DECISION **2023 NBIB 2023-311**

NEW BRUNSWICK INSURANCE BOARD

IN THE MATTER OF:

a rate revision application for the:

Pembridge Insurance Company

With respect to automobile insurance rates for:

Private Passenger Vehicles

Written Hearing Dates: May 29, 30, June 21, 2024

PANEL:	Chair	Ms. Marie-Claude Doucet, LL.B.
	Member	Ms. Heather Stephen
	Member	Ms. Francine Kanhai
Applicant:	Pembridge Insurance Company	
Intervenors:	The Office of the Attorney General	Mr. Christopher Whibbs, LL.B. Mr. Jason Caissie, LL.B.
	The Office of the Consumer Advocate for Insurance	Ms. Michèle Pelletier, LL.B., K.C.

Decision Rendered: August 16, 2024

Summary

[1] Pembridge Insurance Company (the "Applicant" or "Pembridge") 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. Pembridge presented its filing to the New Brunswick Insurance Board (the "Board" based on an overall rate change indication of +19.07% and proposed an overall average rate increase of +12.00% (before capping) and +10.23% (after capping). The Applicant later amended the indication twice with the final indication of +18.27% 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 an oral Hearing (the "Hearing"). At the request of the parties, the Board reconsidered the format of the Hearing, and decided to convert it to a written 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 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.

[4] Following the Hearing on May 29 and 30th, 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 determine the accident year 2020 to 2022 trended frequencies used in the determination of the revised Industry COVID-19 adjustment factors.

b. For Pembridge 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 Pembridge Bodily Injury and Accident Benefits COVID-19 adjustment factors; and

c. For Pembridge'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 Pembridge 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 June 7, 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 between 0.65% and 1.64%. The Panel sought additional clarification with respect to the proposed rate change to ensure the proposed average rate level changes for Bodily Injury and Property Damage Tort did not exceed the revised indicated average rate level changes. The clarification was

provided on June 28, 2024. The Applicant revised the proposed average rate level change by coverage resulting in an overall of +12.00 % before capping (and +10.25% after capping).

[7] The Panel, after examining all of the evidence and submissions made by the parties, including the response of June 7, 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 Pembridge's revised overall average rate level change, as proposed and clarified in correspondence of June 28, 2024, is just and reasonable in these circumstances and Pembridge is approved to adopt this proposed average rate change of +12.00% before capping (+10.25% after capping).

[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	November 28, 2023
01.02	Round 1 Questions from NBIB	December 15, 2023
01.03	Round 1 Response to NBIB and signed CEO statement	December 20, 2023
01.04	Round 1 Questions from Eckler	January 15, 2024
01.05	Round 1 Response to Eckler	January 19, 2024
01.06	Round 2 Questions from NBIB	January 22, 2024
01.07	Round 2 Response to NBIB	January 25, 2024
01.08	Round 2 Response to NBIB and Amended Summary Sheets and follow-up to Eckler R1Q from Jan 15, 2024	January 26, 2024

01.09	Round 3 Response to NBIB	January 29, 2024
01.10	Round 2 Questions from Eckler	February 2, 2024
01.11	Round 2 Response to Eckler and amendment	February 7, 2024
01.12	Eckler Storyboard	February 12, 2024
01.13	Written IR1 from OAG	March 28, 2024
01.14	Written IR1 Response to OAG	April 8, 2024
01.15	Written IR2 from OAG	April 15, 2024
01.16	Written IR2 Response to OAG	April 22, 2024
01.17	Intervenor Expert Report from OAG	May 6, 2024
01.18	Final Written Submission from CAI	May 13, 2024
01.19	Final Written Submission from Company	May 13, 2024
01.20	Final Written Submission from OAG	May 13, 2024
01.21	Request for Further Submissions	May 31, 2024
01.22	Response to Request for Further Submissions	June 7, 2024
01.23	Request for Additional Further Submissions	June 28, 2024
01.24	Response to Additional Request for Further Submissions	June 28, 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 +19.07% and the Applicant sought an overall average rate increase of + 12.00% before capping (+ 10.23% after capping).

[13] Following questions from the Board staff and then the Board's consulting actuaries Eckler, the Applicant made amendments to its Filing, with a final indicated rate change of +18.27% and a proposed overall average rate increase of +12.00% (+10.23% after capping).

[14] The Board determined that a hearing was appropriate and issued a Notice of Hearing.

[15] The Board issued a Notice of Hearing on March 7, 2024, and convened a Panel of the Board initially to conduct an Oral Hearing on the matter. The OAG and the CAI both provided notice of their respective intentions to intervene in the Hearing. Following delivery of final submissions, the parties unanimously requested a change in format to a written hearing. The Board granted the parties' request.

[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 of 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.

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

[18] The Hearing into this Application took place on May 29 and 30, 2024. On May 31, 2024, the Panel requested further submissions and a response was received on June 7, 2024. The Panel reconvened on June 21, 2024 to review the submissions. The Panel sought additional clarification which was provided on June 28, 2024 and this decision was finalized thereafter.

2. Evidence and Positions of the Parties

Pembridge Insurance Company

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

[20] At the time of the Hearing, Pembridge's amended Filing set out an overall rate change indication of +18.27% and proposed an overall average rate increase of +12.00% before capping (+10.23% after capping).

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

Coverage	Indicated	Proposed (before capping)	Proposed (after capping)
Bodily Injury (TPL-BI)	6.93%	6.71%	5.01%
Property Damage (TPL-PD)	50.08%	6.71%	5.01%
Property Damage – Direct Compensation (DCPD)	20.25%	13.15%	11.35%
Accident Benefits (AB)	25.46%	15.19%	13.35%
Uninsured Auto (UA)	66.22%	44.69%	42.38%
Collision (COL)	45.20%	26.41%	24.39%

Comprehensive (COM)	10.41%	5.00%	3.32%
Specified Perils (SP)	Incl. in CM	5.00%	3.32%
Underinsured Motorist (UM) – SEF44	-82.85%	0.00%	0.00%
Total	18.27%	12.00%	10.23%

[22] The rate indication calculations detailed in the Filing incorporate various assumptions, including an after-tax target return on equity (ROE) of 12%, a target Return on Premium of 6.56%, an investment rate on cash flow (discount rate) of 3.81%, an after-tax investment rate on capital (IRS) of 3.81%, and a 2.00:1 premium to surplus ratio. Proposed average rates would increase from the current average premium of approximately $1,094.01 to approximately $1,225.27 (before capping) and $1,205.91 (after capping).

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

> *Prior to this filing, Pembridge took a rate increase for two consecutive years. However, the rate changes implemented by Pembridge over the last two filings only partially addressed Pembridge's rate inadequacy, and the residual indication, coupled with the upward trend in loss costs observed across the entire industry, leaves Pembridge no choice but to file for a higher rate increase in this filing.*
>
> [Exhibit 01.19, page 906 of the Record]

[24] The Applicant argued that all alternative scenarios submitted by the OAG's expert still support a high-rate level change. It submitted that its assumptions are reasonable and its proposed rate changes are just, reasonable and still less than the indication.

The Office of the Attorney General

[25] 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. 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

F. Complement of Credibility

G. Commission Expenses

[26] The OAG argues that with alternative assumptions, judgments, and calculations, which it suggests are more appropriate, the rate change indications would decrease by 8.41%.

The Office of the Consumer Advocate for Insurance

[27] The CAI, in her final written submission, argued that the increase proposed by the Applicant is neither just nor reasonable. The CAI argues that post-pandemic traffic decreases should result in lower costs, and the overall requested increase in rates is high and unfair to consumers.

[28] 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 also submit when there are other alternatives presented, the Board should apply then (sic) in favor of the consumers of NB.*
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> [Exhibit 01.18, page 904 of the Record]

3. Analysis and Reasons

[29] The Panel has reviewed all the written evidence in the Record. It 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.

[30] 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.

[31] 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. The Panel accepted as reasonable the alternate calculations and indications provided on June 7, 2024 in response to the request for further submissions. With the clarification provided on June 28, 2024 the Panel concludes that Pembridge may adopt the proposed average rate level change of +12.00% before capping and +10.25% after capping.

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

A. COVID-19 Adjustment

[33] 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, Pembridge 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.

[34] With respect to the first step of the adjustment, the Applicant used company data from the Allstate Canada 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.

[35] The OAG is critical of the Applicant's approach to this adjustment to the extent that the adjustment for accident year 2020 (ending 30 June 2020) is only marginally lower than that applied to accident years 2021 and 2022, even though losses were impacted by COVID-19 for only about 25% of that year. The OAG also suggests that the accident year 2022 adjustment for bodily injury ("BI") and accident benefits ("AB") is overstated as the largest impact from COVID-19 was during 2020 and 2021 calendar accident years.

[36] The Applicant responded that it used the full accident year when calculating the accident year 2020 adjustment, therefore its calculations are based on the same time period as the factor to which it is being applied. Further, the Applicant argues that it is difficult to set expectations regarding the impacts of the pandemic going forward, including high inflation and supply chain issues. However, it stated that the same analysis was conducted on NB industry data and it found that the largest adjustment factors for the BI and AB coverages were also in accident year 2022. The similarity between the adjustment factors resulting from analyses using both company and industry data lead to Pembridge's conclusion that the adjustment factors are reasonable.

[37] In addition to the concerns about the adjustment itself, the OAG suggested that the low number of claim counts for bodily injury and accident benefit coverages add additional uncertainty to the credibility of the COVID-19 impact analysis. The OAG argued that the company should have used industry data to calculate the COVID-19 adjustments as the company data does not provide results that are in line with expectations.

[38] Pembridge responded that even when the factors are adjusted for credibility, the impact on the overall indications is negligible.

[39] The Panel considered the various adjustment factors detailed by the parties, including the OAG's selections, the company's selection based on company data and the company's selection based on industry data. The factors derived from industry accident year (ending at June 30) data - both from the Applicant and the OAG – 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 between the two sets, which is expected.

[40] Based on the arguments and 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

[41] 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'. Pembridge 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 % of work km to annual km with little data, Pembridge selects a judgmental 'new normal' adjustment of 0.975.

[42] The OAG agrees with the Applicant that post-COVID-19 claim costs should be lower than they were pre-pandemic due to lower traffic volume and hybrid work arrangements. To monetize this assumption, the OAG's expert report compares the average trended pre-pandemic ultimate frequency level to the 2022-2 data point (which it assumed to be the new normal) trended to the future accident average date. The calculated drop in frequency is -32.7% for Bodily Injury with similar drops for other coverages. The OAG argued that a tempered adjustment of 0.95 is appropriate. Both proposed adjustments are largely judgmental.

[43] The ongoing impact of COVID-19 is difficult to estimate, and the Panel finds that while both analyses from the parties are 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.

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

C. Use of Bornhuetter-Ferguson Methodology for Bodily Injury Development

[45] The Bornhuetter – Ferguson ("BF") method is one well recognized to estimate the ultimate losses. It takes into account an a priori loss ratio to produce expected ultimate losses.

[46] The Applicant used this method for developing less mature years of data, based on some supplied research and commentary, and selected an a priori loss ratio estimate of 71.4%.

[47] The OAG argued that the ultimate losses based on *a priori expected loss ratios* result in materially higher implied development factors for accident years 2021 to 2023 compared to the selected development assumptions from the Incurred Development Method. OAG also argues that for the very immature 2023 accident year, the *a priori* expected loss ratio is greater than those of the prior accident years and Pembridge does not provide a rationale for the higher selection. Therefore, the OAG argued that a more reasonable *a priori* expected loss ratio is 50%.

[48] The Board's actuaries, Eckler, sought additional information through the interrogatory process regarding the higher level of the selected 2023 expected loss ratio. Pembridge responded that in the process of adjusting historical loss ratios for selecting a priori expected loss ratios to be used in the BF method, the Overall Loss Ratio Adjustment was smaller for 2023 compared to prior years as the COVID-19 loss adjustment had been removed for that year. This results in a higher Adjusted Ultimate Loss Ratio for multiple years on-leveled to 2023 compared to other years, and the selected 2023 expected loss ratio is higher. The COVID adjustment was not applied to the accident year 2023 experience in this process because, as noted in the previous section, the Applicant assumed the 2023 experience is at the 'new normal' level.

[49] The Panel accepts that the BF method is a common approach for selecting ultimate losses for less mature accident years, especially for long tail coverages like BI. The Panel accepts the Applicant's

methodology for selecting the a priori loss ratio and for relying on the BF method for BI as being reasonable.

D. Loss Trends – Inflation and Future Trends

[50] In its loss trend selections, Pembridge 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%. Pembridge then judgmentally selected a future severity trend adjustment of 3% to reflect anticipated future elevated inflation.

[51] The OAG pointed to a more recent report from OW relating to the Ontario inflationary experience, in which it is recommended that in selecting future trend rates insurers should first consider whether inflation is stabilizing, failing or rising and adjust accordingly. The OAG also argues that inflation is not projected to return to the 2021-2022 levels. The OAG does not, however, provide or suggest another alternative to the trend inflationary adjustment.

[52] 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

[53] 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.

[54] The OAG noted that the Applicant's modelling for this selected trend has a low adjusted R2, and it does not appear to fit the data well. The OAG's expert, OW, supports a model with a frequency trend of -1.6%.

[55] 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. Pembridge did not use data points beyond 2019-2 (COVID experience), and adopted a model with seasonality. From this, it derived a +1.0% trend. Pembridge argued that the selected frequency model and trend are reasonable when compared across the various alternative models they ran.

[56] 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. Both alternative models presented to the Panel by the parties have a high p-value. 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%, and the Applicant was requested to make that adjustment in the request for revisions of May 31, 2024.

F. Complement of Credibility

[57] As its own experience was not fully credible, Pembridge used the adjusted New Brunswick industry loss ratios for its complement of credibility, and adjusted the loss ratio to account for the variation in the mix of business between the Applicant and the industry.

[58] The OAG argued that this method was unnecessarily complex and unverifiable. It suggested that the more appropriate method for complement of credibility is the net trend method.

[59] Pembridge responded that the suggested net trend approach is more appropriate for countrywide indications, and voluminous data, which is not the case here. It also argued that relying on the Applicant's own data, as required by the net trend method, would result in a less independent and less stable analysis compared to using industry data.

[60] Both methods suggested by the parties may be reasonable for determining complement of credibility. Based on the circumstances outlined by the Applicant, the Panel accepts that the Applicant's methodology for complement of credibility was reasonable in these circumstances.

E. Commission Expense

[61] Commission expenses are legitimate costs to the insurer in the business of providing insurance.

[62] For the Applicant, the selected provision for such expenses at 15.42% does not differentiate between types of commissions i.e., standard commissions and contingent profit commission. The OAG argued that contingent profit commissions increased during COVID as a result of windfall profit, which is unlikely to continue in the future rating period. As a result, the OAG argued, the commission expense levels are overstated. The OAG suggested a more reasonable alternative to be a 12.5% standard commission and 1.5% contingent commission.

[63] Pembridge argued that commission expense fluctuates for several reasons, not just due to COVID and that its selected expense ratio was reasonable in these circumstances.

[64] The Panel accepts that expenses, including commissions, may properly form part of the ratemaking analysis. Contingent profit commissions are determined based on the profitability of the broker, not the insurer.

[65] The Panel views the Applicant's methodology in taking a three-year average of all commissions as reasonable and notes that for several years the commission level was higher than the selected 15.42%. The Panel accepts the Applicant's selection.

F. Return on Equity

[66] Pembridge selected a 12.0% after-tax target ROE for the purpose of its Filing. The CAI argued that this return assumption leads to excessive and unreasonable rate indications. The CAI questioned whether the assumption of 12% is just and reasonable in the current market, particularly where insurers in other provinces are said to be not receiving that level of return.

[67] The Panel was not provided with evidence, beyond argument and the identification of different treatment in different jurisdictions, that 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.

[68] 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. The current New Brunswick Filing Guidelines require companies to provide justification for the reasonableness of the return on premium assumption, rather than return on equity.

4. Decision

[69] 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 Pembridge 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 Pembridge Bodily Injury and Accident Benefits COVID-19 adjustment factors; and

c. For Pembridge'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 Pembridge COVID-19 adjustment factors for coverages other than Bodily Injury and Accident Benefits.

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

Coverage	Indicated	Revised Indication amended Jun 7, 2024	Proposed (No Capping)	Proposed (Capped)
Bodily Injury (TPL-BI)	6.93%	1.7%	1.22%	0.28%
Property Damage (TPL-PD)	50.08%	42.45%	30.45%	7.03%
Property Damage – Direct Compensation (DCPD)	20.25%	20.36%	14.66%	12.85%
Accident Benefits (AB)	25.46%	23.24%	16.74%	14.90%
Uninsured Auto (UA)	66.22%	60.27%	45.75%	43.45%
Collision (COL)	45.20%	45.39%	30.38%	28.32%
Comprehensive (COM)	10.41%	11.70%	6.65%	4.97%
Specified Perils (SP)	Incl. in CM	Incl. in CM	Incl. in CM	Incl. in CM
Underinsured Motorist (UM) – SEF44	-82.85%	-83.49%	0.00%	0.00%
Total	18.27%	16.63%	12.00%	10.25%

[71] 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 August 16, 2024.

Ms. Marie-Claude Doucet, Chair

New Brunswick Insurance Board

WE CONCUR:

Ms. Heather Stephen, Board Member

Ms. Francine Kanhai, Board Member