

**NEW BRUNSWICK INSURANCE BOARD**

**IN THE MATTER OF:**

a rate revision application for the:

**Pafco Insurance Company**

With respect to automobile insurance rates for:

**Private Passenger Vehicles**

Written Hearing Dates: July 30, August 15, 2024

<b>PANEL:</b>	Chair	Ms. Marie-Claude Doucet, LL.B.
	Member	Ms. Heather Stephen
	Member	Ms. Francine Kanhai
<b>Applicant:</b>	Pafco Insurance Company	

**Decision Rendered:** September 5, 2024

## Summary

- [1] Pafco Insurance Company (the "Applicant" or "Pafco") 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. Pafco presented its filing to the New Brunswick Insurance Board (the "Board") based on an overall rate change indication of +8.83% and proposed an overall average rate increase of +4.98% (no capping proposed). The Applicant later amended the indication twice with the final indication of +5.50% when the Hearing commenced, and the proposed rate changes remained the same.
- [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").
- [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 advised that they did not intend to intervene in this Hearing.
- [4] Following the Hearing on July 30<sup>th</sup>, 2024, the Panel requested that the Applicant provide amended indications resulting from the following adjustments to assumptions:

### **1. Accident Benefits Frequency Trend**

- a. Set the past and future frequency trend to 0.00%

### **2. COVID-19 Adjustment Factors**

- a. For all coverages for industry, derive COVID-19 adjustment factors using the Industry calendar accident year data (i.e., at 31 December). The frequencies for accident years 2017-2018 should be trended to the 2019 level by applying the frequency trend before calculating the average pre-COVID frequency. This average will be further trended (using the same frequency trend) to identify the accident year 2020 to 2022 trended frequencies used in the determination of the revised Industry COVID-19 adjustment factors.

- b. For Pafco Bodily Injury and Accident Benefits, use COVID-19 adjustment factors calculated using the Industry accident year data ending 30 June. The frequencies for accident years 2017-2018 should be trended to the 2019 level by applying the frequency trend before calculating the average pre-COVID frequency. This average will be further trended (using the same frequency trend) to identify the accident year 2020-2022 trended frequencies used in the determination of the revised Pafco Bodily Injury and Accident Benefits COVID-19 adjustment factors; and
  
- c. For Pafco's other coverages, use COVID-19 adjustment factors calculated based on Allstate Insurance Group accident year data ending 30 June. The frequencies for accident years 2017-2018 should be trended to the 2019 level using the past frequency trend before calculating the average pre-COVID frequency. This average will be further trended (using the same frequency trend) to identify the accident year 2020 to 2022 trended frequencies used in the determination of the revised Pafco COVID-19 adjustment factors for coverages other than Bodily Injury and Accident Benefits.

[5] The Applicant was requested to provide revised indications based on these two changes both individually and combined, along with the details of the results of the adjusted analysis and proposed average rate level changes by coverage and overall.

[6] The Applicant responded to the request on August 9, 2024 with the additional information and exhibits. The required changes, as set out in Paragraph [4], result in a decrease to the Applicant's overall indication of 1.71%, the revised average rate level change by coverage resulting in an indication of +3.79 %.

[7] The Panel, after examining all the evidence and submissions made by the parties, including the response of August 9, 2024, determines that the indications supporting the proposed overall average rate change must be modified. The Applicant is ordered to incorporate changes to the Filing as outlined in Paragraph [4] of this decision.

[8] The Panel finds that Pafco's revised overall average rate level change, as indicated in correspondence of

August 9, 2024, is just and reasonable in these circumstances and Pafco is approved to adopt this overall average rate change of +3.79%.

- [9] The approved rates will be effective on October 5, 2024 for new business and November 5, 2024 for renewal business.

## Exhibits

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

EXHIBIT	DESCRIPTION	DATE
01.01	Original Private Passenger Rate Filing	Nov 28, 2023
01.02	Round 1 Questions from NBIB	Dec 15, 2023
01.03	Round 1 Response to NBIB and signed CEO statement	Dec20, 2023
01.04	Round 1 Questions from Eckler	Jan 15, 2024
01.05	Round 1 Response to Eckler	Jan 19, 2024
01.06	Round 2 Questions from NBIB	Jan 22, 2024
01.07	Round 2 Response to NBIB	Jan 25, 2024
01.08	Round 2 Response to NBIB, including Amended Summary Sheets	Jan 26, 2024
01.09	Round 3 Response to NBIB	Jan 29, 2024
01.10	Round 2 Questions from Eckler	Feb 1, 2024
01.11	Round 2 Response to Eckler and amendment	Feb 7, 2024
01.12	Eckler Storyboard	Feb 12, 2024
01.13	Request for Further Submissions	Aug 1, 2024
01.14	Response to Request for Further Submissions	Aug 9, 2024

## **1. Introduction**

- [11] 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**

- [12] The Applicant filed this Application for the PPV category on November 28, 2023. The original overall rate level change indication of the Filing was +8.83% and the Applicant sought an overall average rate increase of + 4.98% (no capping proposed).
- [13] Following questions from the Board staff and the Board's consulting actuaries Eckler, the Applicant made amendments to its Filing, with a final indicated rate change of +5.50% and a proposed overall average rate increase of +4.98% (no capping proposed).
- [14] The Board determined that a hearing was required and issued a Notice of Hearing.
- [15] The Board issued a Notice of Hearing on March 11, 2024, 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 not intervene in the Hearing.

[16] 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 two (2) rounds from its actuaries. The Applicant responded to all questions posed and the answers form part of the Record.

[17] The Hearing into this Application took place on July 30, 2024. On August 1, 2024, the Panel requested further submissions and a response was received on August 9, 2024. The Panel reconvened on August 15, 2024 to review the submissions.

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

### **Pafco Insurance Company**

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

[19] At the time of the Hearing, Pafco's amended Filing set out an overall rate change indication of +5.50% and proposed an overall average rate increase of +4.98% (no capping proposed).

[20] The following table summarizes the indicated and proposed rate changes by coverage at the time of the Hearing:

Coverage	Indicated	Proposed (no capping proposed)
Bodily Injury (TPL-BI)	-22.55%	-11.35%
Property Damage (TPL-PD)	+382.81%	+232.38%
Property Damage – Direct Compensation (DCPD)	+24.49%	+16.10%
Accident Benefits (AB)	-18.56%	-16.72%
Uninsured Auto (UA)	-32.91%	0.00%
Collision (COL)	+35.60%	+22.88%
Comprehensive (COM)	+31.66%	+23.26%
Specified Perils (SP)	Incl. in CM	-0.13%
Underinsured Motorist (UM) – SEF44	-81.60%	0.00%
<b>Total</b>	<b>+5.50%</b>	<b>+4.98%</b>

[21] The rate indication calculations detailed in the Filing incorporate various assumptions, including an after-tax target return on equity (ROE) of 13.50%, a target Return on Premium of 7.63%, an investment rate on cash flow (discount rate) of 3.71%, an after-tax investment rate on capital (IRS) of 3.71%, and a 2.00:1 premium to surplus ratio. Proposed average rates would increase from the current average premium of approximately \$2,246.60 to approximately \$2,358.55.

[22] The Applicant submitted that to avoid large premium dislocations for their customers, they would increase their overall average rates by 4.98%.

[23] Pafco is a part of the Allstate Insurance Group which also includes Allstate Insurance Company of Canada (Allstate) and Pembridge Insurance Company (Pembridge).

[24] The following were areas of concern that were raised by the Board at the hearing:

- A. Covid-19 Adjustment
- B. Covid-19 Adjustment – New Normal
- C. Use of Bornhuetter – Ferguson Methodology for Bodily Injury
- D. Loss Trends – Inflation and Future Trends
- E. Loss Trend – Accident Benefits Frequency

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

- [25] The Panel has reviewed all the written evidence in the Record. It recognizes and accepts the actuarial expertise of the Applicant's actuaries who prepared the Filing and responded to the various inquiries.
- [26] The materials within the Record raised several issues for the Panel to consider and determine at the Hearing. Each of those issues is discussed individually below.
- [27] The Panel's decision reflects that each model and methodology used is laced with layers of data, assumptions, and judgement. As set out below in more detail, the Panel accepted the Applicant's Filing and subsequent information as satisfying its evidentiary burden of just and reasonable in some respects, but not all.
- [28] The Panel addresses each of the material issues individually below:

#### **A. COVID-19 Adjustment**

- [29] It is important to note that the Company accident year experience used in the provincial indications spans from July 1 of one calendar year to June 30 of the following calendar year. In this filing, Pafco adjusted its provincial analysis to reflect what it suggested is the estimated impact on losses caused by the COVID-19 pandemic which began in 2020. To do so, it brought accident years 2020 to 2022 losses to a pre-pandemic frequency level with a further judgmental adjustment for accident years 2019 to 2022 to reflect the assumption that frequency of claims may not return completely to pre-pandemic levels. That second element was judgmentally set at 0.975 for all coverages.
- [30] With respect to the first step of the adjustment, the Applicant used company data from the Allstate Insurance Group for the accident years 2017-2019 and submitted that the average of these three accident years is a reasonable and stable pre-COVID benchmark of frequency. The loss experience of the subsequent three years was then adjusted to reflect the estimated COVID-19 impact.
- [31] The Panel considered the company's selection based on company data and the company's selection based on industry data. From this material, the Panel observed that the factors derived from industry



accident year (ending at June 30) data are relatively similar by coverage, while the factors based on company data are less so. The factors for coverages with more volume are closer to being the same, which is expected.

[32] Based on the evidence in the Record, the Panel determined that the more reasonable approach to COVID-19 adjustments in this Filing is to determine the adjustments based on industry experience for BI and AB coverages, using the three-year average of the accident years 2017 to 2019 frequencies trended to 2019 level as the estimate of the pre-COVID frequency. This average will be further trended to determine the accident year 2020 to 2022 COVID-19 adjustment factors. For other coverages, it is reasonable to use company experience (as the experience is credible) however the same trending process as described above should be followed. These changes to the filed methodology are reflected in paragraph 4 above, and the revised indications.

### **B. Covid Adjustment – New Normal**

[33] The Applicant's COVID adjustments did not extend to the 2023 accident year on the basis that all restrictions had been lifted by then and any impact from a continuing reduction in commuter traffic is not an adjustment, but rather a 'new normal'. Pafco makes an assumption that drivers in the prospective period will commute to work 4 days a week rather than 5, on average. Using 2019 company data measuring the ratio of percentage of work kilometer to annual kilometer with little data, Pafco selects a judgmental 'new normal' adjustment of 0.975.

[34] The ongoing impact of COVID-19 is difficult to estimate, and the Panel finds that while the analysis is largely unsupported by the evidence, nevertheless some degree of adjustment is appropriate. The difficulty is compounded by the lack of post-COVID data, which will necessarily remedy itself in the coming filings.

[35] For the purpose of this Filing only, the Panel finds that the Applicant's methodology and adjustment factor of 0.975 is an acceptable one until more data is available and the adjustment can be reassessed in future filings.

#### **D. Loss Trends – Inflation and Future Trends**

[36] In its loss trend selections, Pafco set its future loss cost trend assumptions to be equal to past loss cost trends for all coverages except Collision, DCPD and Comprehensive. For those coverages, a 3% adjustment was applied to the future trend to reflect the anticipated impact of elevated inflation. The Applicant's rationale for an adjustment includes reference to a 2022 Report from OW related to the Ontario experience. Using CPI for Passenger vehicle parts, maintenance and repairs, a 1.7% historical inflation rate was estimated based on the average between 2015Q2 and 2021Q2, and an annual inflation rate of 5.97% was selected based on the three-year average between 2020Q2 and 2023Q2 to estimate CPIs at future quarters up to the quarter of the future average accident date. The resulting estimated inflation rate between 2023Q1 and 2025Q3 was determined at 5.2%, suggesting an adjustment for elevated inflation of approximately 3.5%. Pafco then judgmentally selected a future severity trend adjustment of 3% to reflect anticipated future elevated inflation.

[37] The Panel recognizes that the Applicant's analysis is by necessity based on data and information available to it at the time the Filing is prepared. The Panel notes that the Applicant has tempered the calculated inflation rate adjustment of 3.5% down to 3%. The Panel therefore accepts, for the current Filing, the inflationary adjustment of 3% as being reasonable for Collision, DCPD and Comprehensive.

#### **E. Accident Benefits Frequency Trend**

[38] For the past and future Frequency trends for the Accident Benefits coverage, the Applicant has selected +1.0%. It argued that AB is a long tail coverage with a lot of volatility, but overall, it perceives a positive trend.

[39] The Applicant detailed their review of various statistical measures before selecting their trend models, and concluded that the longer period of data points gave a more credible selection and improved the p-value. Pafco did not use data points beyond 2019-2 (COVID experience), and adopted a model with

seasonality. From this, it derived a +1.0% trend. Pafco argued that the selected frequency model and trend are reasonable when compared across the various alternative models they ran.

[40] When modelling produces a high p-value, it may be reasonable to conclude that the model does a poor job of predicting trend and a trend of zero may be the most reasonable conclusion. As often is the case, with a relatively flat trend, the adjusted R2 values are also poor. With a lack of discernible trend, and with the very volatile data observed, the Panel finds the appropriate assumption for AB Frequency trend is 0.0% in this particular circumstance, and the Applicant was requested to make that adjustment in the request for revisions of August 1, 2024.

#### **4. Decision**

[41] For the reasons set out above, the Panel finds that the Applicant's Filing is not just and reasonable in its entirety and the Applicant is ordered to amend its Filing and provide amended indications resulting from the following adjustments to assumptions:

##### **1. Accident Benefits Frequency Trend**

- a. Set the past and future frequency trend to 0.00%

##### **2. COVID-19 Adjustment Factors**

- a. For all coverages for industry, derive COVID-19 adjustment factors using the Industry calendar accident year data (i.e., at 31 December). The frequencies for accident years 2017-2018 should be trended to the 2019 level by applying the frequency trend before calculating the average pre-COVID frequency. This average will be further trended (using the same frequency trend) to determine the accident year 2020 to 2022 trended frequencies used in the determination of the revised Industry COVID-19 adjustment factors.
- b. For Pafco Bodily Injury and Accident Benefits, use COVID-19 adjustment factors calculated using the Industry accident year data ending 30 June. The frequencies for accident\_years 2017-2018 should be trended to the 2019 level by applying the frequency trend before calculating the average pre-COVID frequency. This

average will be further trended (using the same frequency trend) to determine the accident year 2020-2022 trended frequencies used in the determination of the revised Pafco Bodily Injury and Accident Benefits COVID-19 adjustment factors; and

For Pafco's other coverages, use COVID-19 adjustment factors calculated based on Allstate Insurance Group accident year data ending 30 June. The frequencies for accident years 2017-2018 should be trended to the 2019 level using the past frequency trend before calculating the average pre-COVID frequency. This average will be further trended (using the same frequency trend) to determine the accident year 2020 to 2022 trended frequencies used in the determination of the revised Pafco COVID-19 adjustment factors for coverages other than Bodily Injury and Accident Benefits.

[42] The revised indications resulted in changes to the indicated rate change for each coverage as set out below:

Coverage	Indicated	Revised Indication amended August 9, 2024	Proposed (No Capping)
Bodily Injury (TPL-BI)	-22.55%	-26.05%	-25.73%
Property Damage (TPL-PD)	+382.81%	+353.31%	+352.24%
Property Damage – Direct Compensation (DCPD)	+24.49%	+24.78%	+24.67%
Accident Benefits (AB)	-18.56%	-21.24%	-21.07%
Uninsured Auto (UA)	-32.91%	-34.59%	-33.35%
Collision (COL)	+35.60%	+35.85%	+33.75%
Comprehensive (COM)	+31.66%	+33.70%	+31.58%
Specified Perils (SP)	Incl. in CM	Incl. in CM	Incl. in CM
Underinsured Motorist (UM) – SEF44	-81.60%	-82.26%	0.00%
	+5.50%	+3.79%	+3.79%

[43] The approved rates will be effective on October 5, 2024 for new business and November 5, 2024 for renewal business.

Dated at Saint John, New Brunswick, on September 5, 2024.

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Ms. Marie-Claude Doucet, Chair

New Brunswick Insurance Board

WE CONCUR:

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Ms. Heather Stephen, Board Member

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Ms. Francine Kanhai, Board Member