

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for the United General Insurance Corporation
With respect to automobile insurance rates for
Private Passenger

Hearing Dates: January 26, 2021

Written Hearing

Held by Video Conference

PANEL:	Ms. Marie-Claude Doucet, LL. B.	Chair
	Ms. Elizabeth Turgeon, LL. B	Member
	Ms. Rachel Arseneau-Ferguson	Member

Applicant: **United General Insurance Corporation**

Intervenor: **Consumer Advocate for Insurance**

Decision Rendered: February 17, 2021

Summary

- [1] United General Insurance Corporation (the “Applicant” or “United General”) filed a Rate Revision Application (the “Filing” or the “Application”) with respect to automobile insurance rates for Private Passenger Vehicles (PPV) in New Brunswick requesting approval for a proposed average rate increase of +6.94% based on an amended indicated average rate increase of +13.69%.

- [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 January 26, 2021 by video conference.

- [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 Consumer Advocate for Insurance (“CAI”). On December 11, 2020, the OAG advised the Board it would not intervene in this matter. The CAI intervened, questioned the Applicant by way of written interrogatories, and presented a written submission for the Panel’s consideration.

- [4] The Panel, after examining the evidence and submissions made by the parties, determines that the average rate increases proposed by the Applicant are just and reasonable in all of the circumstances.

- [5] The approved rates will be effective on April 1, 2021 for new and renewal business.

Exhibits

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

EXHIBIT	DESCRIPTION	DATE
1	Original Filing	Sep 3, 2020

2	Round 1 Questions from NBIB	Sep 17, 2020
3	Round 1 Response to NBIB	Sep 21, 2020
4	Round 1 Questions from KPMG	Sep 23, 2020
5	Round 1 Response to KPMG	Sep 28, 2020
6	Round 1 Response to KPMG (cell clarification)	Sep 28, 2020
7	Round 1 Response to KPMG (cell clarification response)	Sep 29, 2020
8	Round 2 Questions from KPMG	Oct 6, 2020
9	Round 2 Response to KPMG	Oct 13, 2020
10	Round 3 Questions from KPMG	Oct 16, 2020
11	Round 3 Response to KPMG	Oct 22, 2020
12	Round 4 Question from KPMG	Oct 27, 2020
13	Round 4 Response to KPMG	Oct 29, 2020
14	Round 5 Question from KPMG	Oct 30, 2020
15	Round 6 Question form KPMG	Nov 2, 2020
16	Round 5 and 6 Response to KPMG	Nov 3, 2020
17	Actuarial Summary Review	Nov 24, 2020
18	Round 1 Question form CAI	Dec 22, 2020
19	Round 1 Response to CAI Questions	Jan 5, 2021
20	Final Submission from CAI	Jan. 11, 2021

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. The Board requires it to do so.

Procedural History

[8] The Applicant filed this Application for the PPV category on September 3, 2020. The original overall rate change indication of the Filing was +12.16% and the Applicant proposed an overall average rate increase of 6.94%.

[9] Following questions from KPMG, the Board's consulting actuaries, the Applicant submitted a final Amended Filing on November 3, 2020, increasing its rate change indication to +13.69%, but with no changes to the proposed average rate increase.

[10] The Board issued a Notice of Hearing on December 1, 2020 and convened a Panel of the Board to conduct a Hearing to consider the Application.

[11] Prior to the Hearing, six (6) rounds of questions were asked by the Board's consulting actuaries and answered by the Applicant. The CAI also questioned the Applicant by way of written interrogatories and provided a written submission for the Panel's consideration on January 11, 2021.

[12] Finally, the virtual written Hearing in this matter was held on January 26, 2021.

2. Evidence and Positions of the Parties

United General Insurance Corporation

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

- [14] United General presented its Filing to the Board with an overall original rate change indication of +12.16% and proposed an overall average rate increase of 6.94%. The Applicant finally amended its rate application on November 3, 2020 reaching an overall rate change indication of +13.69%, maintaining its overall average rate change proposal.

- [15] The following sets out the amended indicated and the proposed changes to the existing rates by coverage:

Coverage	Indicated	Proposed
Bodily Injury (BI)	8.20%	6.34%
Property Damage (PD)	3.10%	1.16%
Property Damage - Direct Compensation (DCPD)	17.60%	7.12%
Accident Benefits (AB)	14.10%	10.18%
Uninsured Auto (UA)	-2.60%	2.75%
Collision	8.80%	7.51%
Comprehensive	22.70%	18.69%
Specified Perils (SP)	22.70%	18.69%
All Perils (AP)	16.00%	11.62%
Underinsured Motorist (UM) – SEF44	0.0%	0.0%
Total	13.69%	6.94%

- [16] The rate indication calculations detailed in the Filing incorporate various assumptions, including a target return on equity (ROE) of 12%, an implied ROE of 8.61%, a pre-tax investment rate on cash flow (ROI) of 0.22%, an investment rate on capital of 0.48% and a 1.5:1 premium to surplus

ratio. If the Applicant's proposed average rate changes are approved, average rates would increase from the current average of approximately \$828.52 to approximately \$886.00.

[17] The Applicant submitted that the Filing was prepared utilizing sound actuarial methods and practices, that the assumptions contained therein are reasonable and that the Filing has been completed in accordance with the Filing Guidelines issued by the Board.

Consumer Advocate for Insurance

[18] The CAI intervened and participated in the interrogatory process by submitting one round of questions to the Applicant. These queries and the responses provided by the Applicant form part of the Record. The CAI also filed a written submission opposing the level of rate increase sought by the Applicant.

[19] In her written submission, the CAI submitted that the insurance rates in New Brunswick have to be just and reasonable. The CAI argued:

[...] that the return on equity ask by companies is too high and does not reflect what other provinces are permitting. Why should consumers of New Brunswick pay more than our neighbors. We submit that the ROE should be align with other provinces. Is a return of 12%, after tax, is just and reasonable? We have to remember that ROE has a massive impact on premiums. We submit that insurers doing business in other Atlantic provinces and Ontario are not getting a ROE of 12%.

The Covid-19 Pandemic has greatly reduced the number of cars on the road in New Brunswick. Therefore, 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. Therefore, we can predict a reduction in auto accident and claims. 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.

The CAI reiterates to the Board that automobile insurance is mandatory in New Brunswick and therefore, rates should be reasonable, affordable and fair.

We also submit that when the Board decides what is just and reasonable, it must also interpret what is just and reasonable in regards of the consumers of New Brunswick. Insurance is mandatory and driving a car is also mandatory in our province. We certainly do not want to see the consumers of our province to drive their vehicle without insurance because the premiums re unaffordable.

We submit that the proposed increases are significant. Those increases are neither just nor reasonable for the consumers of New Brunswick.

Record, pp 594-595

3. Analysis and Reasons

[20] The Panel has reviewed all of the written evidence in the Record, including the Applicant's responses to the additional queries and the final submission from the CAI.

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

[22] The Filing raised a number of issues for the Panel to consider and determine at the Hearing. Each of those issues is discussed individually below.

1) Loss Trend Selections

[23] The selection of loss trends 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.

[24] In its Filing, the Applicant's methodology was based on the selection of factors for frequency and severity trends (which are then combined to determine selected loss cost trends). The Panel reviewed the loss trends selected by the Applicant in detail.

[25] As indicated above, the Applicant's provincial indication for rate change is +13.69%. 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 the following trends:

- a. BI Frequency Trend: -3.2%;
- b. BI Severity Trend: +5.7%;
- c. DCPD Frequency Trend: 1.7%; and
- d. Comprehensive Severity Trend: + 3.0%.

[26] For BI frequency and severity trends, the Applicant used 16.5 years of industry data (2003-2 to 2019-2). The Applicant explained that in selecting the model, it looked for consistency with prior selected models where appropriate and reviewed the resulting loss cost model fit, among other considerations. The Applicant found the resulting BI loss cost model, as well as the frequency and severity models, to provide a good fit. While residual plots are only one way to assess goodness of fit, the statistical results obtained, such as the adjusted R-squared and p-values were also reviewed and found to also demonstrate a good fit. For sensitivity purposes, the Board's consulting actuaries requested alternative trends, using only post 2013 reform data, and excluding seasonality, as that variable was proven insignificant. The alternative models produced frequency and severity trends yielding equally satisfactory goodness-of-fit statistics, and resulted in a loss cost trend of 2.1%. The alternative loss cost trend decreased the overall rate indication by -0.10% point. As result, the Panel found the Applicant to have provided sufficient justifications to support the reasonableness of its selected trends in these circumstances.

[27] For the DCPD coverage, the Applicant used 15 years of data for frequency and 6.5 years of data for severity, yielding trends of +1.70% and +5.30% respectively, for a loss cost trend of +7.10%. While the selected frequency model did not result in significant statistical results, the Applicant's selection is consistent with the previous year's approach. Sensitivity testing was performed using 0% as alternative DCPD frequency trend and the overall rate indication increased by only +0.9% point. In light of the consistency in the approach, and the low impact on the overall rate indication, the Panel accepts the Applicant's modelling for the purposes of this Filing.

[28] For the Comprehensive and SP coverages, the Applicant used 20 years of data (2000-1 to 2019-2) for both frequency and severity, yielding trends of +1.10% and +3.00% respectively, for a loss cost trend of +4.10%. In reviewing its residual plots, the Applicant applied a scalar at 2017-1 on the severity trend model, resulting in more weight on the data thereafter, despite the absence of a clear explanatory event or rationale. The p-value for this scalar at 0% satisfies the threshold of being below 5% and the selected model results in a high adjusted R-squared. A sensitivity testing removing the scalar at 2017-1 was therefore requested. The removal of this scalar resulted in an increase of the severity trend to 5.10% and a lower, but still significant, adjusted R-squared. This alternative severity trend increased the overall rate indication by 1.0% point. Due to the low impact on the overall rate indication, the Panel accepts the scalar as reasonable for the purposes of this Filing only. However, the Panel expects the Applicant to provide additional justification, such as an event or analysis on causing factors, for the use of such scalar in future applications.

[29] All other trends were reviewed and found to be reasonable.

2) Unallocated Loss Adjustment Expense (ULAE)

[30] The Panel initially had concerns that the Applicant may have double counted the internal loss adjustment expenses (ILAE), which would be considered within the ULAE percentage: 1) as part of the paid claims and 2) as part of the general operation expenses. However, upon careful

review, the Panel confirmed that the ILAE were not part of the general expenses, and therefore not double counted.

[31] The Applicant selected the same ULAE percentage as was presented in its latest Appointed Actuary Report (AAR), which is consistent with its previous filing. Upon review by the Panel, it was revealed by the supporting documentation that based on the two previous years, the indicated ULAE ratio was 3.1%, which differs from the selected higher ULAE ratio of 4%. While in some instances it may be justified to select a higher than indicated ULAE ratio, the Applicant did not provide a rationale for doing so. For sensitivity purposes, the Applicant was requested to use 3.1% as ULAE ratio, and the overall rate indication decreased by -0.5% point. In this instance, the panel accepts the Applicant's ULAE selection as it does not influence the complement of credibility for next year's filing (assuming the credibility methodology will remain unchanged), and its effect on the overall rate indication is negligible. However, the Panel expects the Applicant to provide appropriate justification in future filings when the selected ULAE ratio differs from its indication.

3) Other Expenses

[32] In this Filing, the Panel noted an increase of 25.7% in the general expenses from financial years 2018 to 2019, affecting the Applicant's fixed-expense assumption. The Applicant explained that the significant increase in general expenses in 2019 is due to a change in mapping of health service levy (HSL) assessment on the Property & Casualty -1 (P&C1) reporting. Previously, this expense was included as a claim expense, but currently it is included as a regulatory assessment, resulting in an increase of general expenses. Further to questioning from the Board's consulting actuaries, it was discovered that the HSL was mistakenly subtracted twice from prior years' indicated ratios. The historical ratios of fixed expenses to direct written premium were amended and lay between 9.4% and 12.4%. Consequently, the Applicant amended its selection of fixed-expense ratio from 9% to 11%, using a longer-term average, reflecting the calculation corrections. While the Panel accepts the Applicant's amendment, the

Board intends to monitor the Applicant's Other Expenses level in future filings in order to ensure that changes in expenses are properly reflected in its overall rate indication.

4) Profit Provision

[33] The Applicant used the trended permissible loss ratio (PLR) as its complement of credibility for the provincial rate indication. In determining its PLR, the Applicant included three components: raw undiscounted PLR, benefit of investment on capital and loss of investment due to delay in premium payment. During the review of this Filing, errors in the investment loss due to delay in the premium payment component were noted and corrected; 1) removing the monthly payment adjustment as the formula was using annual discount rate, and 2) amending the formula to appropriately calculate the investment return on cash flow. The Panel noted that these corrections resulted in a negligible impact on the overall indicated rate change and accepts the amended methodology.

5) Selection of Return on Equity

[34] The CAI questioned in her final submission whether a target Return on Equity (ROE) of 12% is just and reasonable. The CAI argued that the target ROE is too high and does not reflect the ROE allowed in other Atlantic provinces and in Ontario.

[35] The Panel was not provided with any evidence that challenged the reasonableness of a 12% Target 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 these specific circumstances and in light of the current market conditions. This conclusion is strengthened by the fact that the implied ROE, if the proposed average increases are permitted, results in a lower return on equity for the Applicant.

[36] The Panel however reiterates that there is no benchmark for target ROE in New Brunswick and that every applicant's target will be assessed on a case-by-case basis.

6) COVID-19

[37] In its analysis, the Applicant relies on data that mainly pertains to pre COVID-19 pandemic experience. United General's current Filing also includes premium and claim data from March to May 31, 2020, which reflect pandemic containment measures to certain extent. While some post-pandemic data had begun to emerge, the data remains immature and continues to evolve. As a result, a clear signal of the full impact of COVID-19 on the ultimate losses cannot be detected. Consequently, the Applicant decided not to make any explicit adjustment to the experience for the potential COVID-19 impacts. It rather judgmentally considered the potential impact of the pandemic when reviewing the indicated rate level changes and proposing the lower overall level changes.

[38] As a result of COVID-19, many insurers have introduced temporary measures to support their customers during this uncertain time, and to recognize the perceived changing level in insurance risks. In its Filing, the Applicant confirms that it did not provide temporary relief measures to its policyholders such as a premium holiday or rebate. However, United General informed its brokers that policyholders could request a change in class of use to reflect the decrease in utilization of vehicle, reducing the premium. The Applicant did not pursue other active measures and did not require its brokers to systematically inform policyholders of their options. This resulted in a mere 0.5% of policyholders requesting a change in their class of use due to COVID-19.

[39] The Panel recognizes that the Applicant is proposing to adopt approximately half of its indicated rate change, in part to reflect some of the uncertainty regarding the impact of COVID-19. Ultimately, the Panel finds this approach to be reasonable at this time and notes that the Board

will continue to monitor the ever-changing circumstances to ensure reasonableness of the rates.

4. Decision

[40] For the reasons set out above, the Panel finds the Applicant's Filing is just and reasonable and the Applicant is **approved to adopt the proposed average rate change of 6.94 %**.

[41] The approved rates will be effective on April 1, 2021 for new and renewal business.

Dated at Saint John, New Brunswick, on February 17, 2021.

Marie-Claude Doucet, Panel Chair
New Brunswick Insurance Board

WE CONCUR:

Elizabeth Turgeon, Board Member

Rachel Arseneau-Ferguson, Board Member