New Brunswick Insurance Board

DECISION

IN THE MATTER:
Of a rate revision application for the Intact Insurance Company
With respect to automobile insurance rates for
PRIVATE PASSENGER VEHICLES

Hearing Date: November 26, 2020
Written Hearing

Held by Video Conference

PANEL:	Mr. Marven Grant	Vice-Chair
	Ms. Ferne M. Ashford, LL.B.	Member
	Mr. Cyril Johnston, LL.B.	Member

Applicant:

Intact Insurance Company

Intervenors: Consumer Advocate for Insurance
Ms. Michele Pelletier, LL. B

Decision Rendered: December 22, 2020

Summary

[1] Intact Insurance Company (the "Applicant" or "Intact") filed a Rate Revision Application (the "Filing") with respect to automobile insurance rates for Private Passenger Vehicles (PPV) in New Brunswick requesting approval for a proposed average rate change of -0.03% based on an indicated average rate increase of +4.57%.

[2] 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 (the "Panel") to conduct a written hearing (the "Hearing") on November 26, 2020 via videoconference.

[3] In compliance with subsection 19.71(3) of the *Act*, the Board provided to the Office of the Attorney General ("OAG") and the Office of the Consumer Advocate for Insurance ("CAI") all documents relevant to the Hearing. Pursuant to subsection 19.71(4) of the *Act*, the OAG was notified of the Hearing, but declined the opportunity to intervene. The same documentation was also provided to the CAI. The CAI intervened only to the degree that a written submission was submitted for the Panel's consideration.

[4] The Applicant proposes a revenue neutral rate change overall and by coverage. The Panel, after examining the evidence and submissions made by all parties, determines that the average rate proposed by the Applicant is just and reasonable. The Applicant is approved to adopt the proposed average rate change of -0.03%.

[5] The approved rates will be effective on March 7th 2021 for new business and April 7th 2021 for renewal business.

Exhibits

[6] In the hearing process, the Panel accepted the following exhibits from the Applicant and the CAI as part of the record as shown below:

EXHIBIT	DESCRIPTION	DATE
1	Original Filing	Jun 5, 2020
2	Round 1 Questions from KPMG	Jun 12, 2020
3	Round 2 Questions from KPMG	Jun 19, 2020
4	Round 1 Response to KPMG	Jun 22, 2020
5	Round 2 Response to KPMG and Amendment	Jun 29, 2020
6	Round 3 Questions from KPMG	Jun 30, 2020
7	Round 3 Response to KPMG	Jul 3, 2020
8	Round 1 Questions from NBIB	Jul 10, 2020
9	Round 1 Response to NBIB	Jul 21, 2020
10	Round 2 Questions from NBIB	Jul 23, 2020
11	Round 2 Response to NBIB	Jul 24, 2020
12	Actuarial Review Summary	Jul 24, 2020
13	CAI Written Submission	Sept 15, 2020
14	Company Final Submission	Sept 25, 2020
15	Round 3 Question from NBIB	Oct 5,2020
16	Round 4 Question from NBIB	Oct 23, 2020
17	Round 3 Response to NBIB	Oct 27, 2020
18	Round 4 Response to NBIB	Nov 11, 2020

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 June 5, 2020. The original overall indication of the rate filing was +4.57% and the Applicant sought an overall average rate change of -0.03%.

[9] While the proposed rate change was not above the threshold 3%, the Board required a hearing to consider some of the other changes contained within the Filing. The Board issued a Notice of Hearing on August 27, 2020 and convened a Panel of the Board to conduct a Written Hearing on the matter.

[10] While the OAG declined to intervene, the CAI intervened and filed a written submission for the Panel's consideration.

2. EVIDENCE AND POSITIONS OF THE PARTIES

Intact Insurance Company

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

[12] Intact presented its Filing with an overall indication of +4.57 and proposed to select an average rate change of -0.03%.

[13] The following summarizes the Applicant's indicated and proposed changes to the existing rates by coverage:

Coverage	***Indicated***	***Proposed***
Bodily Injury (BI)	*6.25%*	*0.00%*
Property Damage (PD)	*11.62%*	*Incl. in BI*
Property Damage - Direct Compensation (DCPD)	*4.56%*	*0.00%*
Accident Benefits (AB)	*-2.10%*	*0.00%*
Uninsured Auto (UA)	*17.40%*	*Incl. in AB*
Collision	*6.24%*	*0.00%*
Comprehensive	*4.03%*	*0.00%*
Specified Perils (SP)	*Incl. in Comp*	*0.00%*
All Perils (AP)	*-2.52%*	*-1.11%*
Underinsured Motorist (UM) – SEF44	*2.23%*	*0.00%*
Total	***4.57%***	***-0.03%***

[14] The rate indication calculations detailed in the Filing incorporate various assumptions, including a target return on equity (ROE) of 12% and an implied ROE of 7.85% a pre-tax investment rate on cash flow (ROI) of 2.19%, an investment rate on capital of 3.24% and a 2:1 premium to surplus ratio. If the Applicant's proposed average rate changes are approved, average rates would stay at the current average of approximately $907.

[15] Intact provided the following reasoning for its selection of proposed rate:

> This filing proposes a revenue neutral rate change overall and by coverage. Although Intact's overall rate indication is positive, Intact believes that a rate increase at this time will counter the efforts put in place to provide financial relief to its customers under the COVID-19 environment. Changes proposed in this filing include adjustments to some of Intact's currently used rating factors based on indications, the introduction of Individual Credit Score as a rating variable and base rate adjustments that are uniform by territory in order to achieve a revenue neutral impact. Proposed Underwriting changes include amendments and additions to reflect changes in rating and to be consistent with Intact in other provinces. [Record p. 1001]

Consumer Advocate for Insurance

[16] The CAI's intervention was limited to a written submission. In its submission, the CAI argued that the proposed rate amendments are reasonable and should be permitted by the Board. However, the CAI opposes the usage of credit score by the insurer in its rating process. The CAI justified its opposition to the use of credit score, stating as follows:

> Intact is introducing credit score in its rating process. We submit that the usage of credit score could negatively impact availability and price offered to insureds who can least afford insurance. For example, seniors, unemployed, newcomers to Canada could have difficulties paying for their insurance because of a low credit score that could translate into higher premiums. We must also point out that having no mortgage and no debt could also have a negative impact on an insured credit score. Significant life events such as sickness, job loss and identity theft could lead to financial hardship who will impact credit score. Insurers are already using driving records to determine risks. We submit that insurers should not be able to use credit score for rating. Newfoundland and Ontario do not permit it. [Record, p. 1068]

[17] With respect to the impact of the Covid-19 Pandemic, the CAI suggested that some adjustment should be applied to the actuarial loss experience for 2020 and 2021. The CAI argued in her final submission as follows:

> Covid-19 Pandemic has greatly reduced the number of cars on the road in New Brunswick. Therefore, we submit that adjustments should be applied since the actual loss experience that will emerge for 2020 and 2021 will be materially less than the rate indication model forecasts presented. The absence of traffic on the roads will likely contribute to a loss ratio drastically lower than what was expected. This pandemic should be taken inconsideration. [Record, p. 1068]

3. ANALYSIS AND REASONS

[18] The Panel has reviewed and considered all of the written evidence before it, including the submissions of the Applicant and the CAI. As part of its review of the evidence and in its deliberations, the Panel noted several issues, the most substantial and impactful of which will be addressed individually below.

(1) New Rating Variable – Credit Score

[19] Intact proposed the introduction of a new rating variable with a discount structure based on an insured's individual credit score obtained with that insured's consent. Intact provided the following rationale to justify the fairness and reasonableness of this new rating variable:

> The use of the personal credit score in insurance rating has started a few decades ago and several analyses have proven its undeniable correlation with insurance losses (e.g. Wu & Guszcza, Monaghan and Tillinghast). In fact, credit rating is widely used across Canada in both unregulated markets (e.g. Province of Quebec and Property Products outside of Newfoundland), and regulated markets (e.g. Nova Scotia, Auto, Alberta Auto on non-mandatory coverages). Aside from being a strong statistical predictor of future insurance losses, the credit score is objective and impartial. The exercise of ratemaking consists of ensuring that the rate charged to a policyholder is closely associated with the individual risk transfer and that one client does not subsidize the insurance losses of another. Our proposed differential curve is fair and reasonable as supported by an actuarially sound analysis. [Record, p. 707]

[20] The Panel engaged in a thorough discussion of this proposed new rating variable, ultimately deciding that the manner in which Intact seeks to implement this rating variable change is just and reasonable for the following reasons.

[21] First, the Panel must ensure that the proposed rating variable using credit score, is not prohibited by legislation in New Brunswick, as it is in some other Canadian provinces. Despite some public discussion several years ago by legislators in this regard, no legislation was ever enacted which prohibited this approach, and the current applicable legislation and regulation do not prohibit the use of credit score as a rating variable.

[22] Secondly, the Panel considered whether the Applicant demonstrated that the credit score is predictive of risk and if the proposed approach is actuarially sound. The Applicant utilized five years of New Brunswick data to determine their differentials. For the derivation, Intact considered first the cohort of insured who also have home insurance policies with the company, and from whom consent for use of credit score has already been obtained. This one-way analysis considered the loss costs attached to the groupings of credit score over the past five years. Risks for which credit information is not available have been removed from the analysis. To adjust for the mix of business between different segments, the loss cost relativity is calculated based on loss cost adjusted for the average pricing differential of all other rating variables thereby neutralizing the effect of these other variables. A weighted least squared regression was performed on the neutralized loss cost to derive the indicated credit curve by coverage. The Applicant provided sufficient evidence to demonstrate that its approach is justified and reasonable from both an actuarial and statistical standpoint. The Panel accepts the approach but cautions that it will be necessary to regularly review the updated information, specifically the Applicant's neutralization factors and off-balance factors.

[23] The Panel recognized that the use of credit score as a rating variable raises certain issues/concerns, including, but not limited to; informed consent, privacy, causal effect, link to risk, the frequency in which the information is updated and how disputes are handled. The Panel also considered the CAI's submission on this issue. An important

voice advocating for consumers, the CAI raised concerns about usage of credit scores negatively impacting availability and pricing to those who can least afford insurance such as seniors, unemployed or even those that have little to no debt.

[24] Based on the circumstances of this Filing, and the evidence contained in the Record, the Panel concludes that the Applicant's proposed use of credit score as a rating variable is predictive, fairly applied and not prohibited by legislation. The concerns related to the 'business of insurance,' as opposed to the regulation of rates, fall outside of the mandate of the Board. It bears repeating here that every insurer conducting business in New Brunswick is required to comply with privacy and other applicable legislation and must answer to the Superintendent of Insurance in respect of the business of insurance. Given the importance of transparency and privacy concerns with the introduction of credit score information as a rating variable, the Board will explicitly be communicating those concerns to the Superintendent of Insurance. Nothing in this decision should be interpreted to derogate from those requirements or the oversight by the Superintendent.

[25] The Panel notes as well that the annual nature of filings results in a regular opportunity to revisit the approach in future years to ensure that the appropriateness of the rating variable is maintained. For future filings, it is expected that the Applicant would update the Board regarding the impact of the implementation of the credit score variable, and confirm that the actual dislocation does not deviate significantly from that which was anticipated in this Filing.

(2) Loss Trends

[26] The selection of loss trend rates requires the analysis of past data and the application of

professional judgment in order to select trend rates that represent past experience and future expected results for each coverage.

[27] In their filing last year, the Applicant's trend selections were based on loss cost data. In the current filing, the Applicant has changed its methodology to separately select factors for frequency and severity trend (which are then combined to determine selected loss cost trends). Given the change in methodology, the Panel reviewed the loss trends in more detail.

[28] The provincial indication for rate change is +4.57%. Underlying this indication are important assumptions related to trends. These were reviewed by the Panel and were found to be reasonable overall. The Panel specifically considered the selection of 6.87% for the severity trend for PD. The Applicant used internal data from 2014 – 2018. The Applicant excluded 2019 data from their analysis because of a large loss. The Applicant observed that its a priori internal trends appears to diverge from the industry's trends and gave 50% weight to the PD severity trend stemming from internal data and 50% weight to PD severity trend resulting from industry data. The Applicant provided sufficient justifications to support the reasonableness of the selected weights in these circumstances. It is noted that sensitivity testing was performed using alternative set of PD trends and the effect on the overall rate indication is negligible. All other trends were reviewed and seen as reasonable.

(3) COVID 19

[29] The data used by the Applicant in its analysis is pre- the world-wide Covid-19 pandemic data, not yet reflecting any possible changes in loss costs. While the data may start to

emerge in the coming months, there is not yet a clear signal.

[30] As a result of Covid-19, however, many insurers, including the Applicant, have introduced temporary measures to support their customers during this uncertain time, and recognizing changing insurance risks. It is noted that the Applicant in this matter is proposing to adopt less than the indicated rate change, in part to reflect some of this uncertainty. This is a reasonable approach at this time and the Board continues to monitor the ever-changing circumstances to ensure rates are as just and reasonable as possible.

(4) Other Notable Changes/Sensitivity Testing

4.1 Relativities/Differentials/Classification

[31] The Panel reviewed the Applicant's proposed change in methodology regarding differentials. These include number of claims, minor convictions, months licensed differentials, years with company, Automated Emergency Braking (AEB) differentials and the adoption of the IBC 2020 CLEAR rate group table. The overall impact of the changes in differentials are balanced back by coverage to the selected rate change. The Panel accepts the changes in differentials as just and reasonable.

4.2 Use of Trafalgar Data

[32] In its previous filing the Applicant incorporated the experience from its sister company Trafalgar Insurance Company of Canada, along with Intact's experience in the rating analysis as recommended by the Board in 2017. In the current Filing, the Applicant did not incorporate Trafalgar's experience in their analysis. Intact justified the change as follows:

> Note that this has no material impact on our indications as Trafalgar's premium volume is less than 3% of Intact's. (Record, p.751)

[33] The Panel accepts that the removal of this data from Intact's analysis will not have any meaningful impact on Intact, but this may not be the case for Trafalgar. Trafalgar's filing is not being considered at this time but it may have to demonstrate that the rating variables such as years licensed differential is properly taken into account with the differentiation between the two companies' portfolio.

[34] For the purpose of the current Intact Filing, the Panel accepts Intact's rationale for this change as just and reasonable.

4.3 Premium on Levelling

[35] The Panel was content to see that Intact, following a previous recommendationof the Board, adopted the Extension of Exposure Method in its analysis rather than the parallelogram method. While the overall effect of the change is 0.7% on indications, it is considered more precise and a reasonable approach for the Applicant.

4.4 ULAE

[36] In the Applicant's previous filing, they selected the ULAE ratio based on the projected 2018 calendar year experience. This year, Intact selected the ULAE ratio based on a 3-year weighted average based on the following rationale:

> A disadvantage of the historical weighted average method is that it would not account for expected changes in the ULAE ratio based on projected claims count and staffing levels. In the case of an anticipated change, we would take this into consideration in our selection.
>
> The main advantage of the new approach is the stability in the selected ULAE provision. The 3-year weighted average method is recognized as being actuarially sound and often requested for filing purposes in all provinces to support the selection.
>
> Our ratio is relatively stable over time, and we don't expect major changes. Thus, this method is representative of our prospective ratio and in turn is reasonable from a policyholder's perspective. (Record, p. 982)

[37] The impact of this change gives more stability and tempers volatility and, therefore, the Panel accepts the rationale for this change as just and reasonable.

4.5 Other Expenses

[38] Similarly, in the Applicant's previous filing they relied on the projection of the 2018 calendar year experience for New Brunswick Personal Auto (i.e., PPV is a subset of the data) to select their expense ratio. In the current filing, the Applicant relied on the weighted average of 2017 to 2019 calendar years' experience to select their expense

ratios. For sensitivity testing purpose, the Applicant prepared an alternative rate indication based on expense ratio determined from the 2019 calendar year experience for New Brunswick PPV. The effect is immaterial as the overall indicated rate change would decrease by 0.3% point.

[39] The Panel accepts this change in approach as it is part of acceptable actuarial practices and also given the negligible impact on the rate indication.

4. DECISION

[40] For the reasons set out above, the Panel finds that the rates proposed to be charged by the Applicant, as set out in the Filing, on the whole, are just and reasonable and the Applicant is approved to adopt the proposed average rate change of -0.03%

[41] The approved rates will be effective on March 7th 2021 for new business and April 7th 2021 for renewal business.

Dated at Saint John, New Brunswick, on December 22, 2020.

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Marven Grant, Vice-Chair
New Brunswick Insurance Board

WE CONCUR:

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Ferne Ashford *Board Member*

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Cyril Johnston *Board Member*