effective on July 22, 2020 for new business and September 5, 2020 for renewal business.

Exhibits

[7] The following exhibits were accepted as evidence and formed the Record of Hearing:

EXHIBIT	DESCRIPTION	DATE
1	Original Private Passenger Rate Filing	Sept 13, 2019
2	Round 1 Questions from KPMG	Sept 26, 2019
3	Round 1 Response to KPMG	Oct 2, 2019
4	Round 1 Questions from NBIB	Oct 3, 2019
5	Round 1 Response to NBIB	Oct 7, 2019
6	Round 2 Questions from KPMG	Oct 8, 2019
7	Round 2 Questions from NBIB	Oct 8, 2019
8	Round 2 Response to KPMG	Oct 15, 2019
9	Round 2 Part 1 of 2 Response to NBIB	Oct 15, 2019
10	Round 2 Part 2 of 2 Response to NBIB	Oct 17, 2019
11	Round 3 Questions from KPMG	Oct 21, 2019
12	Round 3 Response to KPMG	Oct 24, 2019
13	Round 4 Questions from KPMG	Nov 8, 2019
14	Round 4 Response to KPMG	Nov 15, 2019
15	KPMG Actuarial Review Summary	Nov 15, 2019
16	Round 3 Question from NBIB	Nov 19, 2019
17	Round 3 Response to NBIB	Nov 21, 2019
18	Round 1 Questions from OAG	Jan 24, 2020
19	Round 1 Response to OAG	Feb 4, 2020
20	Request for Amendment	Feb 5, 2020
21	Round 2 Questions from OAG	Feb 11, 2020
22	Amendment	Feb 11, 2020
23	Round 2 Response to OAG	Feb 19, 2020
24	OAG Intervener Report	Mar 3, 2020
25	CGIC Questions on Intervener Report	Mar 10, 2020

26	Response to Intervener Report Questions	Mar 17, 2020
27	Final Submission CGIC	Apr 2, 2020
28	Final Submission OAG	Apr 2, 2020
29	Final Submission CAI	Apr 2, 2020
30	Board's Request for Information	Apr 8, 2020
31	Written response by CGIC to NBIB Query	Apr 16, 2020

[8] Following the hearing, the Panel requested additional information and sensitivity analysis from the Applicant, which was received on April 16, 2020. The response was considered by the Panel prior to rendering a decision.

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:

- The Insurer files for a rate change more than twice in a 12-month period,
- 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
- When the Board requires it to do so.

Procedural History

[10] The Applicant filed a rate revision application for the PPV category on September 13, 2019. The original overall rate indication of the Filing was +10.38% and the Applicant proposed an overall average rate increase of +10.16%.

[11] In the process of responding to questions from the Board's consulting actuaries (KPMG) and the OAG's consulting actuaries (Oliver Wyman), the Applicant submitted Amended Filings ultimately adjusting its rate indication to +10.83% and selection to +10.58%.

[12] The Board issued a Notice of Hearing on December 4, 2019 and convened a Panel of the Board to conduct a written hearing on the matter. The OAG and the CAI both provided notice of their respective intentions to intervene in the Hearing.

[13] In addition to the pre-Hearing questioning from the Board and its actuaries, the OAG submitted two sets of interrogatories to the Applicant, to which answers were provided. Thereafter, pre-Hearing written submissions were provided by the Applicant, the OAG and the CAI to the Panel.

2. Evidence and Positions of the Parties

Co-operators General Insurance Company

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

[15] Co-operators initially presented its Filing to the Board requesting an overall average rate increase of 10.16%, later amended to a final requested overall rate increase of 10.58%, on the basis of a rate indication of +10.83%.

[16] The following table summarizes the Applicant's final amended indicated and proposed rate changes to the existing rates by coverage:

Coverage	**Indicated**	**Proposed** (before Capping)
Bodily Injury (BI)	+18.30%	+18.30%
Property Damage (PD)	-7.37%	-7.35%
Property Damage – Direct Compensation (DCPD)	+6.99%	+6.99%
Accident Benefits (AB)	+3.14%	+3.14%
Uninsured Auto (UA)	-7.74%	-6.14%
Collision	+6.53%	+6.53%
Comprehensive	+22.13%	+22.14%
Specified Perils (SP)	+22.13%	+17.93%
Underinsured Motorist (UM) – SEF44	-4.52%	-1.63%
Total	+10.83%	+10.85%*

* 10.58% after capping

[17] The rates contained in the Filing are estimated assuming a target return on equity (ROE) of 12.0%, a pre-tax investment rate on cash flow is 2.00% and investment rate on capital (ROI) of 6.00%, and a 2.05:1 premium to surplus ratio. Proposed average rates would increase from the current average of approximately $909 to approximately $1,008, before capping.

[18] In its Final Submission made to the Board, Co-operators provided the following reasoning for its proposed rate increase:

> Ratemaking is a prospective exercise and, based on that fact, it is not an attempt to recoup past losses. Our rate level indication has increased despite the approved increase to our rates last year due to poor experience, as shown through our underwriting results, and escalating loss trends that show no signs of reversing. These financial results from our New Brunswick Auto portfolio and the loss trends, further supported by our rate level indication, led to the decision to propose a rate level change equal to our overall rate level indication. Prior to last year's proposed rate change, we had given the portfolio time to turn around. Consistent with our

risk-based approach to pricing, we have proposed ongoing segmented changes, to more accurately charge rates that are commensurate with the risk presented by each New Brunswick driver that we insure. But these segmented changes have not been sufficient to achieve the desired results overall. Neither have actions taken by our advisors and other internal departments. Therefore, it is necessary to propose a rate level increase of +10.8%, in line with our overall rate level indication of +10.8%. This rate change is taken in step with the efforts noted above to address the market's profitability and sustainability challenges. We intend for it to be short-term measure only because we are executing long-term strategies, such as fighting fraud and working with public officials to reform the product and regulatory environment, that will ideally bring stability and premiums savings to New Brunswick drivers in the future.

We understand that many of our clients will continue to experience larger increases than those experienced in previous years. This will likely have an impact on their household budgets. But our decisions were not made lightly. We are confident it is ultimately in our clients' best interest that CGIC remains viable and sustainable, and maintains its local presence in New Brunswick communities, so we can continue to offer a variety of products and choice. It is important to us that our clients have a sense of financial security, knowing they can count on us in the event of a claim. Our decision to propose a rate increase of 10.8% is not an effort to recoup past losses or to be unfair to our clients in any way. It was a decision made to ensure we have adequate rates in our future rating period, driven by our vision to provide financial security and peace of mind for our clients and their communities.

Our filed rate level indication of +10.8% is reflective of the ongoing state of the market and CGIC's financial results in New Brunswick. For that reason, these topics have been discussed at length above as they are important to address with the Board. It is our position that our proposed rate level increase of 10.8% is just and reasonable based on our filed rate level indication, its underlying data and assumptions. The proposed rate level is also a reflection of the current state of the market. Qualified actuaries, in good standing with the CAS and CIA, validated our data, created models, and made selections applying actuarial judgement based on their expertise. They did so with extensive knowledge of our business model, our clients, and our underlying data. The methodologies and assumptions used to develop our filed rate level indication are documented and disclosed, they are consistent with past filings (unless otherwise noted and explained), and they adhere to the NBIB's filing guidelines and the actuarial standards of practice. We are confident in our work, we are confident that our assumptions and selections are reasonable, and therefore that the proposed rates to be charged are also just and reasonable.

[Record of Hearing, pp. 1783 - 1784]

[19] 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 completed in accordance with the Board's RFG 1 Rate Filing Guidelines.

Office of the Attorney General

[20] The OAG was provided with the Filing and all related documents. The OAG was also given the opportunity to further query the Applicant through a written interrogatory process, which provided for two rounds of interrogatory questions and answers. At the conclusion of the interrogatory process, and prior to the Hearing, the OAG made a final written submission to the Board summarizing its position.

[21] The OAG's Final Written Submission challenged the Applicant's analysis on the following issues:

1) Severity Loss Trend selection for BI and PD Coverages
2) Impact of the 2013 *Minor Injury Regulation* Reform (MIR)
3) Profit Provision – Selection of ROE

[22] In its Final Written Submission, the OAG summarized its findings and conclusions to the Panel as follows:

> We reviewed the rate level indications developed by CGIC, and, in so doing, examined all aspects of CGIC's ratemaking procedure. There are several aspects of CGIC's analysis of its rate level needs where we believe that alternate calculations and/or assumptions should be considered by the Board.
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> Following CGIC's general methodology for determining its rate level needs, but with alternate assumptions, judgments, and calculations that we believe to be more appropriate, we find its overall rate level change need to be +6.5% - less than the +10.8% change proposed by CGIC. In this report, we present the basis for our conclusion.
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> Our findings are based on the information contained in the application, responses provided by CGIC to our questions, and our review of insurance industry statistical

experience in New Brunswick as published by the General Insurance Statistical Agency (GISA).

[Record of Hearing, page 1791]

Consumer Advocate for Insurance

[23] The CAI presented the Panel with a written submission and challenged the Filing submitted by the Applicant. The CAI suggested that the Board should require the Applicant to adopt the alternatives presented by the OAG for the benefit of the insurance consumers of New Brunswick.

[24] In her written submission, the CAI questioned the reasonability of the 12% ROE targeted by the Applicant and argued that an ROE of 12% is not permitted in other Atlantic provinces and in Ontario.

[25] The CAI argued that the rate increase requested by the Applicant is neither just nor reasonable and supports the analysis of the OAG in relation to the Filing.

3. Analysis and Reasons

[26] The Panel has reviewed and considered all of the evidence before it and representations made by the parties.

[27] The Panel's decision reflects that each of the actuaries' analyses are based on methodologies relying on numerous data, assumptions and judgement. As set out below in more detail, the Panel ultimately 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.

[28] The Panel addresses each of the substantial issues individually below:

1) Loss Trends Selection

[29] The selection of loss trend rates requires the analysis of past data and the application of professional judgement in order to select trend rates for each coverage. Loss cost trends can be 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.

a) Third Party Liability – Bodily Injury

[30] The OAG's submission questioned the use by CGIC of industry data, excluding Facility Association (FA) data. The Panel reviewed the concerns of the OAG, but accepts that the Applicant's Filing is compliant with the existing RFG-1 Rate Filing Guidelines, which state as follows:

> "4.b. vi Direct losses should be the basis for ratemaking and should not be reduced by the insurer's cession to the Risk Sharing Pool Direct losses should not include losses incurred on the Facility Association Residual Market risk business. Similarly, where industry – wide statistics are used, Facility Association Residual Market Risks results should be excluded. The Facility Association will be the exception to this rule."

- ***<u>Severity Trend Selection</u>***

[31] The Applicant and the OAG rely upon different models to support their respective positions in terms of frequency and severity trend rates for BI. However, since the difference in frequency trend selection between the two parties was immaterial to the overall indication, the OAG took little issue with the Applicant's frequency trend selection. The Panel agrees that the Applicant's suggested BI frequency trend is a reasonable one when considered as a system in conjunction with BI severity trend.

[32] For the BI severity trend rate, the Applicant selected a past and future trend rate of +13.9% based on its regression analysis using 5 years of Industry PPV experience, excluding FA. The Applicant estimated the Industry PPV ultimate claim counts for accident years 2009 to 2018. The Applicant determined an adjustment for the MIR effective 2013-02 and applied the adjustment to Industry PPV losses prior to the reform to bring them to the current legislative environment. Severities were derived and analyzed for patterns. These initial steps were used as a validation procedure to give additional assurance that the final modelling indicated sensible trends. For the final modelling, the Applicant based its analysis on five "post-MIR" annual data points (2014 to 2018). The Applicant described this two-step approach in its final submission:

> "Following a review of various models, the length of the trend period was not the most important factor in terms of our selected model. Based on the challenges and uncertainty associated with putting the pre-reform data on a comparable basis with the post-reform data, we made the decision to include only post reform data in our model. The R-squared statistic, p-value, and our understanding of the 2013 MIR reform gave us confidence with this model. Lastly, we were comfortable with the length of the trend period given the number of claims in our model."
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> [Record of Hearing, page 1768]

[33] In contrast, the modelling proposed by the OAG utilizes industry data, including FA, it includes a scalar to model the MIR and uses 40 semi-annual data points (1999-2018). The question of using FA data was addressed in paragraph 30 of this decision.

[34] With respect to the number of data points used for trend analysis, the OAG argues that the additional experience creates a valid, statistically significant result that best reflects the trends for long tail coverages such as BI. The Panel notes that the statistical significance measures for the OAG models, such as R-squared and p-values are within the same range of reasonable values as the statistical measurements of the Applicant's model.

[35] The Applicant responded to these concerns about the number of data points by noting that they had made a change in this year's filing to rely upon industry data, instead of their own data. As

a result, it was argued, they were able to analyze a greater number of claims, leading to a level of comfort with the shorter trend period.

[36] The creation of reasonable and credible trend models undoubtedly requires actuaries to balance stability and responsiveness considerations. For instance, the uncertainty inherent in the estimation of ultimate losses for recent accident years may call for stability. Recent advancements in vehicle safety and other considerations may lean toward responsiveness.

[37] Nevertheless, concerned with the potential for over-reaction with a 5-year trend period, the Panel requested that the Applicant provide TPL- BI trends (both severity and frequency) and sensitivity tests using 6, 7, 8, 9 and 10 year periods. Also, for sensitivity testing purpose, the Applicant was requested to provide a calculation of the rate indication if the future severity trend rate were judgmentally set at 50% of the past severity trend rate.

[38] The results of the request for additional sensitivity measures support the Applicant's submission that the initially proposed severity trend model for TPL-BI was statistically significant and acceptable among the alternative severity trend models. When considered as a system, the results support the Applicant's position that the combination of frequency and severity trend based on 5 years of data is a sound estimate of the past and future loss cost trends for TPL-BI, and remains relatively consistent even with those longer periods.

[39] The model for TPL-BI proposed by the OAG simultaneously measured the severity trend and the MIR impact by introducing a scalar parameter. In contrast, the Applicant used a two-step model adjusting the data for the MIR impact and then measuring the trends from the adjusted data. The Panel understands that each model has its strengths and weaknesses, and one model may be more appropriate in a given set of circumstances. The Panel finds the Applicant's two-step approach acceptable when considering that the resulting TPL-BI loss cost trend is based on post-MIR data, and that the sensitivity outcomes corroborated the magnitude of the selected trends.

[40] The OAG observed a material shift upward in the TPL-BI severity data at 2015-2 and postulated that there is a lagged response to the 2013 MIR reform. The OAG also presumed that the delayed

response lasted until 2018 and the severity trend resumed its pace afterward. In contrast, the Applicant's selected TPL-BI model, relying on post-MIR data, determines an on-going level of severity trend. The Panel carefully considered the arguments and finds that it did not receive sufficient evidence to support such a delayed response to the MIR reform, nor to support the cessation of reform impact in 2018. The Panel finds the Applicant's position about the on-going level of TPL-BI severity trend to be reasonable in this circumstance.

[41] The OAG's modelling also uses semi-annual data, as an aid to provide insight into the data. The Panel agrees that the data presented by half-year may provide insights but agrees that the Board's Guidelines do not strictly require the data to be assessed and presented in this form. The Applicant, during their review and as part of their analysis, considers semi-annual data but the selections were based on annual accident year data. The Applicant argues that there are challenges with using this type of data, including seasonality bias, unnecessary deviations, and potential overreaction to recent changes in loss costs or loss costs in a single half year period. The use of annual data, it is argued, smoothes the seasonality effect, and more readily identifies trend patterns.

[42] The Panel recognizes that there are multiple valid models to estimate trends. In this particular situation, the advantages of a model relying on semi-annual data do not appear to overthrow models relying on annual data. The Panel finds that the use of annual data led to a reasonable and appropriate analysis of the TPL-BI severity trend in this Filing.

b) <u>Property Damage</u>

[43] For the Third-Party Liability - Property Damage (TPL-PD) coverage, the Applicant performed its regression analysis, measuring loss cost trend rate using industry data (excluding FA) over 10 annual data points. The resultant frequency trend is -3.35% and severity trend is +3.55%. The Applicant's model accounts for some increasing severity, balanced with decreasing frequency, and a loss cost trend of +0.1%.

[44] The OAG used 10 years of semi-annual data for the calculation of these trends. As with the BI coverage, the OAG took no great issue with the frequency modelling, as the trends themselves were agreed to be reasonable.

[45] With regard to TPL-PD severity model, the OAG considered a scalar shift at 2014H1 and obtained a trend of 0%. Apart the reference to visual inspection of the data, the Panel finds that it did not receive a rationale to support such a scalar shift to supplement the statistical tests. The Panel agrees with the Applicant that it did not receive evidence of any changes in the environment or context that would explain this one-time change.

[46] The Panel has reviewed the respective arguments regarding the relative merits of each approach. The Panel finds the Applicant's model to be reasonable, and the exercise of judgment appropriate in this circumstance. It also noted that small changes to the TPL-PD severity trend has a negligible impact on the overall rates proposed to be charged. The Applicant's model for TPL-PD severity trend is accepted as presented.

2) Profit Provision

[47] For the calculation of its overall rate level change need, the Applicant includes a profit provision targeting a return on equity (ROE) of 12%, a premium to surplus ("P/S") ratio of 2.05 to 1, as well as a pre-tax return on investment (ROI) of 2% on policyholders' supplied funds and of 6% on its surplus.

- ***<u>Selection of Return on Equity</u>***

[48] The CAI challenges the reasonableness of the Applicant's selected ROE of 12%. In her Final Submission, the CAI indicates that insurers in other Atlantic provinces and the province of Ontario are not permitted to use a ROE of 12% and that the permissible ROE in New Brunswick should be aligned with other provinces.

[49] The Intervenors did not provide evidence, beyond argument and suggestion of different treatment in different jurisdictions, that challenged the reasonableness of a 12% ROE. While other regulators may arrive at a particular conclusion in the specific circumstances of their jurisdictions, the Board is neither compelled nor bound by findings and conclusions of other automobile insurance rate regulatory bodies on a matter.

[50] A 12% ROE has been traditionally accepted by various Panels of the Board as being reasonable in the New Brunswick environment. No party provided evidence, beyond argument, challenging the reasonableness of a 12% ROE. This Panel is satisfied that a target after-tax ROE of 12% is reasonable for CGIC in the circumstances.

[51] 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 the merits of the parties' respective evidence.

4. Decision

[52] This decision is a fulsome consideration of the Applicant's filing, dated September 13, 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.

[53] For the reasons set out above, the Panel finds the Applicant's Filing to be just and reasonable.

[54] The Applicant is **approved to adopt the proposed overall average rate change of +10.58%**.

[55] The approved rates will be effective on July 22, 2020 for new business and September 5, 2020 for renewal business.

Dated at Dieppe, New Brunswick, on May 04, 2020.

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

WE CONCUR:

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Elizabeth Turgeon, Board Member

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Ferne Ashford, Board Member