DECISION **NBIB 2024-001**

NEW BRUNSWICK INSURANCE BOARD

IN THE MATTER OF:

a rate revision application for the:

Co-operators General Insurance Company

With respect to automobile insurance rates for:

Private Passenger Vehicles

Written Hearing Date: May 9, 2024

PANEL:

	Chair	Mr. Marven Grant
	Member	Ms. Heather Stephen
	Member	Ms. Carol Dixon, CPA
Applicant:	Co-operators General Insurance Company	
Intervenors:	The Office of the Consumer Advocate for Insurance	Ms. Michèle Pelletier, LL.B., K.C.

Decision Rendered: June 19, 2024

Summary

[1] Co-operators General Insurance Company (the "Applicant" or "CGIC") filed an application on January 5, 2024 to revise rates (the “Filing” or the “Application”) with respect to automobile insurance rates for Private Passenger Vehicles (“PPV”) in New Brunswick. CGIC presented its amended filing to the New Brunswick Insurance Board (the “Board” based on an overall rate change indication of +7.55% and proposed an overall average rate increase of + 7.55% (before capping) and +7.31% *(*after capping).

[2] 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 9, 2024.

[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”). Upon review of the Filing, the Board determined that a hearing was required as the proposed rate change exceeded the +3% legislative threshold. The Board therefore issued a Notice of Hearing on April 8, 2024, 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 for the Panel’s consideration.

[4] The Panel, after examining all of the evidence and submissions made by the parties, finds that CGIC’s proposed average rate change is just and reasonable in the circumstances and CGIC is **approved to adopt the proposed average rate change of +7.55% before capping and 7.31% after capping** effective November 13, 2024, for new business and December 13, 2024, for renewal business.

Exhibits

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

EXHIBIT	TAB	DESCRIPTION	DATE
1	.01	Original Private Passenger Rate Filing	January 5, 2024
	.02	Round 1 Questions from NBIB	January 17, 2024
	.03	Round 1 Response to NBIB	January 18, 2024
	.04	Round 1 Questions from KPMG	January 25, 2024
	.05	Round 1 Response to KPMG	February 7, 2024
	.06	Round 2 Questions from NBIB	February 8, 2024
	.07	Round 2 Response to NBIB	February 8, 2024
	.08	Round 2 Questions from KPMG	February 13, 2024
	.09	Round 2 Response to KPMG	February 16, 2024
	.10	Round 3 Questions from NBIB	February 27, 2024
	.11	Round 3 Response to NBIB	March 4, 2024
	.12	KPMG Storyboard	March 14, 2024
	.13	CAI Final Written Submission	April 17, 2024

1. Introduction

[6] 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

[7] The Applicant filed this Application for the PPV category on January 5, 2024. The original overall rate level change indication of the Filing was +7.58% and the Applicant sought an overall average rate increase of +7.63% (before capping) and +7.39% (after capping).

[8] The Board issued the Notice of Hearing on April 8, 2024 and convened a Panel to conduct a Written Hearing on the matter. The CAI provided notice of its intention to intervene in the Hearing.

[9] Prior to the Hearing, in addition to the Filing, additional information and clarification was generated: a number of questions were posed to the Applicant through 3 rounds of questions from the Board's staff and its Consulting Actuaries (KPMG). In response to the questions, the Applicant filed an amended filing supporting an indicated rate level change of +7.55%. It consequently modified its proposed overall average rate increase to +7.55% (before capping) and +7.31% (after capping). The Applicant responded to all questions posed and the answers form part of the Record.

[10] A pre-hearing written submission was provided by the CAI to the Panel for consideration.

[11] The Hearing took place on May 9, 2024.

2. Evidence and Positions of the Parties

Co-operators General Insurance Company

[12] The Applicant's Filing forms the main portion of the evidence before the Panel.

[13] CGIC presented its Filing to the Board with an overall rate change indication +7.58% and proposed rate change of 7.63% (before capping) and +7.39% (after capping) and later amended to an indication of 7.55% with a proposed rate change of 7.55% (before capping) and 7.31% (after capping)

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

Coverage	Indicated	Proposed (before capping)	Proposed (after capping)
Bodily Injury (TPL-BI)	-1.28%	-1.28%	-1.42%
Property Damage (TPL-PD)	-10.38%	-10.40%	-10.52%
Property Damage – Direct Compensation (DCPD)	12.77%	12.32%	12.03%
Accident Benefits (AB)	-8.64%	-8.62%	-8.77%
Uninsured Auto (UA)	6.28%	5.52%	5.45%
Collision (COL)	21.22%	21.20%	20.84%
Comprehensive (COM)	18.02%	17.75%	17.35%
Specified Perils (SP)	18.02%	5.23%	5.12%
Underinsured Motorist (UM) – SEF44	-9.28%	-6.19%	-6.28%
Total	7.55%	7.55%	7.31%

[15] The rate indication calculations detailed in the Filing incorporate various assumptions, including an after-tax target return on equity (ROE) of +12.00%, a target Return on Premium of +5.49%, an implied Return on Premium of +5.49%, an investment rate on cash flow (discount rate) of +2.56% , an after-tax investment rate on capital (IRS) of +4.52%, and a 2.2:1 premium to surplus ratio. Proposed average rates would increase from the current average premium of approximately $1,194 to an average of $1,284 (before capping), $1,281 (after capping).

The Office of the Consumer Advocate for Insurance

[16] The CAI, in her final written submission, argued that the increase proposed by the Applicant is high and not justified, primarily on the basis of the argument that the target ROE of 12% is too high in comparison to the other jurisdictions.

[17] In conclusion, the CAI 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."
>
> [Exhibit 1.13, page 874 of the Record]

3. Analysis and Reasons

[18] The Panel has reviewed all the evidence before it, including the interrogatories and the CAI's written submission.

[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 to accept the Applicant's evidence as satisfying the evidentiary burden of just and reasonable is also an acceptance that each model and methodology decision is laced with layers of data, assumptions, and judgement. The details of the Panel's conclusions on the primary issues raised in the Filing are set out below. The Panel concludes that CGIC may adopt the proposed average rate level change of +7.55% before capping and +7.31% after capping.

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

- **A.** Loss Trend – Third Party Liability – Property Damage
- **B.** Loss Trend – PD, DCPD, Collision – Inflation Adjustment
- **C.** Loss Trend – Comprehensive – Inflation Adjustment
- **D.** Return on Equity

A. Loss Trend – Third Party Liability – Property Damage

[22] Loss trends are assumptions that measure the annual rate of changes of past and future claims costs over time.

[23] The selection of loss trends requires the analysis of past data and the application of professional judgment in order to select trend rates that reasonably reflect the rates of change of past experience and are reasonable predictions of future expected rates of change for each coverage.

[24] For the Third-Party Liability, Property Damage coverage, the Applicant adopted a frequency trend model using its own data from 2015H1 to 2022H2 and selected a trend rate of -1.3% for both the past and the future. This model produces an adjusted R^2 value of 22%, suggesting that 0% trend cannot be rejected.

[25] Similarly for the severity trend for this coverage, the Applicant used its own data. The Applicant's model resulted in +2.9% for past trend, with an adjusted R^2 value of 47%. To determine a future trend rate of +3.74%, it applied an inflation adjustment of 0.84% points to the past trend rate based on the differential of the projected inflation to the historical inflation. As with the frequency trend, the low adjusted R^2 value indicates that a 0% trend cannot be rejected.

[26] As a test for sensitivity, the Board's consulting Actuaries, KPMG, asked the Applicant to assume a 0% trend for both frequency and severity, and determine what the impact of those alternative trends would be on the indications. The Applicant's response confirmed that the adjustment of both trends to 0% had no impact on the indicated rate.

[27] In providing that response, the Applicant also argued that the 0% trend would not be appropriate as the adjusted R^2 value is impacted by the low number of claims under this coverage. To supplement its trend analysis, the Applicant performed alternative trend indications based on various data period lengths and looked at residuals along with a visual analysis of the graphed data points, all of which point to a non-zero trend.

[28] The Panel considered the Applicant's stated rationale for its non-zero trend, and the volatility inherent in the coverage and in the data over the Covid-19 pandemic years. The Panel finds that the Applicant's trends, as supported in the Record, are reasonable and justified.

B. Severity Trend – PD – DCPD – Collision – Inflation Adjustment

[29] In its trend analysis for the physical damage coverages of PD, DCPD, and Collision, CGIC observed an inflationary impact on severity trends that commenced in 2021. As a result, for these coverages, CGIC included an adjustment factor to the future severity trend selection. The adjustment is based on the difference between the long-term historical inflation target and the estimated future inflation. This was applied to the selected past severity trend rate and increased the trend by approximately 0.8% points.

[30] To ensure that there was not any unjustified overlap between the trend and the adjustment, KPMG requested the Applicant to remove the data from the years 2021 and 2022 from the severity trend analysis as a sensitivity analysis.

[31] For the PD coverage, the removal of those two data points resulted in a significantly less predictive model. For the other coverages, the exclusion of the two data points did not affect the predictiveness of the models.

[32] For the three coverages, the exclusion of the data points in 2021 and 2022 did not improve the quality of the models, and had no material impact on the indicated rate, increasing it by only 0.1% points.

[33] The Applicant also responded to these alternative indications requests by commenting that the severity graph for these coverages does not yet reveal the effect of the rise in inflation. The Panel was satisfied that there is no double counting when adding the adjustment to determine a future severity trend. The Applicant’s future severity trends for PD, DCPD and Collision, as supported in the Record, are accepted as just and reasonable.

C. Severity Trend – Comprehensive – Inflation Adjustment

[34] The Applicant’s approach to inflation differed for the severity trend analysis for the Comprehensive coverage. Instead of an inflation adjustment of 0.8% points, the Applicant applied a factor of 4% points to the past trend to arrive at its selected future trend.

[35] For sensitivity, KPMG requested two scenarios. First, it requested that the inflation adjustment be removed, while also including accident years 2021 and 2022 in the fitted trend.

[36] The Applicant responded with the impact of the alternative severity trend for this scenario, which would decrease the average indicated rate level change by 1.2% points to 6.3%. The Applicant argued, however, that this approach does not sufficiently recognize the recent observed change in the trend pattern. Further, the Applicant argued, the actual economic context of the inflationary impact on trends supports the use of a different past and future trends.

[37] The second sensitivity testing requested by KPMG was to replace the 4% points inflationary adjustment with the same adjustment as had been used for physical damage coverages. The resultant alternative severity trends would result in a decrease of the overall average indication to 5.7%, a decrease of 1.8% points. The Applicant commented in its response that this scenario was not appropriate as the shift in the trend can be estimated based on data. It is attributed to the rise in inflation as well as the change in the mix of claims.

[38] The Panel agrees with the Applicant that the 4% points, intended to reflect the observed inflationary increase between 2020 and 2022, is reasonable as the actual observed increase is much higher. The approach of 4% points as an adjustment is a moderate one, and appropriate in these circumstances.

D. Return on Equity

[39] CGIC adopted a 12.0% after-tax target ROE for the purpose of its Filing and a Premium to Surplus ratio of 2.2:1. The CAI argued that these profit assumptions lead to excessive and unreasonable rate indications.

[40] 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.

[41] The Panel was not provided with evidence, beyond argument and the identification of different treatment in different jurisdictions, which challenged the reasonableness of a 12% target 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 target ROE of 12% is reasonable in the circumstances.

[42] The Panel reiterates that there is no benchmark for the target 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

[43] For the reasons set out above, the Panel finds the Applicant's proposed overall average rate level change is just and reasonable and the Applicant is **approved to adopt the proposed average rate change of +7.31% (after capping).**

[44] The approved rates will be effective on November 13, 2024, for new business and December 13, 2024, for renewal business.

Dated at Saint John, New Brunswick, on June 19, 2024.

Mr. Marven Grant
New Brunswick Insurance Board

WE CONCUR:

Ms. Heather Stephen, Board Member

Ms. Carol Dixon, Board Member