

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for **CO-OPERATORS GENERAL INSURANCE COMPANY**
With respect to automobile insurance rates for
PRIVATE PASSENGER VEHICLES

Written Hearing

Heard at Saint John, New Brunswick

PANEL:	Ms. Marie-Claude Doucet	Chair
	Ms. Elizabeth Turgeon	Member
	Mr. Bernard Gautreau	Member

Date of Written Hearing: March 18, 2019

Decision Rendered: April 17, 2019

Summary

- [1] Pursuant to subsection 267.5(1) of the *Insurance Act*, R.S.N.B., 1973 c. I-12, (the “Act”) the New Brunswick Insurance Board (the “Board”) convened a Panel of the Board to conduct a written hearing (the “Hearing”) on March 18, 2019 in Saint John, New Brunswick. The purpose of the Hearing was to consider the rate revision application (the “Filing”) submitted by Co-operators General Insurance Company (the "Applicant" or "Co-operators") with respect to automobile insurance rates for private passenger vehicles (PPV) in New Brunswick. Co-operators is an insurance company duly licensed to write automobile insurance in New Brunswick.
- [2] In compliance with subsection 19.71(3) of the *Act*, the Board provided to the Office of the Attorney General (“OAG”) and to the Consumer Advocate for Insurance (“CAI”), all documents relevant to the Hearing. Pursuant to subsection 19.71(4) of the *Act*, the OAG and the CAI advised the Board of their intention to intervene.
- [3] The OAG participated in the interrogation process and the responses form part of the Record. Thereafter, on March 1, 2019, the OAG notified the Board of its withdrawal as intervenor to this matter. The CAI remained an intervenor and made a written submission.
- [4] For the purpose of the written hearing the Panel accepted the following exhibits as part of the Record as shown below:

EXHIBIT	DESCRIPTION
1	Original Private Passenger Rate Filing dated Sept 14, 2018
2	NBIB Round 1 Questions dated Oct 17, 2018
3	KPMG Round 1 Questions dated Oct 19, 2018
4	NBIB Round 1 Response dated Oct 23, 2018
5	KPMG Round 1 Response dated Oct 29, 2018

6	KPMG Round 2 Questions dated Nov 2, 2018
7	NBIB Round 2 Questions dated Nov 9, 2018
8	KPMG Round 2 Response dated Nov 12, 2018
9	KPMG Round 3 Questions dated Nov 14, 2018
10	NBIB Round 2 Response dated Nov 19, 2018
11	KPMG Round 3 Response dated Nov 20, 2018
12	KPMG Actuarial Summary Review, Dated Nov 27, 2018
13	Round 1 Questions from OAG dated Jan 11, 2019
14	Round 1 Response to OAG dated Jan 18, 2019
15	Round 2 Questions from OAG dated Jan 29, 2019
16	Round 2 Response to OAG dated Feb 6, 2019
17	Final Submission CAI dated Mar 5, 2019
18	Final Submission CGIC dated Mar 8, 2019

[5] The Panel, after examining the evidence in its entirety, approves the rate change of **+7.97%** proposed by the Applicant. The Panel also approves the proposed changes to existing classification differentials, discounts and endorsements.

[6] The approved rates will be effective on July 1, 2019 for new and July 12, 2019 for renewal business.

1. Introduction

[7] 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. When the Board requires it to do so.

Procedural History

[8] The Applicant filed a rate revision application for the PPV category on September 14, 2018, proposing an overall average rate increase of 7.97%.

[9] The Board issued a Notice of Hearing on November 15, 2018 and convened a Panel of the Board to conduct a hearing on the matter. The OAG and the CAI both provided notice of their respective intentions to intervene in the rate hearing.

[10] Prior to the Hearing, the OAG submitted two set of interrogatories to the Applicant, to which answers were provided.

[11] The OAG then provided the Board with notice of its intention to withdraw as an intervenor in this matter on March 1, 2019.

[12] On March 1, 2019, the CAI advised the Board of her intention to remain as an intervenor, but would not appear before the Board. A written submission was filed with the Board by the CAI on March 5, 2019 and forms part of the Record.

[13] A pre-hearing written Final Submission was provided by the Applicant to the Board on March 8, 2019.

[14] Finally, the Panel held the written hearing on March 18, 2019.

2. Evidence and Positions of the Parties

Co-operators General Insurance Company

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

[16] Co-operators presented its Filing to the Board on September 14, 2018 with an overall indication of +8.44% and proposed to select an average rate change of +7.97%. The changes proposed to the existing rates by coverage (before capping) (Exhibit 4, page 230 of the Record) are as follows:

Third Party Liability - Bodily Injury (TPL-BI)	+0.5%
Third Party Liability - Property Damage (TPL-PD)	+4.9%
Property Damage – Direct Compensation (DCPD)	+4.0%
Accident Benefits (AB)	+35.0%
Uninsured Auto (UA)	+2.6%
Health Service Levy (HSL)	+26.5%
Collision (CL)	+0.8%
Comprehensive (CM)	+15.9%
Specified Perils (SP)	+5.5%
SEF44	-4.5%
All Perils (AP)	<u>0.0%</u>
Total	+8.0%

[17] The indicated rates contained in the Filing are produced assuming a target return on equity (ROE) of 12.00%, a 5.32% target return on premium (ROP) and a 2.05:1 premium to surplus ratio. The proposed overall average rates would increase from the current average of approximately \$844 to approximately \$911.

[18] In conjunction with the average rate change, the Applicant proposed to change some existing classification differentials, discounts and endorsements as well as introducing some new rating variables and updating the CLEAR rate Group Table.

[19] The Applicant submits that the Filing was prepared utilizing sound actuarial methods and practices, that the assumptions contained therein, are reasonable and that the Filing has been prepared in accordance with the filing guidelines issued by the Board.

Office of the Attorney General

[20] The OAG was provided with the Filing and all related documents. The OAG was also given the opportunity to query the Applicant through a written interrogatory process, which provided for two rounds of interrogatory questions and answers. At the conclusion of the second round of the interrogatory process, the OAG discontinued its intervention and did not participate further in the hearing process. The interrogatory questions and answers were part of the Record before the Panel.

Consumer Advocate for Insurance

[21] The CAI was also provided with all the relevant documentation and advised the Board of its intention to participate to this matter as an intervenor.

[22] On March 5, 2019, the CAI provided the Board with a written submission, which formed part of the Record.

[23] In her submission, the CAI raised the question as to whether targeting a return on equity of 12% is just and reasonable in the current market conditions.

[24] Furthermore, the CAI raised the issue of commission and suggested that a 15% commission level is very high, particularly in comparison to most other companies using a maximum standard commission of 12.5% (Exhibit 17, page 887 of the Record).

3. Analysis and Reasons

[25] The Panel has reviewed all of the written evidence before it, along with the submissions made by the Applicant and the CAI.

[26] The Panel investigated each issue individually and determines as follows:

1) Loss Trend Selection

[27] The selection of loss trend rates requires the analysis of historic data and the application of professional judgement to that data in order to select past and future trend rates for each coverage. Co-operators' approach was to select individual frequency and severity trend rates and then combine them to represent the past and future expected results.

[28] Due to its mix of business differing from industry, with a higher proportion of its policyholders being located in rural areas, Cooperators opted to use internal data. In the present filing, the Applicant relied on its own company data for its trend analysis and reviewed separate models for frequency and severity for each coverage. This approach has been consistently used by Co-operators in their rate filings.

[29] In the present filing, the Applicant used ten years of full data as of December 2017 and a trend period of five to ten years depending on the peculiarities of each coverage. The Applicant submitted that the time period selected for trend analysis is a matter of actuarial judgement, in an ultimate attempt to achieve a balance between responsiveness and stability. Furthermore, the Applicant submits the use of internal data allowed the Applicant to review the data at a more granular level, gaining insights that are not possible to achieve with industry data.

[30] In its trend analysis, the Applicant applies actuarial judgement to account for observations in the data. Co-operators submitted that making selections, as opposed

to simply accepting the indicated trends in the present filing, allowed it to balance responsiveness with consistency and stability. The Applicant further submits that to systematically accept the indicated trend has the potential to result in being overly responsive to fluctuation in frequency and severity.

[31] On that basis, the OAG requested sensitivity testing using the combination of the indicated frequency and severity trends to derive overall loss cost trends for the BI, PD, CM and SP coverages without providing a rationale for limiting the request to these specific coverages (Exhibit 13, page 795 of the Record). Co-operators submits that a closer review revealed that the use of these specific trends resulted in a decrease for these specific coverages, while using the same methodology for other coverages would result in an increase in indication or immaterial decrease (Exhibit 18, pp. 895-896 of the Record).

[32] The Panel finds that the Applicant's methodology and data underlying its loss trend analyses to have remained consistent over the past years, and that the Applicant's submissions with respect to the appropriate use of actuarial judgment to be adequately supported. The Panel therefore accepts the Applicant's trend selections and finds them to be reasonable in the circumstances.

2) Commission

[33] The CAI's submission raised concern about the level of commission. According to Exhibit 5, page 509 of the Record, the Applicant selected 5.2% of premium as commission rate. According to Exhibit 8, page 718 of the Record, the historical level of commission remained between 5.6% and 5.8% during the period 2015 through 2017. In all of the circumstances, the Panel accepts the Applicant's selected commission rate as being reasonable.

3) Profit Provision

[34] For the calculation of its overall rate level change need, Co-operators includes a profit provision targeting a return on equity (ROE) of 12%, a premium to surplus (“P/S”) ratio of 2.05 to 1, as well as a pre-tax return on investment (ROI) of 2% on policyholders’ supplied funds and of 6% on Co-operators’ surplus.

- **Selection of Return on Equity**

[35] The CAI challenges the reasonableness of the Applicant’s selected ROE of 12%. In her Final Submission, the CAI indicates that insurers in other Atlantic provinces and the province of Ontario are not permitted to use a ROE of 12% and that the permissible ROE in New Brunswick should follow the market, and be aligned with other provinces.

[36] The Board has in the past accepted 12% ROE as being reasonable and no party provided evidence, beyond argument, challenging the reasonableness of a 12% 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 ROE of 12% is reasonable in the circumstances and in light of the current market conditions.

[37] The Panel reiterates that there is no benchmark for target ROE in New Brunswick and that the Board continues to assess each applicant’s target on a case-by-case basis.

- **Selection of Return on Investment**

[38] The OAG requested sensitivity testing using a single return on investment rate of 4.4% based on the Applicant’s historical pre-tax investment returns from 2013 through 2017 for both cash flow and surplus for all coverages. In response to this request, the Applicant determined an alternative indication of 6.3% (Exhibit 16, page 868 of the Record).

[39] In its Final Submission made to the Board, the Applicant provided the following rationale for using different ROI for policyholder supplied fund and surplus:

Assuming a single yield as the expected investment income from policyholder supplied funds and equity does not align with our investment philosophy or our investment strategy in practice. We have concerns with the suggestion of allocating a portion of our shareholders return on equities to our policyholders. Our equity investments do not support the claim liabilities. Our equity investments, on behalf of our shareholders, reflect a considerable amount of investment risk (which is understood and in line with their risk-taking investment objectives). This is in contrast to the intent of our policyholders who have entered into an insurance contract with us for the purpose of transferring insurance risk, not investment risk.

[Exhibit 18, page 900 of the Record]

[40] The Panel recognizes that there are numerous valid approaches to determine the ROI. The Panel accepts the Applicant's approach for selecting the ROI as being reasonable in the circumstances.

4. Decision

[41] In the circumstances, the Panel of the Board determines that as a whole, the Applicant's proposed average rate change, the changes to existing classification differentials, discounts and endorsements are reasonable.

[42] The Applicant is therefore **approved to adopt the proposed average rate change of +7.97%** as filed.

[43] The approved rates will be effective on July 1, 2019 for new and July 12, 2019 for renewal business.

Dated at Saint John, New Brunswick, on April 17, 2019



Marie-Claude Doucet, Panel Chair
Chair, New Brunswick Insurance Board

WE CONCUR:



Elizabeth Turgeon, Board Member



Bernard Gautreau, Board Member