

Addendum to Decision

An Amendment was issued on June 22, 2023 to effective dates; the amendments have been made to the text.

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

Date: May 19, 2023

PANEL:

| | |
|--------|--------------------------------|
| Chair | Ms. Marie-Claude Doucet, LL.B. |
| Member | Ms. Ferne Ashford, LL.B., K.C. |
| Member | Ms. Heather Stephen |

Applicant: The Portage la Prairie Mutual Insurance Company

Intervenors: The Office of the Attorney General

The Office of the Consumer Advocate for
Insurance

Decision Rendered: June 15, 2023

Summary

- [1] The Portage la Prairie Mutual Insurance Company (the "Applicant" or "Portage") filed an application to revise rates (the "Filing" or the "Application") with respect to automobile insurance rates for Private Passenger Vehicles ("PPV") in New Brunswick. Portage presented the Filing to the New Brunswick Insurance Board (the "Board") based on an overall rate change indication of +20.40% and proposed an overall average rate increase of +12.00%.
- [2] Upon review of the Filing, the Board determined that a hearing was required as the proposed rate change exceeded the +3.0% legislative threshold. The Board therefore issued a Notice of Hearing on March 08, 2023.
- [3] Pursuant to subsection 267.5(1) of the *Insurance Act*, R.S.N.B., 1973 c. I-12 (the "Act"), the Board convened a Panel of the Board (the "Panel") to conduct a Written Hearing (the "Hearing") on May 19, 2023, with deliberations held by video conference on that date.
- [4] 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").
- [5] 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. The Applicant delivered a final written submission on May 5, 2023.

[6] Following review of the Record, the Panel finds that Portage’s proposed average rate change is just and reasonable in the circumstances and Portage is **approved to adopt the proposed average rate change of +12.00%** effective September 01, 2023, for new business and October 01, 2023, for renewal business.

Exhibits

[7] 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 | November 1, 2022 |
| 2 | Round 1 Questions from NBIB | November 23, 2022 |
| 3A | Round 1 Response to NBIB and Amendment (Email 1 of 2) | November 29, 2022 |
| 3B | Round 1 Response to NBIB (Email 2 of 2) | November 29, 2022 |
| 4 | Round 2 Questions from NBIB | December 2, 2022 |
| 5 | Round 2 Response to NBIB | December 8, 2022 |
| 6 | Round 1 Questions from KPMG | December 23, 2022 |
| 7 | Round 1 Response to KPMG | January 6, 2023 |
| 8 | Round 2 Questions from KPMG | January 19, 2023 |
| 9 | Round 2 Response to KPMG | January 24, 2023 |
| 10 | KPMG Actuarial Review Summary | January 24, 2023 |
| 11 | Round 3 Questions from NBIB | March 9, 2023 |
| 12 | Round 3 Response to NBIB | March 15, 2023 |
| 13 | Round 1 Questions from OAG | March 23, 2023 |
| 14 | Round 1 Response to OAG | March 30, 2023 |
| 15 | Round 2 Questions from OAG | April 6, 2023 |
| 16 | Round 2 Response to OAG | April 14, 2023 |

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|-----------|------------------------------------|----------------|
| 17 | Expert Report from OAG | April 28, 2023 |
| 18 | Final Written Submission – CAI | May 5, 2023 |
| 19 | Final Written Submission – OAG | May 5, 2023 |
| 20 | Final Written Submission – Portage | May 5, 2023 |

1. Introduction

[8] 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

[9] The Applicant filed this Application for the PPV category on November 1, 2022. The overall rate level change indication of the Filing was +20.40% and the Applicant sought an overall average rate increase of + 12.00%.

- [10] The Board issued a Notice of Hearing on March 08, 2023, and convened the Panel to conduct a Hearing on the matter. The OAG and the CAI both provided notice of their respective intentions to intervene in the Hearing.
- [11] 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 three (3) 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 responses form part of the Record.
- [12] Pre-hearing written submissions were provided by the Applicant, the OAG, and the CAI to the Panel for consideration.
- [13] The Hearing into this Application took place on May 19, 2023, with deliberations taking place virtually.

2. Evidence and Positions of the Parties

The Portage la Prairie Mutual Insurance Company

- [14] The Applicant's Filing forms the main portion of its submission and the evidence before the Panel.
- [15] Portage presented its Filing to the Board with an overall original rate change indication of +20.40% and proposed an overall average rate increase of +12.00%.
- [16] The following sets out the indicated and the proposed changes to the existing rates by coverage as of the date of the Hearing:

| Coverage | Indicated | Proposed (No Capping) |
|--|------------------|----------------------------------|
| Bodily Injury (TPL-BI) | -1.37% | 0.00% |
| Property Damage (TPL-PD) | -11.45% | -10.00% |
| Property Damage – Direct Compensation (DCPD) | 21.85% | 11.00% |
| Accident Benefits (AB) | 23.19% | 15.00% |
| Uninsured Auto (UA) | 28.18% | 0.00% |
| Collision (COL) | 25.63% | 20.00% |
| Comprehensive (COM) | 40.42% | 20.00% |
| Specified Perils (SP) | 3.23% | 0.00% |
| Underinsured Motorist (UM) – SEF44 | 1.94% | 0.00% |
| Total | 20.40% | 12.00% |

[17] 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 3.40% with proposed rate change), a target Return on Premium of 6.75% (implied Return on Premium of 0.66% with proposed rate change), an investment rate on cash flow (discount rate) of 3.00%, an after-tax investment rate on capital (IRS) of 3.40%, and a 2.00:1 premium to surplus ratio. Proposed average rates would increase from the current average premium of approximately \$1,092 to approximately \$1,222.

[18] The Applicant submits that its assumptions and methods underlying the Filing are reasonable and consistent and should be preferred over the alternatives suggested by the OAG.

The Office of the Attorney General

[19] The OAG intervened in the Hearing and took an active part in the review of the Application, questioning the assumptions through the interrogatory process, filing an expert report, and making a final 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 assumptions, judgments and / or methods were argued to be more appropriate than those presented by the Applicant. Areas of concerns that were raised by the OAG to be addressed at the Hearing primarily related to trend models.

[20] The OAG argues that there are several aspects of Portage's analysis of its rate level needs that alternate calculations and /or assumptions may be more appropriate than those presented by the Applicant, the indicated average rate level change would be less than the Applicant's filed indicated rate level change, but still higher than average the rate level change proposed by the Applicant.

The Office of the Consumer Advocate for Insurance

[21] The CAI, in her final written submission, argued that the rate increase proposed by the Applicant is neither just nor reasonable. In particular, the CAI's submission raises concerns about the Applicant's after-tax target Return on Equity assumption and the COVID-19 related assumptions.

3. Analysis and Reasons

[22] The Panel has reviewed all the written evidence in the Record including the Filing, the responses to the interrogatories, and the final submissions from all parties.

[23] 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.

[24] The Panel's decision accounts for the complexity and interactions between data, assumptions, professional judgment, models, and methods. As set out below in more

detail, the Applicant's evidence satisfied its evidentiary burden and persuaded the Panel that the proposed rates are just and reasonable. The Panel concludes that Portage may adopt the proposed average rate level change of +12.00%.

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

- A. Trends – Time Immobility Parameter
- B. Trends TPL – Property Damage
- C. Trends – DCPD
- D. Trends – Accident Benefits
- E. Trends – Collision
- F. COVID-19
- G. Target ROE

A. Trends – Time Immobility Parameter

[26] Loss cost trends are assumptions that measure the annual rates of change in claim costs from historical periods to projection period.

[27] The selection of loss cost trends should reasonably reflect the rates of change in the historical experience and represent sensible estimates of future expected rates of change for each coverage. In order to achieve that objective, the selection of loss cost trends requires the analysis of historical data and anticipated conditions, as well as the application of professional judgment.

[28] The OAG argued that it was inappropriate for Portage to include a Time Immobility (TIMM) parameter in its modelling. While the OAG accepted that recent economic conditions have affected frequency and severity for certain coverages, it does not consider it reasonable to assume that those conditions will persist through 2025 and that the observed effect will compound over the 2022 through 2025 trending period.

The OAG argues it is not reasonable to assume that the higher inflation levels will persist at the same elevated levels.

[29] Portage responds that the TIMM parameter is intended to model the change in the trend rate because of COVID-19 and the impact that the pandemic had on supply chains and rates of inflation. This impacts the severity trend modelling affecting all material damage coverages. The Applicant disagrees with the assertion from both the OAG and CAI that inflation will not continue through the trending period. It points out that COVID-19 disrupted supply chains and significantly impacted the vehicle repair industry affecting all material damage coverages. The Applicant suggests that this impact continues to the present time, in part due to a shortage of skilled workers that was exacerbated by the pandemic. As a result, Portage claims that repairs cost more and take longer to be completed, increasing the severity trend.

[30] The TIMM parameter results in a shift of the slope in the modelled trend curves for which this variable is part of the modeling. This change in slope is visually evident on reviewing the Applicant's models. The Panel considered the Applicant's trending analysis for each of the affected coverages, including the TIMM, and overall found the assumptions to be consistent and reasonable. Furthermore, the p-values attached to TIMM are well below 5% for each model where the variable has been retained, indicating significant explanatory power.

B. Trends – TPL Property Damage

[31] To select the loss cost trends for the TPL – Property Damage coverage, the Applicant separately modelled the frequency and severity. The Applicant's selected frequency trend was accepted by the OAG and this Panel as being reasonable.

- [32] For the severity trend modelling, the Applicant used data from 2008H2 to 2021H2; the model indicated a trend rate of +4.3%, supported by an adjusted R-squared of 55.3% and a p-value of 0%.
- [33] The OAG requested that the Applicant's perform sensitivity testing utilizing a shorter data period from 2014H1 to 2021H2. This alternative model resulted in a severity trend of 1.8%. OW, on behalf of the OAG explained that the suggested alternative data period reflects its perception that there is a change in pattern (i.e., sustained lift) in the data between 2013.75 and 2014.25.
- [34] The alternative model prepared by the Applicant at the OAG's request, with this shorter data period, produced an adjusted R-squared of only 2.83% and a high p-value of 25.7%, indicating a poor fit.
- [35] The 2014H2 data point was identified by the Applicant as a potential outlier for the severity trend model. The Applicant's final severity trend model still includes this data point as Portage determined that it does not distort the model. The OAG remarked that once the 2014H2 data point is excluded, visual inspection suggests a sustained lift in the latter period. The Applicant commented that there is no sustained lift but rather that there is an upward trend for the period 2008.2 to 2012.2.
- [36] The Panel is persuaded by the Applicant that its severity trend is a reasonable one, based on reasonable data and assumptions. In the absence of supported rationale for the OAG's argument of a lift in the data and considering the poor statistical measures of the alternative model supported by the OAG, the Panel found the alternative model to be unpersuasive.

C. Trends – DCPD

- [37] In relation to the DCPD coverage, another material damage coverage, the Applicant modelled the severity and frequency trend rates separately.
- [38] For the frequency trend analysis, Portage considered data between 2014H2 and 2021H2, excluding the 2015H1 data point. The model, which produces a trend rate of +0.5%, also includes an immobility shift scalar (named IMM) at 2020H2 to reflect the impacts of the pandemic on traffic volumes.
- [39] The OAG’s argument suggested that the 2021H2 data point ought to be considered an outlier and thus excluded from both the frequency and severity models. An alternative frequency trend model with this exclusion would indicate a slightly lower frequency trend rate of +0.4%.
- [40] The Applicant’s frequency model produces an R-squared value of 94.7% and a p-value for the time variable of 48.9%. The heightened p-value is reflective of the large outlier and the number of parameters, which for the frequency model include a scalar (IMM). Further, the data period used is relatively short, so the frequency trend model is drawing from relatively few data points.
- [41] The alternative model proposed by the OAG, excluding the 2021H2 data point, produces a similar adjusted R-squared measure and a p-value that has deteriorated even further because the model uses fewer data points.
- [42] The Board’s actuaries, KPMG, requested sensitivity testing based on a frequency trend of zero, considering the p-value associated with the Applicant’s model. The result of the sensitivity testing decreased the indicated overall rate level change only slightly, from +20.4% to +19.8%. The Applicant commented that an alternative frequency trend rate

of zero would also be a reasonable assumption, but nevertheless suggested that its selected regression, with a small upward trend, is a more reasonable assumption.

[43] The Panel has reviewed all of the alternatives and is of the view that the trends of +0.5%, +0.4% and 0.0 % are all in the range of reasonableness. The Applicant's view that there is a slight upward positive trend is a reasonable one based on the modelling, and visually considering the data. The impact on the overall indicated rate level change is negligible and does not affect the proposed rate change. In all of these circumstances, the Panel finds the Applicant's frequency trend rate for the DCPD coverage to be reasonable.

[44] To model the severity trend on the DCPD coverage, the Applicant used data points from 2012H1 and 2021H2, and incorporated a TIMM Immobility Rate Shift at 2020H1. The resultant indicated severity trend was +7.4%, with an adjusted R-squared of 97.8 % and p-values of less than 5%.

[45] As it did with the frequency trend for this coverage, the OAG suggested that the 2021H2 data point ought to be excluded as an outlier for the severity trend model. Further, it argued that the Applicant's extrapolation of the effect of the TIMM variable was an unreasonable one.

[46] As requested by the OAG, the Applicant performed an alternative regression analysis, excluding that data point and the TIMM variable, which resulted in a severity trend of +5.7%, with an adjusted R-squared value of 97.3% and p-value of 0%.

[47] The Applicant provided statistical support for the outlier testing it had applied as part of the model validation. In neither the frequency nor severity analyses did the 2021H2 data point meet the threshold for being classified as an outlier. The OAG provided no objective support for its argument that the data point should be considered an outlier.

[48] The Panel finds that the Applicant's modelling of the severity trend is well supported in the Record; its outlier analysis stands uncontradicted. The Panel accepts the Applicant's selected severity trend rate as reasonable.

D. Trends – Accident Benefits

[49] Similar to other coverages, the Applicant separately modelled the frequency and severity to select the loss cost trends for the Accident Benefits coverage. For the frequency trend model, the Applicant analyzed data between 2006H1 and 2021H2. Three data points were excluded as outliers in this analysis. The frequency trend of -0.9%, indicated by this model and selected by the Applicant, was accepted by the OAG and the Panel similarly finds it to be reasonable.

[50] For the severity trend modelling, the Applicant considered data between 2006H1 and 2021H2, excluding two data points as outliers. The resultant indicated trend is +3.6%, supported by an adjusted R-squared of 75.45% and a p-value of 0%.

[51] The OAG argues that the early data from 2006 and 2007 appears to behave differently than the more recent data and that the data set ought to therefore be shortened. It requested that Portage provide an estimate of the severity trend based on an alternative model using data that commences in 2008. This alternative model resulted in an indicated severity trend of +3.0%, supported by an adjusted R-squared of 52.26% and p-value of 0%. The OAG provided no rationale or explanation for why the 2006 and 2007 data points were considered to be inappropriate to include in the regression analysis.

[52] The Panel considered that Accident Benefits can be a difficult coverage to model, given its low claim numbers and significant severity volatility. There are several judgmental factors to be considered by actuaries when performing the analysis, including the weight to be placed on each of the factors. The OAG argues that the earlier data is inappropriate for the model but provides the Panel with no rationale to support that argument. The

Panel finds that the Applicant's modelling is reasonable and well supported, while the OAG's challenge to the model is unsupported.

E. Trends – Collision

[53] The loss cost trend analysis for the Collision coverage is closely aligned with the one for the DCPD coverage given the nature and similarities between the coverages. As with DCPD, the Applicant modelled frequency and severity trends separately, then combined the results to determine the loss cost trend.

[54] The selected frequency trend of +0.5% is generated from a model that uses data points between 2013H2 and 2021H2, with an immobility shift scalar (named IMM) at 2020H1 to reflect the impact of the pandemic on traffic volumes. The adjusted R-squared is acceptable at 83.62% though the time variable p-value is high at 56.9%.

[55] Due to the high p-value, the Board's consulting actuaries requested sensitivity testing using a frequency trend of zero. The result of the sensitivity testing decreased the indicated overall rate level change only slightly, from +20.4% to +19.8%. The Applicant commented that the alternative frequency trend of zero would also be a reasonable assumption but suggested that its selected frequency trend better reflects the slight upward trend that is visually observed. The OAG does not disagree with the Applicant's frequency trend, nor does this Panel.

[56] To model the severity trend on the Collision coverage, the Applicant uses the same data period, but excludes the 2020H2 data point and incorporates a TIMM Immobility Rate Shift at 2020H1. The model produces an indicated trend rate of +7.1%, with an adjusted R-squared of 98.64% and p-values of less than 5%.

[57] The OAG argues that the extrapolation of the effect of the TIMM variable is not reasonable and requested that Portage perform an alternative regression analysis

excluding that variable. This alternative model would reduce the indicated severity trend from +7.1% to +6.0%. The adjusted R-squared for the alternative model is 97.34% and the p-value is 0%.

[58] The Panel accepts that for this Filing, the Applicant has supported its use of the TIMM to reflect the changes in the trend due to COVID-19 and the impact that the pandemic had on supply chains and the rates of inflation, as those impacts are likely to continue at least into the upcoming policy term. The parameter has been applied fairly and consistently throughout the Filing and the Panel finds that on the whole the approach is reasonable.

F. COVID-19

[59] The CAI 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 prospective period during which the proposed rates will be in effect.

[60] Ratemaking is a prospective exercise. In other words, the rates charged must be neither excessive, nor inadequate, all based upon a reflection of the best estimate of future costs. The COVID-19 pandemic that hit New Brunswick in 2020, changed the loss experience for all insurance companies in the province. The responsibility for the insurer, and this Panel, is to ensure that the policies to which the proposed rates will apply will appropriately take into account the future environment, including consideration of the impact of COVID-19.

[61] The Applicant notes that adjustments, including IMM and TIMM, were incorporated into the Filing to reflect the estimated impact of COVID-19 on both the trend analyses and

the summary rate level indications analysis. The effect of those adjustments is reflected in the Filing and the indications.

[62] The Panel finds that the Applicant has been consistent in its approach to reflecting the effect of COVID-19. There is no double counting, no indication of an upward bias, and the assumptions are found to be reasonable, leading to fair estimates for the new environment.

[63] The other element of the CAI's argument touching on COVID-19 is the inflationary environment. The CAI argues that it is unlikely that the higher levels of inflation will persist.

[64] While the Applicant has incorporated a TIMM variable into its trend analyses for the material damages coverages, it is using the same trends for past, present, and future. In addition, they reflect only the inflation observed in 2021, not the extraordinary 2022 inflation levels. The Panel finds the approach to be reasonable, particularly where the future conditions are difficult to predict.

G. Target ROE

[65] Portage adopted a 12.00% after-tax target ROE for the purpose of its Filing. While the OAG raised no concern with the assumption, the CAI argues that this assumption leads to excessive and unreasonable rate indications and should be aligned with other provinces. The Panel considers only what is before it in the Record, and has no evidence that decisions made in other jurisdictions are appropriate for the automobile insurance market in New Brunswick given the differences in regulatory environment. The Panel is satisfied that a target after-tax ROE of 12% is reasonable at the present time. While not derogating from the consideration of the target after-tax ROE, the Panel takes some notice that the implied ROE for this Filing is 3.4%, as the Applicant's proposed overall

average rate increase is lower than its indicated average rate need. The Panel finds that the Applicant's selection of target after-tax ROE of 12% is reasonable.

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

4. Decision

[67] For the reasons set out above, the Panel finds the Applicant's proposed average rate level change is just and reasonable and Portage is approved to adopt the proposed overall average rate level change of +12.00%.

[68] The approved rates will be effective on September 01, 2023, for new business and October 01, 2023, for renewal business.

Dated at Saint John, New Brunswick, on June 15, 2023.

Ms. Marie-Claude Doucet, Chair

New Brunswick Insurance Board

WE CONCUR:

Ms. Ferne Ashford, Board Member

Ms. Heather Stephen, Board Member

Addendum to Decision

Paragraphs [6] and [68] Effective date changes from August 01, 2023 for new business and September 01, 2023 for renewals to: **September 01, 2023 for new business and October 01, 2023 for renewals.**
