New Brunswick Insurance Board

DECISION

IN THE MATTER:
Of a rate revision application for **The Portage la Prairie Mutual Insurance Company**
With respect to automobile insurance rates for
Private Passenger Vehicles

Written Hearing

Saint John, New Brunswick

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

Applicant:	**The Portage la Prairie Mutual Insurance Company**	
Intervenors:	**Office of the Attorney General**	Michael L. Hynes
	Consumer Advocate for Insurance	Michèle Pelletier

Hearing Date: June 11, 2020

Decision Rendered: July, 09, 2020

Summary

[1] The Portage la Prairie Mutual Insurance Company (the "Applicant" or “Portage") filed a Rate Revision Application (the “Filing”) with respect to automobile insurance rates for Private Passenger Vehicles (PPV) in New Brunswick requesting approval for a proposed average rate increase of 15.0% based on an indicated average rate increase of 18.0%.

[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 June 11, 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] The Panel, after examining the evidence and submissions made by all parties, determines that the rates proposed to be charged by Portage are just and reasonable and the Applicant is approved to adopt the proposed average rate change of +15.0%.

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

Exhibits

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

EXHIBIT	DESCRIPTION	DATE
1	Original Filing	Dec 1, 2019
2	Round 1 Questions from KPMG	Jan 7, 2020
3	Round 2 Questions from KPMG	Jan 10, 2020
4	Round 1 and 2 Response to KPMG	Jan 17, 2020
5	Amendment 1	Jan 17, 2020
6	KPMG Actuarial Review Summary	Feb 7, 2020
7	Round 1 Questions from NBIB	Mar 16, 2020
8	Round 1 Response to NBIB	Mar 24, 2020
9	Round 2 Questions from NBIB	Mar 26, 2020
10	Round 2 Response to NBIB	Mar 31, 2020
11	Round 1 Questions from OAG	Apr 3, 2020
12	Round 1 Response to OAG	Apr 17, 2020
13	Round 2 Questions from OAG	Apr 24, 2020
14	Round 2 Response to OAG	May 1, 2020
15	Intervenor Report dated	May 8, 2020
16	Portage questions regarding OW/OAG report	May 15, 2020
17	OAG response to Portage questions	May 22, 2020
18	Final Submission from CAI	May 19, 2020
19	Final Submission from OAG	May 29, 2020
20	Final Submission from Portage	May 29, 2020
21	Supplemental submission from Portage	June 2, 2020
22	Complement of Credibility Issue Explanation from OAG	June 5, 2020
23	Response to request for Documentation from Portage	June 5, 2020

1. Introduction

[7] 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

[8] The Applicant filed a rate revision application for the PPV category on December 1, 2019. The overall rate indication of the Filing was +18.0% and the Applicant sought an overall average rate increase of +15.0%.

[9] As the proposed average rate increase was greater than 3%, a Hearing was triggered before the Board. The Board issued a Notice of Hearing on February 24, 2020 and convened this Panel to conduct the Hearing on the matter. The OAG and the CAI both provided notice of their respective intentions to intervene in the rate hearing.

[10] Prior to the Hearing, the OAG submitted two sets of interrogatories to the Applicant, to which answers were provided. Portage also had the opportunity to ask questions related to the OAG's expert actuarial report, and answers were provided.

[11] Furthermore, pre-Hearing written submissions were provided by all of the Parties to the Panel.

[12] Prior to the Hearing, upon receipt of the OAG's written submission, Portage filled a Supplemental Written Submission, addressing an issue not previously raised. All Parties had the opportunity to consider and make additional submissions in regard to the matters raised within this Supplemental Written Submission to the Panel in advance of the Hearing.

2. Issues and Positions of the Parties

The Portage la Prairie Mutual Insurance Company

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

[14] The following summarizes the Applicant's indicated and proposed changes to the existing rates by coverage:

Coverage	Indicated	Proposed
Bodily Injury (BI)	10.50%	10.00%
Property Damage (PD)	16.90%	15.00%
Property Damage – Direct Compensation (DCPD)	24.10%	20.00%
Accident Benefits (AB)	40.10%	20.00%
Uninsured Auto (UA)	22.90%	20.00%
Collision	17.30%	15.00%
Comprehensive	15.50%	15.00%
Specified Perils (SP)	-46.40%	0.00%
Underinsured Motorist (UM) – SEF44	-27.30%	0.00%

Total	18.00%	15.00%

[15] The rate indication calculations set out in the Filing incorporate various assumptions, including a target return on equity (ROE) of 12%, a pre-tax investment rate on cash flow (ROI) of 1.50%, an investment rate on capital of 3.7% and a 2:1 premium to surplus ratio. If the proposed increase is approved, average rates would increase from the current average of approximately $935 to approximately $1,075.

[16] In its Final Submission, Portage provided the following reasoning for its proposed rate increase and deviation from the indicated rate changes:

> […] There is always a degree of uncertainty in any rate filing, as the true costs of the policies written today won't be known until sometime in the future when all claims are closed. In recognition of this uncertainty, we have requested an increase that is less than the indicated rate change of +18%.
>
> As a Company, we have struggled with our Automobile underwriting results in almost every jurisdiction in Canada – and New Brunswick has been no exception. In last year's final submission I reported that our underwriting losses on our NB auto portfolio (all classes) have exceeded $9,000,000 over the last 6 years. In 2019, we experienced another significant underwriting loss on New Brunswick auto of over $500,000 bring the loss over the last seven years to more than $9,500,000.
>
> It is clear to us that the steps taken a number of years ago to control loss costs are no longer having the desired impact. As a Company, the only option available to us is to move rates up to a more sustainable level. If we are to avoid large rate increases in the future, we need the government's assistance to effect product change and help control loss costs. The status quo is simply not working.
>
> […]
>
> We are under no illusions that this rate increase will correct all of the ongoing issues; however, we will be in a better position to stabilize the underwriting results on our auto book in the Province of New Brunswick and continue to be a viable and valued market for New Brunswick Insureds and Brokers.
>
> [Record of Hearing, pp. 1027-1028]

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

Office of the Attorney General

[18] 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. The Applicant also had the opportunity to question the OAG's expert, Oliver Wyman, regarding the expert opinion set out in the Intervenor Report. 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.

[19] The OAG challenged the Applicant's position on a number of assumptions and methodologies and, in its final submission, summarized its findings and conclusions to the Panel as follows:

> We reviewed the rate level indications developed by Portage, and, in so doing, examined all aspects of Portage's ratemaking procedure. There are several aspects of Portage's analysis of its rate level needs where we believe that alternate calculations and/or assumptions should be considered by the Board.
>
> Following Portage'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, +11.6%, less than the +15.0% change proposed by Portage […]
>
> [Record of Hearing, p. 1002]

Consumer Advocate for Insurance

[20] The CAI's intervention was limited to a written submission opposing the level of rate increase sought by Portage and adopting the position of the OAG in relation to the Filing. The CAI argued that the rate increase requested by the Applicant is neither just nor reasonable and supports the position of the OAG in relation to the Filing.

[21] In her submission, the CAI submitted that the insurance rates in New Brunswick have to be just and reasonable. The CAI questioned whether Portage's selection on the ROE and ROI are fair to the consumers of New Brunswick and reasonable. The CAI concludes as follows:

> Portage applied to amend their currently approved private passenger vehicle Insurance rates. The proposed increase rate for private passenger vehicles automobile is an average of 15.0%. This amendment represents a significant increase for the Consumers of New Brunswick.
>
> […]
>
> It is our opinion that in determining whether the rates proposed by Portage are just and reasonable, the Board should give consideration to the reasonableness of alternate assumptions and adjustments to Portage's rate level indication calculations. The Office of the Attorney General have proposed other alternatives who were reasonable.
>
> […]
>
> We submit that the proposed increases are high. This increase requested by Portage is neither just nor reasonable.
>
> [Record of Hearing, pp. 990, 991]

3. Analysis and Reasons

[22] The Panel has reviewed and considered all of the written evidence before it, including the submissions of the Parties.

[23] 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 these circumstances.

[24] 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) Loss Trends Selection

[25] The selection of loss trend rates requires the analysis of past data and the application of professional judgement in order to select trend rates representing past experience and future expected results 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.

[26] Generally, the OAG did not disagree with the Applicant's overall approach to modelling, but the experts diverged on the issues of selected loss cost trend rates for the Property Damage, Accident Benefits and Collision coverages.

a) Loss Trends – Property Damage

[27] For the Property Damage (PD) coverage, Portage used semi-annual industry data, including the Facility Association data, for the period 2008-2018. While the Intervenors accepted this general methodology, the Panel raised concern that the approach was not in compliance with the RFG 1 Rate Filing Guidelines. This issue is addressed below, at paragraphs 47-49 inclusive_, as it is relevant to all of the loss trends in the Filing.

[28] Portage's selected PD frequency trend, at -2.80% for past and future periods, was derived from their regression analysis. While the OAG disagreed with the Applicant's approach in determining the annual frequency trend rate, they nevertheless found the selected trend rates

to be reasonable. The Panel agrees that the selected annual frequency trend rate of -2.80% is a reasonable one.

[29] With regard to the PD severity trends, Portage's analysis excluded one data point from the experience period underlying the trend analysis as an apparent outlier. Relying on the result of their regression analysis, the Applicant selected a positive severity trend of +3.1%.

[30] In contrast, the OAG's expert actuarial review found that starting approximately in 2014, they observed that the severity trend appeared relatively flat, if not slightly decreasing. This flattening was noticed through visual inspection of the data, which is seen to present a large increase between 2014-1 and 2014-2. The OAG thus proposed to include a scalar shift parameter at 2014-2. The OAG also argued that the subsequent flattening they observed ought to have been given some weight in the analysis. Alternatively, at a minimum, the OAG suggested that the future severity trend rate be determined at 0.0% to best reflect the recent experience. The OAG is critical of Portage for failing to consider including such a scalar shift as part of their modelling, thus overestimating the future severity trend rate and rate level change need.

[31] Portage responded to the OAG's criticism by pointing out the lack of rationale, beyond visual analysis, for the sudden increase in loss costs in 2014-2. Upon a more detailed review of industry size of loss data, Portage provided context for the higher severity observed in 2014-2 and offered a possible explanation. Portage noted that over 30% of the incurred losses in 2014-2 were related to a single, large claim. As a result, Portage argued that the 2014-2 experience would not be appropriately reflected in the regression model by introducing a scalar shift parameter. Instead, Portage argued that this point "represents a random occurrence of a large claim that is not indicative of a change in trend" and that it would be appropriate to treat this data point as an outlier. Under this approach, the long-term regression model presented by Portage for the severity trend indicates a clear positive trend.

[32] While the OAG's modelling resulted in a higher R-squared value (60.7%) than the Applicant's model (36%), this statistical measurement is not the only indication of a reasonable model,

particularly for a smaller coverage like PD. Justification and rationality for the application of judgment, whether it is to impose a scalar shift parameter or to remove an outlier, is an essential component, particularly where a Panel is required to determine the appropriate model in the context of the particular application, given two very different approaches.

[33] The Panel agrees with the Applicant that there is nothing in the evidence to explain the one-time shift in severity set out in the OAG's proposed model in 2014-2. The Panel finds that the Applicant was able to satisfy the evidentiary burden for its selected approach to model the severity trends, taking into account the distortion caused by the 2014-2 data point. The Panel finds that the model and the judgment presented by Portage are well supported. It also noted that small changes to the PD severity trend has a negligible impact on the overall rates proposed to be charged. The Panel accepts the Applicant's resulting severity trend.

b) Loss Trends – Accident Benefits

[34] For the Accident Benefits (AB) coverage, Portage presented a frequency trend model based on a data period of 2006-1 to 2018-2 and selected a past and future trend of -0.6%. The R-squared value is 82.4 % and p-values are less than 0.1% for each of the regression variables included in the model.

[35] As was the case with the PD coverage, the OAG agrees with the resultant trend rate, though not the approach used by the Applicant to determine the AB frequency trends. The Panel accepts that the Applicant's selected frequency trend is reasonable.

[36] For severity, Portage considered a data period of 2008-1 to 2018-2 and identified 2013-1 to be an outlier that they decided to exclude from their severity regression model. Portage selected past and future severity trend rates of +1.1%, based on the results of a regression model with low R-squared values and a high p-value.

[37] The OAG found, through visual inspection, that the data pattern was relatively flat, although recognizing that the data was subject to considerable variability. Furthermore, the OAG found

that no model matched particularly well to the data. After removing all regression variables iteratively, except for the intercept, the OAG explained that their selected model implied a 0% severity trend rate. As a result, the OAG judgmentally selected no severity trend for AB.

[38] The Applicant recognized that its selection of a severity trend of + 1.1% is also an exercise of judgment. The Applicant found that none of the models used for trend analysis of this coverage, had strong support by way of regression statistics, and that there were no strong models. Portage visually examined the data points which, in their view, clearly showed a slight upward trend during the experience period relied on for the trending analysis. As a result, they judged that the selection of a +1.1% annual severity trend was more appropriate than the 0.0% trend suggested by the OAG. Portage further argued that the lack of strong statistical support does not necessarily lead to an inevitable conclusion that there is no underlying trend.

[39] In response to questions from the OAG, Portage conducted some sensitivity testing with the alternate severity trend assumption. Adopting a 0.0% severity trend for Accident Benefits would reduce the indicated average rate change for that coverage from 40.1% to 33.6%. It is important to note that Portage's proposed rate change for this coverage is far below both of these levels, at 20.0%.

[40] The Panel understands that the sub-optimal statistics underlying the Applicant's model would indicate that the hypothesis of 0% trend cannot be rejected. The Panel has reviewed the graph of data points and agrees with the Applicant that a visual inspection and common sense supports the selection of a slight upward severity trend. The Panel therefore agrees with the exercise of judgment adopted by the Applicant in the adoption of the selected trend. The Panel also was of the view that the judgment in selecting a slight AB severity trend could be further supported by the signal found in the severity trend for Bodily Injury coverage.

c) Loss Trends - Collision

[41] For the Collision coverage, Portage again divided its loss costs trend analysis into a separate consideration of frequency and severity.

[42] For severity, the Applicant's regression model included data from the 2009-1 to 2018-2 period and selected past and future trends of +2.4%. The OAG agreed with the selections of the past and future trends, though not with the Applicant's approach to determine its annual severity trend rate. The Panel agrees with the Parties, upon review of the evidence, that the selected severity trend is a reasonable one.

[43] With respect to frequency trend rates for the Collision coverage, the parties differ primarily on the issue of the number of data points that ought to be included in the trending analysis. The selection of the appropriate experience period is an exercise in balancing the need for responsiveness to the most recent experience with a need to achieve stability. The Panel understands the importance to distinguish trend signal versus noise in selecting the appropriate experience period. The Applicant used data from 2012-1 to 2018-2 and excluded two outliers (2014-1 and 2015-1) from its model for a past and future trend rate of +3.5%. The OAG's expert actuary instead included data points from 2000-1 to 2018-2 and arrived at past and future trend rates for frequency of +0.4%.

[44] For short tail coverages like Collision, the Panel recognizes that it is often reasonable to consider a shorter experience period, as there is greater certainty in the estimates of ultimate values due to the fast claim reporting and settlement. In its Filing, Portage started with 14 data points (7 years of half-year data), then removed two data points as they deemed them to be outliers based on extraordinary snow events. The resultant model produces a good fit, with an R-squared value of 81.5%.

[45] In considering whether this methodology is a reasonable one, the Panel noted the apparent consistency within the Filing between similar coverages on the same book of business. The Panel observed that there is an expectation for the movements in loss costs for the DCPD coverage to be correlated with the Collision coverage, and indeed the Applicant's

methodologies and assumptions related to the two coverages are consistent. The selected trends for DCPD are: frequency +2.8% and severity +3.6%, with a resulting loss cost trend of +6.5%. For comparison, the combined selected loss cost trend for Collision is +6.0%. The OAG's methodology would result in a loss cost trend for Collision of +2.8%, while the unchallenged loss cost trend for DCPD was +6.5%.

[46] In the circumstances of this short tail coverage, its consistency with related DCPD coverage, and the use of 12 data points with a good fit, the Panel accepts the trend rate selected by Portage for Collision frequency.

2) __Inclusion of FA Data__

[47] The Applicant's loss trends and complement of credibility adopt and use the industry development data for New Brunswick private passenger vehicles, consisting of losses combined with Allocated Loss Adjustment Expenses (ALAE), including Facility Association (FA) data. When questioned by the Board's consulting actuaries regarding the inclusion of FA data, the Applicant responded that this approach is adopted to promote consistency with GISA's published industry experience.

[48] The Board's 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.

[49] When a concern of non-compliance with the Board's Filing Guidelines was flagged to the Applicant during the pre-Hearing process, the Applicant acknowledged it. At the request of the Board's consulting actuaries, Portage conducted sensitivity analysis and it was determined that the removal of FA data from the industry data used as a complement of credibility would reduce

the indication from 18.0% to 16.8%. In light of the Panel's decision on the remaining issues, the approval of the proposed lower rate change of 15.0%, and because Portage does not seek to use the gap between the proposed and indicated rate indication as a complement of credibility, the Panel has determined that it is not necessary to require the Applicant to formally amend the current filing to exclude FA data from all instances where industry data is relied on within the filing (i.e., trends, industry loss development factors, and complement of credibility). Portage has undertaken to adhere to the Filing Guidelines for future filings.

3) __Complement of Credibility__

[50] To the extent that the Applicant's own experience is not fully credible to determine its rate level need, it must assign a complement of credibility (a remaining predictive value) to another measure of rate level need. In its previous filing, Portage, lacking sufficient data to reach the full credibility standard, adopted a net trend complement of credibility approach. In the current Filing, however, Portage has used industry loss costs adjusted to Portage's distribution as the complement of credibility. Portage explained the rationale behind this change in approach as follows:

> The difference arises because using one-year of trend as the complement of credibility has been insufficient to keep pace with the increase in industry loss costs.
>
> [Record of Hearing, page 61]

[51] The OAG's position is that Portage should have continued with its previous methodology for complement of credibility. They noted that while many large insurers use sophisticated rating factors, Portage is only able to adjust the industry data for the difference in distribution with Portage related to the rating variables captured by GISA. The OAG states that this process introduces a material bias and increases the apparent rate need.

[52] The net trend method as a complement of credibility ignores rate inadequacy, Portage argued, while the industry experience, when adjusted, reflects consistent and meaningful data.

Portage alleged that there is no valid basis in the evidence for the OAG's statement that there is bias in the rate indication due to distributional adjustments.

[53] The Board does not dictate, through its Filing Guidelines or otherwise, a method for the complement of credibility. Both methodologies are commonly seen from insurers in this Province. In determining whether the Applicant's approach is reasonable in all of the circumstances, the Panel looks at all of the evidence, in context, particularly where a change in approach is adopted. The Portage portfolio has been declining over the last few years, continuing even since the last filing application, thereby potentially changing the composition.

[54] The industry data, as a complement of credibility, compares Portage with the industry as a whole. This is advantageous within the context of significant changes to portfolio, where the net trend method would not address any rate inadequacy that arises as a result of that change in composition. While the Panel encourages consistency in approaches year over year, this change in methodology is justified and rational on the evidence before the Panel.

4) <u>Target Return on Equity</u>

[55] To prepare its actuarial rate level change indication Portage assumed an after-tax return on equity (Target ROE) of 12.0%, unchanged from its previous filing. Portage indicated that the profit provision to be included within the Filing is specified to the Filing Actuary by the Applicant's Board and management and has remained consistent over the last several annual filings to the Board.

[56] In its Final Submission, the OAG argued that Portage has not provided any support or evidence to support the reasonableness of an after-tax ROE of 12%, which equates to a pre-tax ROE of 16.9%.

[57] The OAG argued that certain other provinces may have commissioned studies or taken different approaches to ROE. The CAI similarly raised the issue of the ROE, questioning whether

a return of 12% is just and reasonable in the current market, particularly where insurers in other provinces are not receiving that level of return.

[58] The New Brunswick Insurance Board did not participate in any studies or hearings related to the treatment of ROE in other jurisdictions. While other regulators may have arrived at a particular conclusion based on the context of their particular jurisdictions, the provided evidence and the policy underpinnings, those finding are neither before this Panel as evidence nor are they binding upon this Panel. Further, the comparisons made by the OAG and referred to by the CAI, do not reflect the profit provisions underlying the rates proposed to be charged by Portage to policyholders in this province. While the 12% ROE underlies the indicated rate level change of 18.0%, the Applicant proposes to implement an average rate level change of 15.0%. The implied ROE based on the proposed rate increase would be 9.5%.

[59] This Panel is satisfied that a target after-tax ROE for the calculation of indicated rate level need of 12% is reasonable in the circumstances.

5) COVID-19

[60] This decision is a fulsome consideration of the Applicant's filing, dated December 1, 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.

6) Other Notable Changes in Approach

[61] In addition to the material issues above, during the Hearing the Panel noted some additional changes in methodologies or approaches. The Panel has reviewed and considered these changes and found them to be reasonable on the evidence available. Those changes include:

a) Unallocated Loss Adjustment Expenses (ULAE)

[62] In previous filings, the Applicant based its ULAE upon the most recent ratio of paid ULAE to paid losses. In the current filing, Portage changed that methodology to use the average of the last 3 years (2016-2018) of ULAE ratios. The rationale for this change was:

> As the ratio of paid ULAE to paid losses has been fluctuating over the last few years due mainly to volatility in the amount of paid claims, we based our selected ULAE ratio on an average of the last three years to have more stability in the ratio.
>
> [Record of Hearing, p. 57]

b) Selection Methodology for Trend Rates

[63] In last year's filing, Portage conducted its trend analysis based on the loss cost experience, deviating from its prior methodology of conducting separate analyses of frequency and severity. This was done to address a concern regarding the quality or accuracy of the reporting of claim count information to GISA. Since last year, the Applicant reports that it learned that the 2018 AIX information for claim counts did not have any issues that would have a meaningful effect on claims frequency and severity and therefore Portage has reverted back to its previous practice of using separate frequency and severity trend analyses. In the Panel's view, the company's rationale for reverting back to its prior practice is well supported in the circumstances.

4. Decision

[64] For the reasons set out above, the Panel accepts the Applicant's Filing and finds that the rates proposed to be charged are just and reasonable. The Applicant is **approved to adopt the proposed average rate change of +15.0%**.

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

Dated at Saint John, New Brunswick, on July 09, 2020.

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

WE CONCUR:

Georges Leger, Board Member

Kirk MacDonald, Board Member