New Brunswick Insurance Board

DECISION

IN THE MATTER OF:
a rate revision application for the
Echelon Insurance
With respect to automobile insurance rates for
Private Passenger Vehicles

Hearing Date: December 07, 2022

PANEL:	Ms. Marie-Claude Doucet, LL.B.	Chair
	Ms. Heather Stephen	Member
	Ms. Rachel Arseneau-Ferguson	Member

Applicant: Echelon Insurance

Intervenors:	The Office of the Attorney General	Mr. Michael L. Hynes, LL.B.
	The Office of the Consumer Advocate for Insurance	Ms. Michèle Pelletier, LL.B., K.C.

Decision Rendered: January 13, 2023

NBIB Reference 2022-116

Summary

[1] Echelon Insurance (the "Applicant" or "Echelon") filed an application to revise rates (the “Filing” or the “Application”) with respect to automobile insurance for Private Passenger Vehicles (“PPV”) in New Brunswick. Echelon presented its original filing to the Board based on an overall rate change indication of +34.72% and proposed an overall average rate increase of +20.01%.

[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 December 07, 2022 with deliberations held by video conference on that date.

[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 Office of the Consumer Advocate for Insurance (“CAI”). Both the OAG and the CAI intervened in this Hearing; the OAG submitted an expert report and a final written submission with the assistance of actuaries, Oliver Wyman (OW), while the CAI filed a written submission and adopted the position of the OAG.

[4] The Panel finds that Echelon’s proposed average rate change is just and reasonable in the circumstances and Echelon is approved to adopt the proposed average rate change of +20.01% effective February 1, 2023 for new business and April 1, 2023 for renewal business.

Exhibits

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

EXHIBIT	DESCRIPTION	DATE
1	Original Private Passenger Rate Filing	May 2, 2022
2	Round 1 Questions from NBIB	June 16, 2022
3	Latest (v5.03) of Summary Sheets	June 21, 2022
4	Round 1 Responses to NBIB	June 21, 2022
5	Round 1 Questions from Eckler	July 4, 2022
6	Round 1 Responses to Eckler	July 11, 2022
7	Round 2 Questions from Eckler	July 18, 2022
8	Round 2 Questions from NBIB	July 20, 2022
9	Round 2 Responses to Eckler	July 21, 2022
10	Round 2 Responses to NBIB	July 26, 2022
11	Actuary Summary Report	August 19, 2022
12	Round 1 IRs from OAG	October 7, 2022
13	Round 1 IRs Responses to OAG	October 17, 2022
14	Round 2 IRs from OAG	October 24, 2022
15	Round 2 IRs Responses to OAG	October 31, 2022
16	Intervenor Report - OAG	November 18, 2022
17	Final Report - OAG	November 25, 2022
18	Final Report - CAI	November 25, 2022
19	Final Report - Echelon	November 25, 2022

1. Introduction

[2] 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

[3] The Applicant filed this Application for the PPV category on May 2, 2022. The original overall rate level change indication of the Filing was +34.72% and the Applicant sought an overall average rate increase of +20.01%.

[4] The Board issued a Notice of Hearing on September 12, 2022 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.

[5] Prior to the Hearing, in addition to the Filing, additional information and clarification was generated: the Board posed a number of questions to the Applicant through two (2) rounds of questions from the Board's staff and its actuaries, and the OAG submitted two sets of

interrogatories to the Applicant. The Applicant responded to all questions posed and the answers form part of the Record.

[6] Pre-hearing written submissions were provided by the Applicant, the OAG, and the CAI to the Panel for consideration.

[7] The Hearing into this Application took place on December 07, 2022 with deliberations taking place virtually.

2. Evidence and Positions of the Parties

Echelon Insurance

[8] Echelon is the second largest non-standard writer after Facility Association. Echelon points out that with the proposed increase, its rates will remain at around 11% lower than Facility Association, which is consistent with the long-term target discussed at the last hearing.

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

[10] Echelon presented its Filing to the Board with an overall original rate change indication of +34.72% and proposed an overall average rate increase of +20.01%.

[11] The following table summarizes the indicated and proposed rate changes by coverage:

Coverage	Indicated	Proposed (No Capping)
Bodily Injury (BI)	13.74%	7.68%
Property Damage (PD)	16.19%	10.08%
Property Damage – Direct Compensation (DCPD)	80.03%	52.37%
Accident Benefits (AB)	21.02%	11.27%
Uninsured Auto (UA)	8.93%	6.86%
Collision	63.29%	38.50%
Comprehensive	67.02%	32.09%
Underinsured Motorist (UM) – SEF44	23.15%	14.97%
Total	34.72%	20.01%

[12] The rate indication calculations detailed in the Filing incorporate various assumptions, including an after-tax target return on equity (ROE) of 12% (implied ROE of 3.01% with proposed rate change), an investment rate on cash flow (discount rate) of 2.47%, an after-tax investment rate on capital (IRS) of 2.47%, and a 1.76:1 premium to surplus ratio. Proposed average rates would increase from the current average premium of approximately $2,019 to approximately $2,423.

[13] In its Final Submission made to the Board, the Applicant provided the following reasoning for its proposed rate increase:

> The bottom line remains that at the current levels Echelon is operating at a loss, and need an increase to bring its rates to adequate level.
>
> [Exhibit 19, page 427 of the Record]

[14] The Applicant submits that the data, assumptions and methodologies underlying the rate filing are reasonable and consistent, the data is reliable and sufficient, assumptions are appropriate and that the methods used are also appropriate. Further, it submits that the Filing has been completed in accordance with the Filing Guidelines issued by the Board.

The Office of the Attorney General

[15] The OAG intervened in the Hearing and took an active part in the review of the Application, questioning the assumptions therein, through the interrogatory process, filing an expert report and making a written submission to the Panel. That final written submission, prepared with the assistance of its expert actuaries, OW, identified several aspects of the Filing where alternative calculations and / or assumptions were argued to be more appropriate. Areas of concerns that were raised by the OAG to be addressed at the Hearing included:

A. Accident Benefits Ultimate Loss Amounts
B. Non-Physical Damage Coverage Inflation
C. Loss Trend - Bodily Injury Frequency Trend
D. General Expense Ratio
E. Contingent Profit Commission Expense
F. Profit Provision

[16] The OAG argues that with alternative assumptions, judgments, and calculations, which it suggests are more appropriate, they find "the overall rate level change need to be less than the rate change indicated by Echelon, but more than the rate proposed."

The Office of the Consumer Advocate for Insurance

[17] The CAI, in her final written submission, argued that the increase proposed by the Applicant is neither just nor reasonable. The CAI further argued that the alternatives presented by the Intervenors are more appropriate and that these alternatives ought to be preferred and applied in favour of New Brunswick consumers.

[18] The CAI points to an expected downward pressure on loss costs arising from the Covid-19 and the resultant decrease in traffic / accidents, as one of the considerations that this Panel should take into account. While she is critical of past policy in offering Covid-19 relief rate reductions

to policyholders only when requested, this is not a matter before the Panel in examining prospective rate indications. Further, the CAI questions the Applicant's target ROE of 12%. In conclusion, she submits:

> "The CAI reiterates to the Board that automobile insurance is mandatory in New Brunswick and therefore, rates should be reasonable, affordable and fair. With this huge increase requested by the present insurer, we submit the consumers of New Brunswick may have difficulties paying their insurance premiums. We therefore ask the Board to choose the alternatives presented by the Office of the Attorney General, which are reasonable under all circumstances."
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> [Exhibit 18, page 419 of the Record]

3. Analysis and Reasons

[19] The Panel has reviewed all the evidence before it, including the interrogatories and the written submissions from all parties.

[20] The Panel recognizes and accepts the actuarial expertise of both the Applicant's actuaries who prepared the Filing and responded to the various inquiries and the expert actuaries, OW, on behalf of the OAG.

[21] As set out below in more detail the Panel accepted the Applicant's evidence as satisfying its evidentiary burden of just and reasonable.

[22] The Panel addresses each of the material issues individually below:

A. Accident Benefits Ultimate Loss Amounts
B. Non-Physical Damage Coverage Inflation
C. Loss Trend – Bodily Injury Frequency Trend
D. General Expense Ratio
E. Contingent Profit Commission Expense
F. Profit Provision

A. Accident Benefits Ultimate Loss Amounts

[23] Echelon utilized the Bornhuetter-Ferguson (BF) technique to estimate the ultimate loss amounts. That method considers risk exposures, then estimates the percentage of this ultimate loss that was not reported at the time. Loss estimates use a priori loss ratios for the analysis of this unreported segment. The a priori loss ratios are incorporated in the BF method to bring the losses to ultimate level.

[24] Echelon's assumed a priori loss ratios come from the Appointed Actuary Report and were selected based on the whole of the Atlantic Region, not just for New Brunswick. Echelon explains this choice, noting that the New Brunswick data is not of a sufficient volume to be credible enough for the Expected Loss Ratio (ELR) determination. This method has been adopted by Echelon in prior filings.

[25] The OAG raises an issue with this approach chosen by Echelon. It argues that for each accident year the a priori loss ratio is higher than the selected ultimate loss ratio and higher than those based on the reported Incurred Development Method. The OAG argues that a high priori loss ratio results in a higher BF ultimate, which leads to higher indicated rates. In the OAG's view, the assumed a priori loss ratios are inconsistent with the claims experience and unreasonable. Adopting the different a priori loss ratios suggested by the OAG would, it suggests, reduce the Accident Benefits indicated rate change by 3.3 percentage points. The OAG does not disclose, in either its expert report or its submission, the source of its suggested alternative a priori loss ratios, limiting the Panel's consideration of those alternatives.

[26] Echelon disagrees with the OAG, and argues that overall, when the coverages are combined, the selected ultimate loss ratios it adopts are not materially different from those derived from the reported incurred development method. This, it argues, is an indicator of the reasonableness of its approach.

[27] The Panel acknowledges the common and not unreasonable practice for reserving actuaries to select assumptions such as development factors and expected loss ratios based on larger bodies of data. This is especially so when the volume of data in New Brunswick is thin and thus not particularly credible. An insurer who draws on extra-provincial data must justify it for the purposes of the Hearing, and the Panel accepts Echelon's explanation as reasonable. Relying on the a priori loss ratios from the Appointed Actuaries Report is reasonable for the purpose of this Filing.

B. Non-Physical Damage Coverage Inflation

[28] Echelon included an inflation adjustment for all coverages in its severity trends. It states that since the second half of 2021 there started to be significate increases in inflation rates which were observed both within the province and nationally, and likely to be continued to the projected period. Echelon obtained CPI data and calculated annual inflation for both physical and non-physical damage. The adjustments for the physical damage coverages are not at issue, but for non-physical damage coverages, the OAG objects to the application of the inflation rate adjustment, suggesting that it is not supported. The OAG's actuarial opinion suggests that their analysis of the Consumer Price Index ("CPI") for underlying costs such as medical care for non-physical damage coverages does not yet exhibit the same level of inflation as that of physical damage coverages. It does not provide the basis or details of its analysis but nevertheless, argues that the adjustment should be removed.

[29] Echelon states its analysis reveals a different reality Non-physical damage includes medical and rehabilitation expenses, funeral benefits, death benefits and loss of income benefits. As such, Echelon believes that using the CPI for medical care only (as suggested by OW) excludes other considerations. In predicting for the future period, Echelon considers a reasonable assumption that these non-physical damage items will catch up the general inflation for that period.

[30] Echelon's selected inflation rate adjustment factor is 3.5% for all non-physical damage coverages based on the New Brunswick all items annual inflation factors.

[31] On considering the applicant's analysis of inflation, and the lack of support for the OAG's analysis, the Panel was satisfied that the current economy supports an inflation factor of 3.5% for non-physical damage elements. The Applicant's methodology is accepted for the purpose of this Filing.

C. Loss Trend – Bodily Injury Frequency Trend

[32] The Applicant's frequency trend model for the Bodily Injury coverage utilizes data from 2009-2 forward. The OAG criticizes the data set used as being insufficient, and thus not considering the effect of the minor injury reform. The approach suggested by the OAG's actuaries uses a data set from 2003 onward, which results in a much lower frequency trend than that assumed by the Applicant. The frequency trend for BI has a significant effect on the indications for that coverage, and also on the indicated overall rate increase.

[33] While the longer data set admittedly results in a very good fit, with an r-square of 91.9%, Echelon reasonably points out that the resultant trend is nevertheless not responsive to the more recent environment. Echelon argues that relying on loss experience periods too distant from the prospective period is not appropriate, and suggests its own model is most appropriate.

[34] The Panel disagrees with the OAG that the model adopted by Echelon does not take into account the effect of the minor injury reform; that adjustment is found at 2013-2. It is true, however, that there is no adjustment for the reform in 2003, as that data point was not included in Echelon's selected model.

[35] The Panel recognized that the selection of data sets is a matter of judgment, and both data sets suggested by the parties are reasonable in and of themselves, the modelling in every situation must be considered independently. Where older data appears to behave quite differently than more recent data, it may not be reflective of recent trends and it is reasonable to exclude it from modelling.

[36] The Panel therefore accepts the Applicant's frequency trend for the Bodily Injury coverage.

D. General Expense Ratio

[37] Echelon's selected general expense ratio is 10.8% based on a four (4) year average (2018 to 2021). The OAG argues that this is an unreasonable assumption as the last two (2) years have had a lower ratio at 8.7% and 8.3%. The OAG argues that the decrease in the ratio is the result of growth in premiums, and that an average of the past two years is a better predictive choice.

[38] Echelon argues that increased premiums are only one explanation for the decrease in the ratio over the last two years, with the other primary factor being the effect of the pandemic, with reduced activities and travel. Echelon is of the view that as activities are returning to normal, expenses will be back in line with pre-pandemic levels. Furthermore, an upgrade to implement the business system "Guidewire" into New Brunswick will be an added general expense.

[39] The Panel accepts the Applicant's justification for its use of a 4 year average and finds it to be a reasonable and acceptable approach.

E. Contingent Profit Commission Expense

[40] Echelon's expense provision includes a component for commissions, including a 2.0% Contingent Profit Commission ("CPC"). The OAG questions this assumption on the basis that there is a significant difference between the indicated rate change and the proposed rate change, and that this is inconsistent with the assumption of profitability. OW also argues that Echelon's average contingent profit commission over the last four years was 0.08% of premiums and therefore a 0% assumption would be a better provision.

[41] In support of the selected assumption, Echelon points to the Board's Filing Guidelines, which require:

> Rates are to be inclusive of commissions and other expense provisions used by the insurer, and are to be considered prior to the granting of policyholder dividends."

[42] In reliance on this provision, Echelon argues that commissions are a valid and appropriate component of rate, and that the CPC is based not just on profit, but also on growth of a particular broker's book of business. As such, a broker will qualify for a CPC if it is profitable, even if the insurer is not.

[43] The Panel reviewed the justification for the provision, and the arguments of the OAG. The Panel found that the OAG's suggestion of 0% was unreasonable and unsupported while the Applicant's approach was justified and reasonable.

F. Profit Provision

[44] Echelon adopted a 12% after-tax target ROE for the purpose of its Filing and a Premium to Surplus ratio ("P/S") of 1.76:1. The Intervenors argued that these assumptions lead to a profit provision that is excessive and to unreasonable rate indications.

[45] With respect to the Premium to Surplus ratio , the OAG pointed out that the assumption adopted by Echelon is lower than the 2:1 that is commonly seen by the Board. The OAG therefore argues for the adoption of a 2:1 ratio for all coverages.

[46] Echelon responded to that criticism with the particulars for the P/S ratio it adopted by individual coverage, which reflects the different risk - level of the various coverages. It also pointed to distinguishing factors of its book of business that justify a deviation from the standard 2:1 ratio. Echelon writes non-standard business which carries higher risk. Further, Echelon states that the proportion of its business for short-tail coverages is smaller than the average in the industry which leads to a higher P/S ratio compared to that of the industry.

[47] The Panel agrees with the argument put forth by the Applicant, that the book of business is of a higher risk and that the P/S ratio should reflect that risk.

[48] The CAI also raises the issue of the 12% after tax target ROE, questioning whether that assumption of 12% is just and reasonable in the current market, particularly where insurers in other provinces are not receiving that level of return.

[49] Neither Intervenor provided evidence, beyond argument and identification of different treatment in different jurisdictions, that challenged the reasonableness of a 12% after-tax ROE. While other regulators may arrive at a different conclusion in the specific circumstances of their jurisdictions, this Panel is satisfied that a target after-tax ROE of 12% is reasonable in the circumstances.

[50] The Panel reiterates that there is no benchmark for the target after-tax ROE in New Brunswick, and each application is assessed individually on a case-by-case basis after considering all of the surrounding circumstances.

4. Decision

[51] For the reasons set out above, the Panel finds the Applicant’s proposed average rate level change is just and reasonable and the Filing is approved to adopt the proposed average rate change of +20.01%.

[52] The approved rates will be effective on February 1, 2023, for new business and April 1, 2023 for renewal business.

Dated at Saint John, New Brunswick, on January 13, 2023.

Ms. Marie-Claude Doucet, Chair
New Brunswick Insurance Board

WE CONCUR:

Ms. Heather Stephen, Board Member

Ms. Rachel Arseneau-Ferguson, Board Member