

New Brunswick Insurance Board

DECISION

IN THE MATTER OF:

A rate revision application for the

The Personal Insurance Company

With respect to automobile insurance rates for

Private Passenger Vehicles

Hearing Date: December 15, 2022

Written Hearing

PANEL:	Ms. Marie-Claude Doucet, LL. B.	Chair
	Ms. Heather Stephen	Member
	Mr. Cyril Johnston, LL. B.	Member
Applicant:	The Personal Insurance Company	
Intervenors:	The Office of the Consumer Advocate for Insurance	Ms. Michèle Pelletier, K.C.

Decision Rendered: January 30, 2023

Summary

- [1] The Personal Insurance Company (the “Applicant” or “The Personal”) filed a Rate Revision Application (the “Filing” or the “Application”) with respect to automobile insurance rates for Private Passenger Vehicles (“PPV”) in New Brunswick. The Personal presented its Filing to the Board based on an overall rate change indication of +24.36% and proposed an overall average rate increase of +19.99% (+9.70% after capping).
- [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 15, 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. The OAG opted not to intervene in the Hearing, as confirmed by email on November 14, 2022. This documentation was also provided to the Office of the Consumer Advocate for Insurance (“CAI”). The CAI intervened in this Hearing, submitting a final written submission on November 22, 2022. The Applicant delivered a final written submission on November 25, 2022.
- [4] 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.
- [5] The approved rates will be effective on March 31, 2023 for new business and May 30, 2023 for renewal business.

Exhibits

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

EXHIBIT	DESCRIPTION	DATE
1	Original Filing Submission	June 30, 2022
2	Round 1 Questions from NBIB	July 13, 2022
3	Round 1 Response to NBIB and Amendment	July 18, 2022
4	Round 2 Question from NBIB	July 28, 2022
5	Round 1 Questions from KPMG	July 28, 2022
6	Round 2 Response to NBIB	August 3, 2022
7	Round 1 Response to KPMG and Amendment	August 3, 2022
8	Round 3 Questions from NBIB	August 4, 2022
9	Round 2 Response to NBIB ALAE Triangles	August 11, 2022
10	Round 3 Response to NBIB	August 11, 2022
11	Round 1 Response to KPMG	August 11, 2022
12	Round 3 Further Response to NBIB and Amendment	August 19, 2022
13	Round 2 Questions from KPMG	August 25, 2022
14	Round 2 Response to KPMG	August 31, 2022
15	Round 4 Questions from NBIB	September 27, 2022
16	Round 4 Response to NBIB	October 4, 2022
17	KPMG Storyboard	October 19, 2022
18	CAI Final Written Submission	November 22, 2022
19	Applicant's Final Written Submission	November 25, 2022

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 by insurers 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 June 30, 2022. The original overall rate level change indication of the Filing was +24.36% and the Applicant proposed an overall average rate increase of +19.99% before capping (+9.70% after capping).
- [9] On August 3, 2022, as a result of making a correction to the interest rate on losses for two (2) coverages (Accident Benefits and Third-Party Liability-Direct Compensation), the Applicant submitted an Amended Filing in which the overall rate level change indication was marginally decreased to +24.35%. The effect of the correction was slightly more significant on the indicated rate level change for the two affected coverages. However, the Applicant did not adjust the proposed rate changes, both at the coverage level and at the overall levels.

[10] Upon review of the Filing, the Board determined that a hearing was required as the proposed average rate increase exceeded the +3% legislative threshold. The Board therefore issued a Notice of Hearing on November 7, 2022 and convened a Panel of the Board to conduct a Written Hearing on the matter. The OAG declined the opportunity to intervene, but the CAI intervened and filed a written submission.

[11] Prior to the Hearing, in addition to the Filing, additional information and clarification were generated: the Applicant responded to two (2) rounds of questions asked by the Board's consulting actuaries (KPMG) and four (4) rounds of questions asked by the Board's staff. No interrogatories were posed by the intervenor. Final submissions were delivered by the CAI on November 22, 2022 and by the Applicant on November 25, 2022.

[12] The Panel conducted the Hearing on December 15, 2022.

2. Evidence and Positions of the Parties

The Personal Insurance Company

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

[14] The Personal presented its Filing to the Board with an overall original rate level change indication of +24.36% and proposed an overall average rate level increase of +19.99% before capping (+9.70% after capping). Minor changes were made to the indicated rate level changes for two coverages during the pre-Hearing Filing review and question processes, reducing the overall rate level change indication to 24.35%. No changes were made to the proposed rate level changes.

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

coverage as of date of the Hearing:

Coverage	Indicated	Uncapped Proposed	Proposed (after capping)
Bodily Injury Tort (TPL-BI)	1.23%	0.00%	-7.50%
Property Damage Tort (TPL-PD)	Incl. in BI	Incl. in BI	Incl. in BI
Property Damage – Direct Compensation (DCPD)	12.00%	10.00%	0.75%
Accident Benefits (AB)	-12.40%	0.00%	-7.57%
Uninsured Auto (UA)	-12.41%	0.00%	-7.58%
Health Service Levy	-4.25%	0.00%	0.00%
Collision	40.26%	30.31%	17.74%
Comprehensive	78.79%	61.78%	44.75%
Specified Perils (SP)	68.63%	54.00%	54.00%
All Perils	N/A	N/A	N/A
Underinsured Motorist (UM) – SEF44	N/A	0.00%	0.00%
Total	*24.67%	19.99%	9.70%

* Question from Board’s consulting actuaries: “In the NBIB Summary Excel Sheets provided on August 19, 2022, “Table 10 – Indicated Percentage Change in Average Premium”, we noted the indicated rate change of 24.67%. However, in the revised exhibits provided on August 3, 2022, the indicated rate change should be 24.35%. Could you please explain this discrepancy?”

Response by Applicant: “The overall indication in Table 10 is calculated from a risk in force file, whereas the margin exhibits are produced using ratemaking data. Based on this, we expect to see this slight difference in the overall indication between the two sources.”

[Record, page 532]

[16] The rate indication calculations detailed in the Filing incorporate various assumptions, including an after-tax target return on equity (ROE) of 12.00% (implied ROE of 5.64% with proposed rate change), a target return on premium (ROP) of 4.41% (implied ROP of 1.43%), a pre-tax investment rate on cash flow (discount rate) of 0.11%, an after-tax investment rate on capital (IRS) of 3.65% and a 3:1 premium to surplus ratio. The proposed average overall rate level changes would increase the written premium from the current average of approximately \$847

to approximately \$1,016 (\$929 after capping).

Consumer Advocate for Insurance

[17] The CAI provided a written submission to the Panel for consideration. The CAI's written submission highlights concerns with the proposed rate change of +19.99% before capping and +9.70% after capping.

When The Personal filed its proposed rate increased, the company estimated that they will have 25 899 policy holders, and out of them, 22 948, being 86.87% of insureds would see increases greater than 10.1% if no capping is applied. The Personal says that they do not have any plans to remove the capping soon. We are hoping that capping by vehicle will stay and that The Personal will not ask to remove said capping.

...

We submit that the actual loss experience that will emerge for 2020 and 2021 will be materially less than the rate indication model forecasts presented. We can predict a reduction in auto accidents and claims. The absence of traffic on the roads will likely contribute to a loss ratio drastically lower than what was expected. This pandemic should be taken into consideration.

Insurance companies determine their rate level needs by estimating the average premium they must charge to be able to honor their future claim costs along with their operating costs and finally their expected profit.

The Office of the Consumer Advocate maintains that the ROE asked by companies is too high and does not reflect what other provinces are permitting. Why should consumers of New Brunswick pay more than our neighbors? We submit that the ROE should be aligned with other provinces. Is a return of 12%, after tax, is just and reasonable? We must remember that ROE has a massive impact on premiums. We submit that insurers doing business in other Atlantic provinces and Ontario are not allowed a ROE of 12%. Thus, the policy holders of New Brunswick should not be paying more than its neighbors.

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 submit that the proposed increase is high. This increase requested by The Personal is neither just nor reasonable.

[Record, pages 559-560]

3. Analysis and Reasons

- [18] The Panel has reviewed all the written evidence in the Record, including the written submissions from the Intervenor and the Applicant.
- [19] The Panel recognizes and accepts the actuarial expertise of the Applicant's actuaries who prepared the Filing and responded to the various inquiries.
- [20] The Panel's decision reflects that each model and methodology decision is laced with layers of data, assumptions, and judgement. As set out below in more detail, the Panel accepted the Applicant's evidence as satisfying its evidentiary burden of just and reasonable. The Panel concludes that The Personal may adopt the proposed overall average rate level change of +19.99% before capping (+9.70% after capping).

A. COVID-19

- [21] Ratemaking is a prospective exercise. In other words, the rates charged are considered reasonable and not excessive nor inadequate when they reflect the expected value of future costs. The Covid-19 pandemic that hit New Brunswick in 2020 changed the loss experience for all automobile insurance companies operating in the province and continues to affect the driving dynamic to a lesser extent today. The responsibility for the insurer, and this Panel, is to ensure that the rates charged for automobile insurance policies issued in the proposed effective period (i.e., starting in 2023 for this Filing) will appropriately take into account this future environment, including consideration of the impact of Covid-19.
- [22] The CAI's submission argued that it is reasonable to predict a reduction in auto accidents and claims and that the absence of traffic on the roads will likely contribute to a loss ratio drastically lower than what was expected. No evidence was provided to the Panel with respect to this prediction or the materiality of changes in traffic patterns expected for the 2023 period.

- [23] The Personal submitted that pandemic effects are reflected in several aspects of its assumptions and calculations. Ultimate loss developments for claims incurred between 2016 and 2019 have been adjusted to reflect a different development pace than originally anticipated. However, The Personal's selected initial expected loss ratio for accident year 2020 does not include the effect of Covid-19 as the selection was based on the experience pre-Covid.
- [24] Further adjustments were made in terms of the assumption of frequency of claims and the impact on loss costs. The Applicant assumed that frequency would increase in 2023 from the levels observed in the pandemic period, but that it would not fully reach pre-pandemic levels. In arriving at that assumption, the Applicant concedes that the selected frequency adjustment is primarily based on judgment. Information influencing this judgmental selection included proprietary data provided to The Personal by State Farm Insurance Company in the United States and statistics from the Applicant's own usage-based insurance program in Ontario. State Farm data was available to the Applicant as part of an agreement between Desjardins Group (The Personal's parent) and State Farm.
- [25] The Panel considered the Applicant's assumptions as they relate to Covid-19 effects on the upcoming policy period. The Panel is not persuaded that that data used is particularly probative for the purposes of this Hearing. However, the Panel agrees with the premise that there will be some effect although likely the New Brunswick's experience would be less affected than those jurisdictions, and thus the policyholders of New Brunswick benefit from the assumptions used. Recognizing that local data is not readily available, without accepting the methodology used, the Panel accepts the Applicant's assumption that claim frequency would return to 96.5% of pre-pandemic levels as being a reasonable one.
- [26] The Personal also assigned different weights to data for the years that were most affected by the pandemic. By assigning only 8% weight to 2020 data, the Applicant has partially recognized the benefit of the reduction in frequency observed in 2020 and it has been passed along to the

policyholders. The Panel accepts this methodology and assumption as reasonable for the purposes of this Filing.

B. Loss Trend and Discount Rate

- [27] The ratemaking process requires the insurer to bring historical claim levels to a common point in time for analysis. The Personal has done so, and has developed loss cost trends for each coverage, looking separately at severity and frequency. The impact of inflation on future loss cost trends is connected as well to the discount rate, and the Panel considered the issues together.
- [28] The Panel had no concern with most of the loss cost trends selected by the Applicant, with the exception of the trends selected for Comprehensive coverage, which required some additional consideration.
- [29] For the Comprehensive coverage, the Applicant's frequency model was associated with an adjusted R-squared measurement of only 53.9%, which falls in the grey zone as for the ability for the model to detect a trend different from 0%. The Applicant's selected frequency trend assumption was 1.26%. In response to a request for sensitivity analysis, the Applicant tested an alternative model that assumed a frequency trend of 0%. Using this alternative assumption, the overall indication would decrease by approximately 1.68% points.
- [30] The Personal argued that the measurement of the p-value associated with its chosen frequency trend model was less than 5%, which indicates that the time variable associated with the trend is statistically significant. In addition, The Personal identifies a slight upward trend in the graphical depiction of the frequency data.
- [31] The Panel considered the Applicant's selected trend and found that the adjusted R-squared

measurement of 53.9% is low, but in these circumstances is considered within the range of acceptable, particularly given the visual display of a slight upward trend, and the p-value measurement.

[32] 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. In selecting the loss trends, the Applicant used data up to December 31, 2020. This experience period does not reflect the current inflationary environment. As the ratemaking process looks to bring historical claims to the level expected in the effective period for the proposed rates (i.e., 2023 and 2024), the Applicant was asked to comment on the potential effect of the current inflation levels on the expected frequency and severity of automobile insurance claims during the proposed effective period.

[33] The Applicant responded that it did not expect inflation to have an obvious relationship to claims frequency for most coverages. It is their position, however, that the New Brunswick industry PPV severity is strongly correlated to the New Brunswick CPI level. The Applicant provided an analysis that revealed a strong correlation for all coverages with the exception of Accident Benefits. While The Personal's Filing does not consider the impact of inflation on future trend selection and indicated rate changes, this can have an impact on rates and will be monitored in future filings. As a standalone sensitivity test, The Personal provided an alternative indication based on the assumption that future CPI affecting the future severity trends for all coverages will be 5% instead of 1.7% (or the historical CPI). The result was an increase in the overall rate level change indication of 14.6% points.

[34] The discount rates affect cash flow assumptions underlying the profit provision included in the ratemaking analysis. The selected rate of return on capital benefits policyholders through contributing to achieve the target return on equity. The Personal adopted discount rates on insurance cash flows that range from 0.11% to 0.98% and a rate of return on capital of 3.65%. Since the Filing was prepared, interest rates have increased, and the Applicant was requested

to provide an analysis where the interest rates on cashflow, capital and losses increase by 100 basis points as a standalone sensitivity test. The result was a decrease in the overall rate level change indication of 2.40% points.

[35] It is understood that the discount rate level is highly correlated with the CPI, which in turn has a significant influence on the severity trends. Therefore, actuarial practitioners should exercise care in selecting the future severity trends and the discount rates with coherence in mind. Insofar as The Personal adopted a methodology that does not reflect the effect of the current inflationary environment in the selection of future loss trends, the approach that they have taken to the selection of interest rates is consistent and reasonable. The Panel accepts the Applicant's methodology and discount rate.

C. Complement of Credibility

[36] The Applicant's own data is of insufficient volume to be completely credible for TPL-BI, TPL-PD and AB coverages. Therefore, it must implement credibility procedures to improve its estimates through the use a complement of credibility, which is an alternate measure of the rate level need. The Personal's method to determine a complement of credibility remains consistent with the method used in previous filings. The complement of credibility is determined using unadjusted industry experience.

[37] Desirable qualities for the complement of credibility include accuracy, unbiasedness, independence, availability of data, ease of computation, and explainable relationship to the Applicant's experience. To detect bias, actuarial practitioners may conduct analyses to review whether systematic differences can be observed between its subject experience and the complementing experience; and whether it consistently influences the resulting actuarial indication. Systemic influences include important and persistent differences in direction or magnitude of the metrics under review.

[38] A comparison of the loss costs between The Personal and the industry reveal persistent differences for TPL-BI, TPL-PD and AB coverages across accident years. The Applicant accepts those differences but notes that the industry *indication* is used as the complement. The Applicant argued that the direction of the industry indications across coverages in comparison to The Personal's indications does not introduce unfair bias. To further support its position, the Applicant provided sensitivity testing which showed that if the complement of credibility was assigned to an indicated rate change of 0%, the overall indicated rate level change would increase by 0.24% point.

[39] The industry ultimate trended loss ratios underlying the industry indication provide an additional perspective. Actuarial practitioners may perform a more granular comparison of the ultimate trended loss ratios underlying the indications of The Personal (ref. column 30 of Exhibit 4.j.1, page 460 of the Record) and the industry (ref. column 23 of Exhibit 4.j.2, page 463 of the Record) across coverages and accident years. Such a comparison does not indicate obvious biases.

[40] The Board does not indicate, through its Filing Guidelines or otherwise, a specific method that companies should apply in determining an appropriate complement of credibility. While the Board has not commonly encountered the use of unadjusted industry indications as complement of credibility, it is nevertheless considered as an acceptable methodology in certain circumstances. The reasons given by the Applicant for the choice of this method were reasonable and justified the choice of approach.

D. Capping

[41] As noted above, the CAI is concerned that The Personal will remove its capping of premium rate increases in the future. Currently, capping is anticipated to benefit 86.87% of the Applicant's policyholders. The mechanism suggested for capping in this Filing is reasonable and the Panel can make no speculation on whether removal in the future would be justified or

reasonable. That issue will be considered, should it arise, by future panels.

E. Return on Equity

[42] The Applicant adopted a 12% an after-tax ROE for the purpose of determining its indicated rate level change. This is consistent with previous practice by this insurer. The combination of ROE, premium to surplus ratio and interest rate corresponds to a target ROP of 4.41%. However, as the proposed overall rate level change is lower than the indicated overall rate level change, the implied ROP is 1.43%.

[43] The Panel is satisfied that an after-tax target ROE of 12% is reasonable at the present time and takes notice of the implied after-tax ROE of 5.64%.

[44] The Panel reiterates that there is no fixed benchmark for a target ROE in New Brunswick, and each application is assessed individually on a case-by-case basis based on the circumstances existing at the time of the decision.

F. Premium to Surplus Ratio

[45] The most common premium to surplus ratio adopted by insurers who appear before the Board in this province is 2:1. This has been the assumption adopted by The Personal in the past, but it had been based on the combined data of The Personal and its sister company Certas Home and Auto Insurance Company (“Certas”). In this Filing, however, The Personal uses its own data to estimate the appropriate premium to surplus ratio, which results in an increase to the ratio to 3:1.

[46] The Personal’s rationale for this change is the separation of the written premium and allocated equity for The Personal and Certas as their allocated equities have been diverging from each other in 2020. Had the previous method been adopted, the ratio for both companies would

have been 2.5:1 and sensitivity testing reveals that this approach would increase the overall rate level change indication by 1.35% points.

[47] The refining of the analysis to each company's own data finds favour with the Panel. Companies with different portfolios can, and often should, consider what assumptions most closely align with the company's own data and experience. There is no evidence or suggestion that the Applicant is picking and choosing methodologies to achieve certain results, and the Panel anticipates that the methodology utilized for this Filing will be maintained in future filings, barring some unforeseen circumstances.

4. Decision

[48] For the reasons set out above, the Panel finds that the Applicant’s proposed overall average rate level change is just and reasonable and approves the Applicant’s proposed overall average rate change of +19.99% before capping (+9.70% after capping).

[49] The approved rates will be effective on March 31, 2023 for new business and May 30, 2023 for renewal business.

Dated at Saint John, New Brunswick, on January 30, 2023

Marie-Claude Doucet, Chair
New Brunswick Insurance Board

WE CONCUR:

Heather Stephen,
Board Member

Cyril Johnston,
Board Member