

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for the Pembridge Insurance Company  
With respect to automobile insurance rates for  
***Private Passenger***

Hearing Date: July 21, 2021

Written Hearing

<b>PANEL:</b>	Ms. Marie-Claude Doucet, LL. B.	Chair
	Ms. Rachel Arseneau-Ferguson	Member
	Ms. Elizabeth Turgeon, LLB	Member
<b>Applicant:</b>	<b>Pembridge Insurance Company</b>	

Decision Rendered: August 31, 2021

## Summary

- [1] Pembridge Insurance Company (the “Applicant” or “Pembridge”) filed a Rate Revision Application (the “Filing” or the “Application”) with respect to automobile insurance rates for Private Passenger Vehicles (PPV) in New Brunswick requesting approval for a proposed average rate increase of +2.96% based on an indicated average rate increase of +16.30%, later amended to +15.50%.
- [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 July 21, 2021 with deliberations held 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”). On July 9, 2021 the CAI and OAG each advised the Board of their decisions to not intervene in this matter.
- [4] The Panel, after examining the evidence, determines that the average rate increase of +2.96% proposed by the Applicant is just and reasonable in all of the circumstances and is approved as requested.
- [5] The approved rates will be effective on September 2, 2021 for new and November 1, 2021 for renewal business.

## Exhibits

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

<b>EXHIBIT</b>	<b>DESCRIPTION</b>	<b>DATE</b>
<b>1</b>	Original Filing	Feb 1, 2021
<b>2</b>	Round 1 Questions from NBIB	Feb 16, 2021
<b>3</b>	Round 1 Response to Questions from NBIB (Credit Score)	Mar 3, 2021
<b>4</b>	Round 2 Questions from NBIB	Mar 1, 2021
<b>5</b>	Round 2 Response to Questions from NBIB/Amendment	Mar 31, 2021
<b>6</b>	Round 3 Questions from NBIB	Mar 29, 2021
<b>7</b>	Round 4 Questions from NBIB	Apr 12, 2021
<b>8</b>	Round 4 Further Questions from NBIB	Apr 14, 2021
<b>9</b>	Round 3/4 Response to Questions from NBIB/Amendment	Apr 15, 2021
<b>10</b>	Round 1 Questions from Eckler	Apr 14, 2021
<b>11</b>	NBIB Extension granted for Response to Round 1 Questions from Actuary until May 7, 2021	Apr 20, 2021
<b>12</b>	Round 1 Response to Questions from Eckler/Amendment	May 7, 2021
<b>13</b>	Round 2 Questions from Eckler	May 25, 2021
<b>14</b>	Round 2 Response to Questions from Eckler	May 31, 2021
<b>15</b>	Round 3 Questions from Eckler	Jun 8, 2021
<b>16</b>	Round 3 Response to Questions from Eckler/Amendment	Jun 9, 2021
<b>17</b>	Eckler Storyboard - updated	Jun 28, 2021
<b>18</b>	Pembridge Email Amendment Error Driving Record Factors	July 12, 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. 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. The Board requires it to do so.

### **Procedural History**

[8] The Applicant filed this Application for the PPV category on February 1, 2021. The original overall rate change indication of the Filing was +16.30% and the Applicant proposed an overall average rate increase of +2.96%.

[9] Following questions from the Board staff and then the Board's consulting actuaries (Eckler Ltd.) the Applicant made a number of amendments to its Filing, with a final indicated rate change of +15.50%. The proposed overall average rate increase of +2.96% did not change.

[10] The Board determined that a hearing was appropriate due to the proposed introduction of credit score as a new rating variable and issued a Notice of Hearing. A Panel of the Board was convened to conduct a Hearing to consider the Application, and the OAG and CAI declined the opportunity to intervene.

[11] Prior to the Hearing, three (3) rounds of interrogatories were asked by the Board’s consulting actuaries and answered by the Applicant.

[12] Finally, the virtual written Hearing in this matter was held on July 21, 2021.

## **2. Evidence and Positions of the Parties**

### **Pembridge Insurance Company**

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

[14] Pembridge initially presented its Filing to the Board with an overall rate change indication of +16.30% and proposed an overall average rate increase of +2.96%. The Applicant made a number of minor amendments to its indicated rate change before ultimately reaching an overall rate change indication of +15.50%, maintaining its proposed average rate change of +2.96% throughout.

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

<b>Coverage</b>	<b>Indicated</b>	<b>Proposed</b>
Bodily Injury Tort (BI)	2.86%	2.73%
Property Damage Tort (PD)	76.16%	3.20%
Property Damage - Direct Compensation (DCPD)	26.64%	4.97%
Accident Benefits (AB)	43.78%	3.38%
Uninsured Auto (UA)	2.69%	0.00%

Collision	27.46%	4.97%
Comprehensive	3.53%	-0.49%
Specified Perils (SP)	3.53%	-0.37%
Underinsured Motorist (UM) – SEF44	-77.10%	0.00%
<b>Total</b>	<b>15.50%</b>	<b>2.96%</b>

[16] The rate indication calculations detailed in the Filing, as amended, incorporate various assumptions, including a target return on equity (ROE) of 12%, an implied Return on Premium of 7.97%, a pre-tax investment rate on cash flow (ROI) of 0.81%, an investment rate on capital of 0.81% and a 2.00:1 premium to surplus ratio. The proposed average overall rate changes would increase average rates from the current average of approximately \$1,041.56 to approximately \$1,072.35.

[17] The Applicant’s rationale for proposing a +2.96 % average overall rate increase is said to be to partially address the overall rate indication as presented in the Filing. The lesser proposed rate is intended to avoid large premium dislocations for Pembridge’s customers.

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

[18] The Panel has reviewed all of the written evidence in the Record and 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.

[19] The Application, as amended, raised a number of issues for the Panel to consider and determine at the Hearing. Each of those issues is discussed individually below.

## **1) Estimated Adjustments Arising from Covid-19**

- [20] Pembridge's Filing states that it had adjusted its losses to account for a decrease in frequency in 2020 as a result of the Covid-19 pandemic. Pembridge assumed that frequencies would gradually increase towards normal levels as the impact of the pandemic on driving behavior abates. Notably, a cap was judgmentally placed upon frequency to reflect that it may not completely return to pre-pandemic levels as many people may continue to work from home.
- [21] The adjustment utilized by the Applicant was to look at the accident year 2020 experience, and then adjust it to be in line with pre-Covid experience. This was done using accident year 2019 New Brunswick and Nova Scotia experience for Allstate and Pembridge combined. The Panel considered whether the use of only one year of data for this purpose was sufficient, and Pembridge's submission that 2019 frequencies are quite stable when compared with averages over the prior three years (2017-2019). Further adjustment was then made to the five pre-pandemic accident year losses to reflect the fact that frequencies in the proposed rating period are assumed to not yet return to pre-pandemic levels.
- [22] Further, the Applicant assigned less weight to the accident year 2020 experience for long-tail coverages (BI, PD, AB, UA and UM), judgmentally opting toward conservative assumptions for these coverages. The Panel notes that the sensitivity testing revealed that the adjustment to weights had only a nominal impact on the proposed average rate level change.
- [23] The Panel recognizes that there are many uncertainties that arise from the pandemic, and the assumptions of future insured behavior. The Panel concludes that the methodology employed by the Applicant was reasonable in this complex and uncertain environment and accepts these assumptions given current circumstances.

## **2) Recent Industry Experience**

[24] The Board's Filing Guidelines require that each filing presented to the Board must include the most recent complete year of industry data (in the event any analysis is done based on Industry experience) that is available. The Applicant's Filing did not include the most recent industry data, which would reflect data as of June 2020. Pembridge responded to queries on this issue with the explanation that it had started its indication work in the 4<sup>th</sup> quarter of 2020, and at that point, the industry June 2020 data was not yet available.

[25] The Panel recognizes that the actuarial work in a filing takes a significant period of time to be completed, while also noting that the Filing Guidelines are in place to ensure that the most recent industry data is reflected in assumptions and calculations. In this matter, with the timing of both the data availability and the work underlying the Filing, and the difficulty that would have ensued in re-working the analyses, all of which were compounded by the challenges of the ongoing pandemic, the Panel accepts that it was reasonable for the Applicant to have not used the industry June 2020 data in its calculations.

### **3) Loss Trends**

[26] The selection of loss trends requires the analysis of past data and the application of professional judgment in order to select trend rates that represent past experience and future expected results for each coverage. In the 2020 decision following last year's Pembridge filing, that Panel stated that Pembridge would be expected to provide additional and sufficient support in future filings to assist reviewers in assessing the validity of the models used in trend analysis. While this detail was provided in responses to interrogatories from the Board's actuary, this is more appropriately included within the Filing as part of the actuarial justification.

[27] Some of the Applicant's assumptions underlying the loss trend analysis rely upon actuarial judgement rather than statistical measures such as  $R^2$ . The Board's consulting actuaries, Eckler Ltd., questioned the Applicant on this point, and the Applicant responded that this approach was taken with the intent to balance responsiveness and stability and keep the methodology in line with the previous filing.

[28] As noted above, the Panel found that the documented justification for loss trends was not robust, requiring additional questioning and review. The Applicant is reminded again that sufficient justification for loss trends should be included within the initial Filing to justify the proposed trends and resulting rates. The Panel is, nevertheless, satisfied overall with the Applicant's selected loss trend assumptions, which set future annual loss cost trends equal to the corresponding past annual loss cost trends for all coverages.

#### **4) Investment Return**

[29] The Applicant adopted a rate of return for both policyholder funds and surplus based on an average yield rate on Treasury Bills or Government of Canada Bonds over the period from October 2019 to September 2020. Where the Bank of Canada's benchmark rate had decreased significantly during the Covid-19 pandemic, the Panel considered whether this approach, while consistent with the Applicant's previous filings, was a reasonable one.

[30] The effect of the pandemic into the coming months is difficult to predict. In the circumstances, adherence to the prior methodology (i.e., selection of an investment return rate based on information over a 12-month period) is reasonable, but future Panels will be called upon to determine for future filings whether that approach remains an appropriate one based on circumstances at that time.

#### **5) Premium to Surplus Ratio**

[31] In prior filings, the Applicant had adopted a 1.7:1 premium to surplus ratio assumption. In this Filing, it has adopted a 2:1 ratio assumption. The stated rationale for this change is the assumption that Allstate Canada Group's 5-year average of premium to surplus ratios is 1.92:1. The Panel determines that the selected 2:1 premium to surplus ratio is reasonable given the circumstances.

[32] The Applicant's approach of varying the ratio by coverage was consistent with the previous filing, and based on an allocation of surplus which itself is an average of the results of two different methodologies:

- 1) Allocation of surplus using by-coverage expected losses;
- 2) Allocation of surplus using by-coverage duration- weighted expected losses.

[33] The two methodologies produce very different results (although both increasing the overall indicated average rate level change), and the Panel determines that the approach of averaging the two is in accordance with accepted actuarial practice in Canada and is reasonable.

#### **6) Rating Variables**

[34] The Applicant has continued with its prior approach for the complement of credibility, utilizing industry loss ratios derived from industry loss costs adjusted to reflect the Applicant's own mix of business by territory, classification, driving record, limits, deductibles and on-level premiums.

[35] In the interrogatories, the Board's consulting actuary questioned whether the Applicant had accounted for possible correlation between territory, classification and driving record variables in this mix of business adjustment. Pembridge responded that incorporating that effect of correlation would possibly make industry loss cost adjustments more accurate but nevertheless proposed to continue its current methodology until it had time to make those revisions.

[36] The Panel agrees that the methodology used is a reasonable one but recommends that the revisions to the analysis of the mix of business adjustment be made for future filings, as it may lead to better results by accounting for possible correlation between rating variables.

## **7) Differentials**

- [37] The Board's Filing Guidelines state that any proposed changes to differentials are expected to be in the same direction as the indicated changes. In the Applicant's Filing, the proposed changes to the territorial and class and driving record differentials were at times in opposite direction to the corresponding indications.
- [38] Pembridge responded to interrogatories from the Board's actuary by explaining that the proposed territorial differentials were selected based on indications for all coverage combined since the Applicant believes that making changes on a coverage level can sometimes cause reversals.
- [39] Pembridge's approach to selecting differentials is unusual, and the Panel finds that the rationale provided is not particularly robust. However, this approach is consistent with Pembridge's prior filings, and has only a nominal effect on the proposed rate changes. As a result, the Panel will not require any change to the Filing in this respect. Should Pembridge seek to continue using this approach in future filings, however, it would be expected that a more robust and fulsome rationale be provided.

## **8) Insurance Score Discount**

- [40] In this Filing, the Applicant proposes to introduce an Insurance Score discount applicable to all coverages, excluding endorsements. The proposed discount is the same as that adopted in Nova Scotia. Pembridge also uses credit score in the rating of Alberta optional PPV coverages and in the rating of property insurance in New Brunswick.
- [41] According to Pembridge's proposal, it will assign a band to each risk based on factors such as bankruptcies, collections, delinquencies and length of account history, and a discount will be assigned to the top tiers. No surcharges/discounts will be assigned for the other tiers.

- [42] Policyholder consent will be obtained for every renewal and can be refreshed upon the request of a policyholder at the time of renewal should circumstances change.
- [43] The Panel accepts, as similar panels have done in the recent past, that credit score – related discounts are reasonable in the circumstances as there is a reasonable correlation to risk. The proposed approach of the Applicant with respect to consents and the refreshing of scores at the policyholder’s request relate to the *business of insurance*; this matter falls within the mandate of the Superintendent of Insurance and that office has been made aware of the matter for consideration and supervision. For its part, the Panel considers that the proposed rate, insofar as it is dependent on this rating factor, is fair and reasonable, and the Board will maintain a watchful eye on developments, subject to any guidance from the Superintendent of Insurance’s office.

**4. Decision**

[44] For the reasons set out above, the Panel finds the Applicant’s proposed average rate level change is just and reasonable and the Applicant is **approved to adopt the proposed average rate change of +2.96%**.

[45] The approved rates will be effective on September 2, 2021 for new and on November 1, 2021 for renewal business.

Dated at Saint John, New Brunswick, on August 31, 2021.

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Marie-Claude Doucet, Chair  
New Brunswick Insurance Board

WE CONCUR:

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Rachel Arseneau-Ferguson, Board Member

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Elizabeth Turgeon, Board Member