

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for the Economical Mutual Insurance Company
With respect to automobile insurance rates for
Commercial and Interurban Vehicles

Hearing Date: September 29, 2021

Written Hearing

Held by Video Conference

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

Applicant: Economical Mutual Insurance Company

Decision Rendered: October 13, 2021

Summary

- [1] Economical Mutual Insurance Company (the “Applicant” or “Economical”) filed a Rate Revision Application (the “Filing” or the “Application”) with respect to automobile insurance rates in New Brunswick for Commercial and Interurban Vehicles (“CV”) combined, requesting approval for a proposed average rate increase of +12.24%, later amended to +2.91% based on an indicated average rate increase of +13.13% later amended to +7.33%.
- [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 29, 2021, 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”). The CAI (on July 22, 2021) and the OAG (on July 26, 2021) advised the Board of their intent to intervene in this matter. On September 16, 2021, the Applicant advised the Board it was amending its indicated rate change to +7.33% and its proposed rate change to +2.91%.
- [4] The OAG and the CAI both informed the Board of the discontinuance of their intervention in this matter on September 16, 2021.
- [5] The Panel, after examining the evidence and submissions made by the parties, determined that the average rate change proposed by the Applicant is just and reasonable in these circumstances.
- [6] The approved rates will be effective on February 14, 2022, for new business and April 21, 2022, for renewal business.

Exhibits

As part of the Hearing process, the Panel accepted the following Exhibits as part of the Record:

EXHIBIT	DESCRIPTION	DATE
1	Original Filing	Feb 21, 2021
2	New Filing Summary Sheet Submission	Mar 15, 2021
3	Round 1 Questions from KPMG	Apr 13, 2021
4	Round 1 Response to KPMG	Apr 19, 2021
5	Round 1 Questions from NBIB	Apr 23, 2021
6	Round 2 Questions from KPMG	Apr 28, 2021
7	Round 1 Response to NBIB	Apr 28, 2021
8	Round 2 Response to KPMG	May 3, 2021
9	Round 2 Questions from NBIB	May 3, 2021
10	Round 2 Response to NBIB	May 7, 2021
11	Actuarial Summary Review	Jun 3, 2021
12	Round 3 Question from NBIB	Jun 7, 2021
13	Round 3 Response to NBIB	Jun 9, 2021
14	Round 4 Question from NBIB	Jun 10, 2021
15	Round 4 Response to NBIB	Jun 16, 2021
16	Round 5 Question from NBIB	Jun 16, 2021
17	Round 5 Response to NBIB with Amendment	Jun 16, 2021
18	KPMG Actuarial Summary Review - Revised	Jun 25, 2021
19	Round 1 Questions from OAG	Aug 27, 2021
20	Economical Amendment Letter	Sept 8, 2021
21	NBIB Amendment Information Request	Sept 16, 2021
22	Amendment	Sept 16, 2021
23	Revised Effective Dates	Sept 17, 2021
24	Questions from KPMG	Sept 19, 2021

25	Response to KPMG	Sept 20, 2021
26	Response to NBIB	Sept 20, 2021
27	KPMG Actuary Summary Review Amendment	Sept 22, 2021

1. Introduction

[7] The Board is mandated by the Legislature with the general supervision of automobile insurance rates in the Province of New Brunswick. 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. The Board requires it to do so.

Procedural History

[8] The Applicant filed this Application for the Commercial and Interurban Vehicles category on February 21, 2021. The original overall rate change indication of the Filing was +13.13% and the Applicant proposed an overall average rate increase of 12.24%.

[9] Following questions from the Board's consulting actuaries and Board staff, the Applicant filed an amendment on June 16, 2021, incorporating certain corrections resulting in a revised

indicated average rate increase of 12.92%. A second amendment was filed on September 16, 2021, with a revised average indicated rate increase of +7.33% and a proposed overall average rate change of +2.91%.

[10] The Board issued a Notice of Hearing on July 22, 2021 and convened a Panel of the Board to conduct a Hearing to consider the Application.

[11] Prior to the Hearing, two (2) rounds of questions were asked by the Board's consulting actuaries and answered by the Applicant. There were also several rounds of questions asked by Board staff and responses were received from the Applicant.

[12] One round of questions was submitted by the OAG, through its consulting actuaries Oliver Wyman (OW). The Applicant revised the indication as well as the proposed rate change on September 16, 2021, and on the same date the OAG and the CAI advised the Board of their intent to withdraw their intervention. Considering this, the Applicant did not respond to these questions.

[13] Finally, the Hearing in this matter was held on September 29, 2021.

2. Evidence and Positions of the Parties

Economical Mutual Insurance Company

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

[15] Economical initially presented its Filing to the Board with an overall original rate change indication of +13.13% and proposed an overall average rate increase of 12.24%. The Applicant amended its rate application on September 16, 2021, resulting in an overall rate change indication of +7.33% and a proposed overall average rate change of +2.91%

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

Coverage	Indicated	Proposed
Bodily Injury/Property Damage (TPL-BI/TPL-PD)	17.40%	7.82%
Property Damage - Direct Compensation (DCPD)	-3.05%	-1.37%
Accident Benefits (AB)	2.92%	1.30%
Uninsured Auto (UA)	23.81%	0.00%
Collision	-4.12%	-1.85%
Comprehensive	11.20%	5.03%
Specified Perils (SP)	-3.69%	-1.63%
Underinsured Motorist (UM) – SEF44	20.16%	0.00%
Total	7.33%	2.91%

[17] The rate indication calculations detailed in the Filing incorporate various assumptions, including a target return on equity (ROE) of 12%, an implied ROE of 7.91%, a pre-tax investment rate on cash flow (ROI) of 0.91%, an after-tax investment rate on capital of 3.00% 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 \$681 to approximately \$701.

[18] The Applicant 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.

3. Analysis and Reasons

[19] The Panel has reviewed all the written evidence in the Record, including the Applicant’s responses to the inquiries from the Board’s analysts and the Board’s consulting Actuaries.

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

[21] The evidence in the Record raised several issues for the Panel to consider and determine at the Hearing. Each of those issues is discussed individually below.

1) Loss Trend Selections

[22] The Board's Filing Guidelines state:

...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.

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[23] In its original Filing, Economical included Facility Association Residual Market (FARM) risks results in the industry data used for the loss trend analyses.

[24] As a result of the Board's consulting actuaries review, Economical changed the dataset by extracting FARM risks results from the industry data underlying the trend analyses included in the Filing to be in line with the Board's Filing Guidelines.

[25] The Applicant provided trend analyses supporting their assumptions. Given the business volume of commercial vehicle insurance in New Brunswick, it is understood that the claim frequency and severity indicated by the industry data exhibit some volatility. It is noted that the goodness-of-fit statistics for TPL-BI severity, DCPD frequency and severity, Collision severity, and Comprehensive frequency and severity indicate that a 0% trend factor cannot be rejected. However, the inspection of the frequency and severity graphs for these coverages indicate some trends that could support the Applicant's selections. In addition, it is noted that goodness-of-fit statistics and the frequency graph for AB indicate that a 0% trend factor cannot be rejected. It would be beneficial for the Applicant to provide additional

commentaries to fully justify its selected trends when statistics and graphs give ambiguous signals.

[26] The Panel understands that the selection of loss trends requires the analysis of past data and the application of professional judgment to select trend rates that represent experience and future expected results for each coverage.

[27] The Panel is satisfied overall with the Applicant's selected loss trend assumptions.

2) Loss Development

[28] In the Applicant's most recent prior filing for Commercial and Interurban Vehicles that included actuarial justification, the Applicant relied on TPL-BI loss development factors (LDF) to develop UA and SEF 44 claims to ultimate. In the current Filing, Economical relied on TPL-BI and TPL-PD combined LDF to develop UA and SEF 44 claims to ultimate. The following rationale was provided for the change in approach:

In the event that the insured is injured in an accident caused by an uninsured driver or in a hit-and-run accident, where the automobile or driver cannot be identified, the uninsured automobile (UA) coverage covers the insured. It also covers damage to the vehicle. For this reason, we changed our assumption to consider both BI and PD.

For SEF 44, it increased the amount available to the insured for BI coverage, so it is more reasonable to use BI LDF instead of using the combined LDFs. However, since there is no loss under SEF 44, there will be no impact.

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[29] After reviewing this issue, the Panel considers this change in approach to be minor and the justification to be sensible. As the impact of this change is minimal, the Panel therefore accepts the use of weighted TPL-BI and TPL-PD LDFs to develop UA and SEF 44 claims to ultimate.

3) Profit Provision – Payment Pattern

[30] In the Applicant's most recent prior filing for Commercial and Interurban Vehicles that included actuarial justification, Economical relied on TPL-BI payment pattern for UA and SEF 44. In the Filing currently before the Board, the Applicant relied on the TPL-BI and TPL-PD combined payment pattern for UA and SEF 44. The Applicant provided the following justification for the change in approach:

Since the UA coverage covers BI and PD loss, we propose to use weighted BI and PD payment patterns.

For SEF 44, it increased the amount available to the insured for BI coverage, so it is more reasonable to use the BI payment pattern instead of using the combined LDFs. However, since there is no loss under SEF 44, there will be no impact.

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[31] After reviewing this issue, the Panel considers this change in approach to be minor and the justification to be sensible. As the impact of this change is minimal, the Panel therefore accepts the use of weighted TPL-BI and TPL-PD payment patterns.

4) Treatment of Large Losses

[32] In the Applicant's most recent prior filing that included actuarial justification, Economical did not include a large loss adjustment procedure in the provincial indication. In the current Filing, Economical is introducing a large loss loading utilizing combined data from the Atlantic provinces for the analysis. The Applicant provided the following rationale for this change:

There is randomness in the loss severity of the long tail line business. (For example, Bodily Injury) We haven't experienced any BI loss greater than 500K in the past 5 years. Due to our volume is small, it is hard to conclude that there will be no risk to experience a large loss in the future. Based on the industry data, we observed there is a possibility of a large loss, so we changed our assumptions on the large loss loading. The large loss loading will help us to build the buffer to prepare for the possible coming large losses.

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- [33] When questioned why Atlantic combined data was used instead of New Brunswick data alone, the Applicant explained that large losses are random and may skew the underlying data, the more credible data the better it is to best estimate the loading.
- [34] An alternative indication was provided, excluding the large loss loading resulting in a minimal change.
- [35] The Panel finds it acceptable to have a large loss loading and finds the Applicants methodology reasonable.

5) Other Expenses

- [36] Over the last few years, Economical incurred significant non-recurring operating costs to implement a new policy administration system (the “VYNE system”) to process their insurance policies. The VYNE system became fully operational in 2019 in all jurisdictions and performs tasks including the processing of policies issued and underwritten to insure commercial vehicles business with risk exposure in New Brunswick.
- [37] With respect to the treatment of “Other Expenses”, pursuant to section 4.f.vi. of the Board’s Major Rate Filing (RFG-1), insurers are required to disclose and explain how they treat any non-recurring expenses that creates significant variances in one or more years. The Panel noted that the Applicant excluded the portion of the VYNE system costs related to the software amortization from “Other Expenses” as part of the amended rate filing dated September 16th, 2021. The exclusion of these costs from the calculation of the prospective expense ratio is consistent with the decision rendered on January 20th, 2020, related to Economical’s rate revision application with respect to its Private Passenger Vehicles.
- [38] The Panel is satisfied overall with the Applicant’s treatment of “Other Expenses”.

6) Premium Taxes

[39] According to the Premium Tax Act, RSNB 1973, c P-15, paragraph 2(1)(b), insurers shall pay to the province a tax equal to 3% of the gross premiums that become payable on automobile insurance policies. It is noted that the Applicant corrected the premium tax rate as part of the amended rate filing dated September 16th, 2021, in compliance with the New Brunswick Premium Tax Act.

7) Selection of Return on Equity

[40] It is noted that the Applicant modified the selected return on equity to 12% as part of the amended rate filing dated September 16th, 2021. The Panel reaffirms 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. This Panel is satisfied that a target after-tax ROE of 12% is reasonable in these specific circumstances and considering the current market conditions.

8) COVID-19

[41] In its Filing, the Applicant confirms that it did not provide temporary relief measures to its policyholders such as a premium holiday or rebate.

[42] In its analysis, the Applicant excluded premium and claim experience stemming from the COVID-19 period. The data used was pre-COVID-19. The Applicant provided the following commentaries regarding the effect of COVID-19 on the insurance risk for the prospective period:

We didn't consider the Covid-19 adjustment in our analysis. The proposed effective date of this filing is July 25, 2021. We assumed for the period from July 2021 to July 2023, the Covid-19 impact will be mostly disappeared in New Brunswick. Also, we used the data from 2015 to 2019, which before the Covid-19 started. The accident year 2020 data was not included in the analysis

underlying the rate filing due to the difficulty in separating the COVID-19 impact from the normal course of business.

Covid-19 is an event that is unprecedented in world history, so any assumption – especially a forward-looking projection – will have to be made without the aid of historical data. We are basing this assessment on the following principles:

- [1] Covid-19 cases were reduced in the summer months in 2020.
- [2] We expect that vaccination will allow most of Canada to be at or near herd immunity by Fall/Winter 2021;
- [3] Our indication covers the period from July 2021 to July 2023 and due to the earning patterns it is most concentrated in the middle of that period; i.e. mid 2022. Most medical experts in North America are predicting a return to normal by early 2022 at the latest, so even if there is some residual Covid-19 impact in 2021 it will cover a small proportion of the policy period. Only 9% of earned exposures in this period will take place during calendar year 2021.

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- [43] The Panel recognizes that there are many uncertainties that arise from the pandemic, and the assumptions of future insured behavior. The Panel also accepts that the impact on commercial vehicles may not be the same as that experienced for the private passenger vehicles and accepts these assumptions given current circumstances.

4. Decision

[44] 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 +2.91%.

[45] The approved rates will be effective on February 14, 2022, for new business and April 21, 2022, for renewal business.

Dated at Saint John, New Brunswick, on October 13, 2021.

Marven Grant, Vice-Chair
New Brunswick Insurance Board

WE CONCUR:

Elizabeth Turgeon, Board Member

Heather Stephen, Board Member