

<p>NEW BRUNSWICK INSURANCE BOARD</p>

IN THE MATTER OF:
a rate revision application for the:

Facility Association

With respect to automobile insurance rates for:

Private Passenger Vehicles

Written Hearing Date: August 26-27 and September 15, 2025

PANEL:	Chair	Ms. Marie-Claude Doucet, LL.B.
	Member	Ms. Francine Kanhai
	Member	Mr. Georges Leger
Applicant:	Facility Association	

Decision Rendered: October 06, 2025

Summary

- [1] Facility Association (the "Applicant" or "FA") filed an application to revise rates with respect to automobile insurance rates for Private Passenger Vehicles ("PPV") in New Brunswick. FA presented its filing to the New Brunswick Insurance Board (the "Board") based on an overall rate change indication of -4.10% and proposed an overall average rate decrease of -1.00%. FA does not propose any 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 (the "Panel") to conduct a Written Hearing (the "Hearing") on August 26-27, 2025.
- [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"). On June 24, 2025 the OAG and the CIA each advised the Board of their respective decision to not intervene in this matter.
- [4] Following deliberations on August 26 and 27, 2025, the Panel requested that the Applicant provide alternative indications and impacts resulting from the following adjustments to assumptions:
 1. In the determination of the Loss Trend for Accident Benefits Funeral Expenses, modify the severity trend to 0%.
 2. Maintain the design matrix used to determine the Loss Trend for Accident Benefits Disability, including the New Normal scalar. However, in the determination of the Trended Ultimate Losses (column [16] in the Actuarial Justification, exhibit D-1), remove the effect of the New Normal scalar on the Loss Cost Projection Factor (column [15] in the Actuarial Justification, exhibit D-1).

The Panel requested that the Applicant revise and confirm the proposed rate changes by coverage as well as overall.

- [5] The Applicant responded to the request on September 8, 2025 with the additional information and exhibits. The combined effect of the required changes, as set out in Paragraph [4], was a decrease to the Applicant's overall indication from -4.10% to -4.43%.

[6] The Panel, after examining all the evidence including the response of September 8, 2025, finds that FA’s proposed average rate change, which is higher than its indication, is not just and reasonable in the circumstances. FA has not persuaded the Panel that its requested rates change ought to be higher than the indications in its Filing. FA is **approved to adopt an average rate change of -4.43%**, based on its revised indications.

[7]The approved rates will be effective 100 days post approval for new business and for renewal business.

Exhibits

[8] 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	March 14, 2025
	02	Round 1 Questions from NBIB	March 26, 2025
	03	Round 1 Response to NBIB	March 27, 2025
	04	Round 1 Questions from KPMG	April 1, 2025
	05	Round 1 Response to KPMG	April 7, 2025
	06	Round 2 Questions from NBIB	April 28, 2025
	07	Round 2 Response to NBIB	April 28, 2025
	08	Round 2 Questions from KPMG	May 20, 2025
	09	Round 2 Response to KPMG	May 22, 2025
	10	KPMG Storyboard	May 28, 2025
	11	Request for Amended Assumptions	September 3, 2025
	12	Response to Request for Amended Assumptions	September 8, 2025

1. Introduction

[9] 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 *Insurance 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 to further investigate its rates.

Procedural History

[10] The Applicant filed this Application for the PPV category on March 14, 2025. The overall rate level change indication of the Filing was -4.10% and the Applicant sought an overall average rate decrease of -1.00% (no capping).

[11] The Board issued a Notice of Hearing on June 19, 2025, and convened a Panel of the Board to conduct a Written Hearing on the matter. Neither the OAG nor the CAI participated as an intervenor.

[12] Prior to the Hearing, in addition to the Filing, additional information and clarification was generated; the Board, through questioning from its staff and consulting actuaries, posed several questions to the Applicant, to which it provided written responses.

[13] The Hearing into this Application took place on August 26 and 27, 2025, and thereafter a request for the application of alternative assumption was delivered to the Applicant. The response by FA was received on September 8, 2025 and such was placed before the Panel for consideration.

2. Evidence and Positions of the Parties

Facility Association

[14] FA is an association of insurers who are licensed to write policies in the province and nationwide. The FA's mission is to administer automobile insurance residual market mechanisms, enhance market stability, and guarantee the availability of automobile insurance to those eligible to obtain it.

[15] The Applicant's Filing formed the main portion of the evidence before the Panel.

[16] FA presented its Filing to the Board with an overall original rate change indication of -4.10% and proposed an overall average rate decrease of -1.00%.

[17] The following table summarizes the indicated and proposed rate changes by coverage as of the date of the Hearing:

Coverage	Indicated	Proposed (No Capping)
Bodily Injury (TPL-BI)	+5.80%	+5.80%
Property Damage (TPL-PD)	Included with BI	Included with BI
Property Damage – Direct Compensation (DCPD)	-21.50%	-8.50%
Accident Benefits (AB)	-1.80%	0.00%
Uninsured Auto (UA)	+14.20%	+14.20%
Collision (COL)	-13.70%	-10.00%
Comprehensive (COM)	+1.20%	0.00%
Specified Perils (SP)	+2.40%	0.00%
Underinsured Motorist (UM) – SEF44	-1.20%	0.00%
Total	-4.10%	-1.00%

[18] 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 +14.74% with proposed rate change), a target Return on Premium of +6.47%, an implied Return on Premium of +8.40%, an

investment rate on cash flow (discount rate) of +3.96% , an after-tax investment rate on capital (IRS) of +3.96%, and a 2:1 premium to surplus ratio. Proposed average rates would decrease from the current average premium of approximately \$3,154 to approximately \$3,123.

[19] FA states in its Filing that its purpose is to ensure availability of automobile insurance to those who are eligible, delivering on this promise through the efficient administration of residual market mechanisms and providing information to members. It strives to enhance market stability, it argues, through minimizing its market presence and impact, to provide consumers with the benefits of a healthy and competitive standard insurance market.

3. Analysis and Reasons

[20] The Panel has reviewed all the evidence before it, including the questions posed by the Board and its actuaries, and the responses from the Applicant.

[21] The Panel recognizes and accepts the actuarial expertise of the Applicant's actuaries who prepared the Filing and responded to the various inquiries.

[22] As set out below in more detail, the Panel did not accept the Applicant's evidence as satisfying its evidentiary burden that the proposed rates are just and reasonable, and requires that some of the assumptions be modified.

[23] 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.

- a) Loss Trend – Accident Benefits Medical Expenses
- b) Loss Trend – Accident Benefits Funeral Expenses
- c) COVID-19 and New Normal
- d) Projection of Ultimate Losses and Treatment of Large Losses
- e) Weights
- f) Discount Rate

A. Loss Trend – Accident Benefit Medical Expenses

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

[25] 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.

[26] For the Accident Benefits Medical Expense coverage, FA selected a severity trend of +1.9% after modelling data from 2004H1 to 2023H2. The adjusted R^2 of this trend model, however, is borderline at 50.0%. At that level, the assumption of a 0% severity trend cannot necessarily be rejected. The removal of the severity trend would reduce the overall rate indication by -0.2%. In providing this sensitivity, for this trend and others, FA argued that a 0% trend would not be appropriate, as a 0% trend could result in the following:

- A. The predictor variables do not contribute any additional information beyond what the mean of the dependent variable already provides and the model yields an R^2 value of 0%;
- B. The data contains measurement error or random noise and the model yields a low R^2 ;
- C. With sparse data and few observations and the model yields a low R^2 due to limited information;
- D. If the response variable has high variability, it becomes harder to explain using predictors.

[27] Despite these borderline statistical results for the severity trend, the Panel considered the level of volatility for this long-tail coverage and closely considered the visual evidence found at page 206 of the Record of Hearing. This evidence clearly demonstrates for the Panel a slight increase of the severity over time, albeit while also displaying significant variability. The Panel determines that this evidence is sufficient to support the proposed trend of +1.9%, despite the threshold level for the statistical result.

B. Loss Trend – Accident Benefit Funeral Expenses

[31] In the event of a death following an accident, insurers in New Brunswick provide indemnity up to \$2,500 for funeral expenses. For this sub-coverage, the Applicant modelled data from 2004H1 to 2023H2, deriving a severity trend of -0.8%. The adjusted R² for the model is only 18.2%, indicating that a 0% severity trend cannot be rejected.

[32] The Applicant's proposed slightly negative severity trend is not supported by the adjusted R² value of the modelling, nor upon visual inspection of the graphed data. The Applicant's response to questions on this loss trend does not further enlighten the business environment that might support the assumption. Particularly where this is a relatively low value maximum coverage of \$2,500, the Panel concludes that the negative trend assumption is not supported. The Applicant is ordered to remove the severity trend for this sub-coverage and replace it with 0%.

C. COVID-19 and New Normal

[33] In its previous filing, FA included a COVID-19 adjustment factor for accident years 2020-2022, adjusting 2020-2022 losses to pre-COVID levels. At that time, there was no factor or adjustment for a 'new normal', post-COVID-19, environment.

[34] In the current Filing, the Applicant includes a COVID-19 adjustment factor at 2020H1 and also a new normal adjustment at 2021H2/2022H1 for both severity and frequency trends.

[35] For frequency, the modelling reflects that there are fewer claims post-COVID, compared to the pre-COVID period. This is a logical conclusion given the higher rate of remote work, and resultant fewer vehicles on the roads.

[36] With respect to severity, the recent environment has included unusual inflation, which impacts the cost of parts, used vehicles and other expenses. While the sharp inflationary peak has subsided, its ongoing impact is captured by the new normal adjustment in the Applicant's modelling.

[37] The Applicant's analysis assumes that 2022 and 2023 are at the post-COVID ("new-normal") level, with prior years adjusted to the lower frequency and higher severity levels, where applicable.

[38] The Panel determines that the Applicant's approach to the COVID-19 adjustments for the TPL-BI, TPL-PD, DCPD, Collision and Comprehensive coverages are all reasonable.

[39] With respect to Accident Benefits coverage, the severity of medical expenses (ME) sub coverage did not experience acute changes during the COVID-19 and post-COVID-19 periods. However, historical data shows a significant increase in ME frequency during COVID-19, followed by a decrease in frequency in the subsequent period. The Panel determines that the frequency adjustments for the ME sub-coverage are supported and reasonable.

[40] With respect to the disability income (DI) sub-coverage, historical data shows a significant decrease in frequency during COVID-19 and post-COVID-19 periods. The Panel determines that the frequency adjustments are supported and reasonable. However, the Panel was not persuaded by the Applicant's support behind its severity model scalar at the second half of 2022. It would be unusual for inflation to unduly impact that coverage, where limits applicable to disability income benefits are fixed. In New Brunswick, the insurer will pay a maximum of \$250 per week to an insured for the loss of income where the insured suffers a substantial inability to perform the essential duties of its occupation or employment as a result of its accident. As there has been no reform to amend the maximum amount of weekly benefit for loss of income in 2022, the inclusion of a scalar is not supported. While the modelling appears reasonable from a statistical point of view, it would be more robust when its rationale is aligned with explainable circumstances and changes in environment. In this case, it does not.

[41] The Applicant has not persuaded the Panel that the proposed trend is reasonable in these circumstances. Therefore, the Panel orders that the new normal adjustment for this coverage be removed.

D. Projection of Ultimate Losses and Treatment of Large Losses

[42] The implied loss development factor assists to adjust claims to their projected ultimate value. It reflects the progression in claims costs over time. The Applicant's implied loss development factor for the most recent year of BI claims, increased from 3.9826 last year to 6.0690 in the current Filing. As noted in the previous section, FA does not separate large losses for its loss development. Upon request, FA sought out the large loss information and disclosed there had been two large losses in 2023 at Q2 and Q3.

[43] FA could not calculate a large loss adjustment factor due to the restricted data available and therefore the Board's consulting actuaries questioned the appropriateness of spreading the analysis over 10 years of data, instead of six years, to distribute the effect of the large losses over a longer period. FA responded that it would not be appropriate to do so because of the many changes in the environment over that period, such as a change in the HST rate, a change in driving behavior due to COVID-19, the emergence of the new normal, portfolio changes and the new economic environment.

[44] The Panel agrees with the Applicant that the changes in environment, particularly the pandemic, post pandemic and new economic environment speak against a 10-year data analysis for this purpose. The most recent six years of data has greater relevance and is more predictive.

[45] However, the inclusion of large losses in FA's indication analysis, without adjustment, is a weakness, and introduces volatility year over year which is detrimental to policyholders. While the development factors derived from the analysis are accepted as reasonable for the purposes of this Filing, the Panel strongly encourages FA to move forward on its commitment to obtain, and include the analysis of, the large loss data in its filings to fill this data gap before its next filing or provide a fulsome update on its efforts to do so.

E. Weights

[46] As it did in its previous filing, FA proposes to weight the data for the 2020 and 2021 accident years at 10%, while the remaining four years (2018, 2019, 2022, 2023) are each weighted at 20%. This is done to limit the impact of COVID-19 period losses, while reflecting the most recent experience.

[47] The Panel viewed this approach as a reasonable one. While there are other adjustments made to attempt to make the experience during those years as representative as possible, these measures are imperfect and leave lingering uncertainty. As such, placing less weight on these uncertain years is a reasonable and appropriate approach.

F. Discount Rate

[48] In rate making, insurers must estimate the discount rates that are expected to be in place in the prospective period, to represent current circumstances and the best expectation of the near future.

[49] The Applicant has assumed a net return on investment of +3.96% based on a 12-month rolling average of Canadian Corporate and Government Bond yields, as of December 31, 2024.

[50] The last time FA appeared before the Board at a hearing, in 2023, that panel noted that a 12-month rolling average tended to be a reasonable approach in a relatively stable economic environment, but sub-optimal in a fast-pace one. Therefore, that panel required FA to use a three-month average, rather than 12 months. However, the 2025 economic environment is generally considered more stable than that of the 2022-2023 period, with fewer rate changes by the Bank of Canada. As such, the Panel concludes that the Applicant's approach of using a 12-month rolling average is a reasonable one for 2025.

4. Decision

[51] For the reasons set out above, the Panel finds that Applicant's Filing is not just and reasonable in its entirety and the Applicant is ordered to amend its Filing as follows:

1. In the determination of the Loss Trend for Accident Benefits Funeral Expenses, modify the severity trend to 0%.
2. Maintain the design matrix used to determine the Loss Trend for Accident

Benefits Disability, including the New Normal scalar. However, in the determination of the Trended Ultimate Losses (column [16] in the Actuarial Justification, exhibit D-1), remove the effect of the New Normal scalar on the Loss Cost Projection Factor (column [15] in the Actuarial Justification, exhibit D-1).

[52] The Applicant’s proposed rate change of -1.00% is not appropriate in light of the indicated overall rate change of -4.43%. The Applicant is therefore approved to adopt the following rate changes based on the Board’s requested changes:

Coverage	Approved
Bodily Injury (TPL-BI)	+5.84%
Property Damage (TPL-PD)	Included with BI
Property Damage – Direct Compensation (DCPD)	-21.54%
Accident Benefits (AB)	-5.82%
Uninsured Auto (UA)	+14.23%
Collision (COL)	-13.71%
Comprehensive (COM)	+1.20%
Specified Perils (SP)	+2.40%
Underinsured Motorist (UM) – SEF44	-1.20%
Total	-4.43%

[55] The approved rates will be effective on February 1, 2026, for new business and February 1, 2026, for renewal business.

Dated at Saint John, New Brunswick, on October 06, 2025.

Ms. Marie-Claude Doucet, Chair

WE CONCUR:

Ms. Francine Kanhai, Board Member

Mr. Georges Leger, Board Member