

New Brunswick Insurance Board

DECISION

IN THE MATTER OF:

A rate revision application for the
Northbridge General Insurance Corporation
With respect to automobile insurance rates for
Private Passenger Vehicles

Hearing Dates: May 16, 2022 and June 7, 2022
Written Hearing

PANEL:	Mr. Marven Grant	Vice-Chair
	Ms. Heather Stephen	Member
	Mr. Georges Leger	Member

Applicant: Northbridge General Insurance Corporation

Intervenors: The Office of the Attorney General
The Office of the Consumer Advocate for Insurance

Decision Rendered: July 7, 2022

Summary

- [1] Northbridge General Insurance Corporation (the “Applicant” or “Northbridge-G”) filed a Rate Revision Application (the “Filing” or the “Application”) with respect to automobile insurance rates for Private Passenger Vehicles (PPV) in New Brunswick. Northbridge-G is requesting approval for a proposed average rate increase of +28.76% based on an amended indicated average rate increase of +28.52%.
- [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 May 16, 2022 with deliberations held by video conference on that date. After receiving responses to a request for revisions sent to the Applicant on May 20, 2022, the Panel reconvened by videoconference on June 7, 2022 to conclude its deliberations.
- [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”). Both the CAI and OAG intervened in this Hearing; the OAG submitted an expert report and a final written submission with the assistance of actuaries, Oliver Wyman (OW). The CAI filed a written submission and largely adopted the position of the OAG.
- [4] Following initial deliberations on May 16, 2022, the Panel requested that the Applicant provide amended indications incorporating the following adjustments to its assumptions:
 1. Modify the past and future loss cost trends to:
 - a. -0.98% for TPL-BI, which is based on the combination of a frequency trend of -6.20% and a severity trend of +5.57%; and

- b. +8.02% for Comprehensive, which is based on the combination of a frequency trend of 0% and a severity trend of +8.02%.
2. Modify the premium trend for each subject coverage to use:
 - a. As past premium trend, average change in drift factors based on the 6-year of company's own data as presented in Exhibit 4.e.2.1; and
 - b. As future premium trend, IAO selection.
3. Include the amendment related to the selected differentials pertaining to years accident-free as per Exhibit 4.l.1 provided to NBIB on March 25, 2022.
4. Amend the calculation of the off-balance to reflect the combined distribution for Northbridge-G.

Assume that the baseline is the amended filing with the actuarial justification and the summary file provided to NBIB on November 16, 2021 and December 3rd, 2021 respectively.

- [5] The Board also requested that, taking into consideration the results from the revised indications incorporating all of the adjustments to assumptions detailed in Paragraph [4], the Applicant review and confirm the proposed rate changes by coverage as well as overall at the entity level.
- [6] Upon receipt of the requested amended indications and revised proposed rate level changes, the Panel concluded its deliberations. The Panel, after examining the evidence and submissions made by the parties, determines that the indications supporting the proposed overall average rate change must be modified.
- [7] The Applicant is ordered to incorporate changes to the Filing as per the request for revision sent to the Applicant on May 16, 2022.
- [8] The required changes, as set out in Paragraph [4], result in a decrease to the Applicant's overall indication for a rate increase from +28.52% to +27.8%. Taking into consideration the revised

indication, the Applicant revised the proposed overall average rate level change for Northbridge-G to +18.15%.

[9] The Panel finds that Northbridge-G's revised proposed overall average rate level change is just and reasonable in these circumstances and Northbridge-G is **approved to adopt this proposed average rate change of +18.15%**.

[10] The approved rates will be effective on September 26, 2022 for new business and November 10, 2022 for renewal business.

Exhibits

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

EXHIBIT	DESCRIPTION	DATE
1	Original Filing	June 30, 2021
2	Round 1 Questions from KPMG	August 10, 2021
3	Extension given to respond to KPMG until August 23, 2021	August 16, 2021
4	Round 1 Response to KPMG	August 23, 2021
5	Round 2 Questions from KPMG	September 7, 2021
6	Round 1 Questions from NBIB	September 9, 2021
7	Extension given to respond to KPMG and NBIB until September 21, 2021	September 14, 2021
8	Round 2 Response to KPMG; Round 1 Response to NBIB and Amendment	September 21, 2021
9	Round 2 Questions from NBIB	September 22, 2021
10	Round 2 Response to NBIB and Amendment	September 28, 2021
11	Round 3 Questions from NBIB	September 28, 2021
12	Round 3 Response to NBIB and Amended Actuarial Justification	September 28, 2021
13	Round 4 Questions from NBIB	September 29, 2021
14	Round 4 Response to NBIB and Amended Filing Summary	September 29, 2021
15	Round 3 Questions from KPMG	October 12, 2021
16	Extension Request until October 26 for Response to Round 3 Questions from KPMG	October 12, 2021
17	Round 3 Response to KPMG and Amendment	October 26, 2021
18	Round 4 Questions from KPMG	November 2, 2021
19	Extension to Respond to Round 4 Questions from KPMG until November 17, 2021	November 8, 2021

20	Round 4 Response to KPMG and Amendment	November 12, 2021
21	Round 5 Questions from KPMG	November 16, 2021
22	Round 5 Response to KPMG and Amended Actuarial Justification	November 16, 2021
23	Round 6 Questions from KPMG	November 30, 2021
24	Round 6 Response to KPMG	December 3, 2021
25	KPMG Story Board REVISED	December 7, 2021
26	Round 5 Questions from NBIB	December 9, 2021
27	Round 5 Response to NBIB	December 10, 2021
28	Round 1 Interrogatories from OAG	March 4, 2022
29	Round 1 Responses to Interrogatories from OAG	March 10, 2022
30	Round 2 Interrogatories from OAG	March 18, 2022
31	Round 2 Responses to Interrogatories from OAG	March 25, 2022
32	Intervenor Expert Report from OAG	April 8, 2022
33	Final Written Submission from OAG	April 20, 2022
34	Final Written Submission from CAI	April 19, 2022
35	Board's Request for Revision	May 20, 2022
36	Applicant's Response to Board's Request	May 30, 2022
37	Additional Information Provided by Applicant on the Response to Board's Request	June 3, 2022

[12] The Panel also had a request for revision sent to the Applicant on May 20, 2022 and both the Applicant's response, received on May 30, 2022 and the additional information provided by the applicant on their response to the Board's request were provided to the Board. The Applicant's response has been added to the Record of Hearing as Exhibits 36 and 37.

1. Introduction

[13] 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% 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

[14] The Applicant filed this Application for the PPV category on June 30, 2021. The original overall rate level change indication of the Filing was +27.87% and the Applicant proposed an overall average rate increase of +26.93% for Northbridge-G. This was the first full filing for Northbridge-G as it has previously been approved to adopt the Advisory rates through submission of RFG-2 Filings.

[15] Following several rounds of questions from the Board staff and the Board's consulting actuaries between June 30, 2021 and December 3, 2021, the Applicant submitted a number of amendments to the original filing. The Final Amended Filing, submitted on December 3, 2021,

increased the overall rate level change indication to +28.52% and increased the proposed overall average rate level change to +28.76% for Northbridge-G.

- [16] Upon review of the Filing, the Board determined that a hearing was required as the proposed rate change exceeded the +3% legislative threshold. The Board therefore issued a Notice of Hearing on January 21, 2022 and convened a Panel of the Board to conduct a Written Hearing on the matter. The OAG and the CAI both provided notice of their respective intentions to intervene in the Hearing.
- [17] Prior to the Hearing, in addition to the Filing, additional information and clarification were generated: the Board posed a number of questions to the Applicant through six (6) rounds of questions were asked by the Board's consulting actuaries (KPMG) and five (5) rounds of questions were asked by the Board's staff. Two (2) rounds of interrogatories were posed by the OAG. The Applicant responded to all questions posed and the answers form part of the Record.
- [18] In addition to filing an expert report prepared by the actuarial firm, Oliver Wyman, the OAG presented a final written submission for consideration by the Panel. Similarly, the CAI provided a final written submission for the Panel's consideration. The Panel did not receive a final written submission from the Applicant.
- [19] The Hearing into this Application commenced on May 16, 2022. On May 20, 2022, a request for revision was delivered to the Applicant, to which a response was received on May 30, 2022 and additional information was provided by the Applicant on June 3, 2022. The Applicant's response to the Board's request for revision as well as the additional information were placed before the Panel when it reconvened on June 7, 2022 to complete the Hearing.

2. Evidence and Positions of the Parties

Northbridge General Insurance Corporation

- [20] The Applicant's Filing, as amended, forms the main portion of its submission and of the evidence before the Panel. These were supplemented by an extensive interrogatory process both through the Board and its actuaries, and the OAG.
- [21] Northbridge-G presented its Filing to the Board with an overall original rate level change indication of +27.87% and proposed an overall average rate level increase of +26.93%. Through the various questions and interrogatories, the Applicant made several amendments to its Filing, with the indicated overall average rate level change indication amended to +28.52% and the proposed overall average rate level change amended to +28.76% for Northbridge-G.
- [22] The following sets out the amended indicated and the proposed changes to the existing rates by coverage as of May 16, 2022:

Coverage	Indicated	Proposed
Bodily Injury Tort (TPL-BI)	15.87%	16.30%
Property Damage Tort (TPL-PD)	0.48%	0.97%
Property Damage – Direct Compensation (DCPD)	72.31%	72.05%
Accident Benefits (AB)	10.34%	10.31%
Uninsured Auto (UA)	-2.09%	3.41%
Collision	30.00%	29.51%
Comprehensive	13.32%	12.28%
Specified Perils (SP)	9.19%	9.36%
All Perils	17.73%	31.84%
Underinsured Motorist (UM) – SEF44	1.82%	3.80%
Total	28.52%	28.76%

[23] The rate indication calculations detailed in the Filing, as amended, incorporate various assumptions, including a target and implied Return on Equity (ROE) of 9.15%, a target and implied Return on Premium of 2.75%, a pre-tax investment rate on cash flow (ROI) of 2.89%, an investment rate on capital of 2.89% and a 2:1 premium to surplus ratio. The proposed average overall rate level changes would increase the written premiums from the current average of approximately \$728 to approximately \$938.

[24] The Applicant suggests that the proposed average overall rate increase of +28.76% is justified. This is the first time the Applicant has filed with the Board in respect of its own rates. It states that the purpose of the Filing is to move away from 2018 Advisory rates, which are the most recent rates proposed by the IAO Actuarial Consulting Services Inc. an AON Company (IAO), approved by the Board, and to adopt company indicated rates. The Filing includes changes to base rates and differentials, discounts and surcharges, endorsements and rules.

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, 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.

[26] The OAG argued that the Applicant's use of the combined data of Northbridge-G and of its sister company Zenith Insurance Company (ZIC) to analyze the rate level needs "is inconsistent with the Board's filing guidelines and the CIA [Canadian Institute of Actuaries] Standard of Practice". Further, in addition to providing commentary on the Northbridge-G's proposed introduction of credit score as a rating variable, the OAG identified alternative trend assumptions for TPL-BI and Comprehensive, which it argues are more appropriate.

[27] The OAG argues that with the alternative assumptions, judgments, and calculations, which it suggests are more reasonable and more appropriate, the Applicant's indicated average rate level change would be less than Northbridge-G's proposed +28.76%.

Consumer Advocate for Insurance

[28] The CAI provided a written submission to the Panel for consideration. The CAI supports the alternatives and assumptions presented by the OAG and its expert actuaries, OW. In particular, the CAI's written submission highlights concerns with the dislocation (i.e., proportion of current policy holder affected by different levels of rate changes) resulting from the proposed rate level changes, the impact of Covid-19, and the introduction of credit score as a rating variable.

3. Analysis and Reasons

[29] The Panel has reviewed all of the written evidence in the Record, including the interrogatories, the written submissions from the Intervenor and the Applicant's responses to the additional request from the Panel.

[30] The Panel 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.

[31] The Panel's decision reflects that each assumption and methodology decision is laced with layers of data, assumptions, and judgement. As set out below in more detail, on some issues the Panel accepted the Applicant's evidence as satisfying its evidentiary burden of just and reasonable, while on other issues the Panel has accepted alternative positions as it found the Applicant failed to meet its burden of proof.

[32] The Panel concludes that the Applicant must modify some of the assumptions, calculations and methodologies applied in its amended Filing that was presented to the Panel at the time of the Written Hearing on May 16, 2022. The Applicant was consequently ordered to provide the Board with additional information prior to the final determination of the Board's decision on this Application and must amend the Filing accordingly. Northbridge-G may adopt an average rate level change of +18.15%.

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

A. On-Level Premiums

[34] In order to make educated and reasonable predictions about the future, the Applicant must examine past experience of a collection of insurance policies. This includes adjusting historical premium levels to current levels using on leveling factors. There are several accepted actuarial approaches to achieve this goal, including the parallelogram method, as proposed by the Applicant, and the extension of exposure method, for which the OAG advocates.

[35] The parallelogram approach considers historical premiums and applies factors in order to bring those historical premiums to the current rate level. This method assumes, *inter alia*, that the distribution of policies written is uniform over time. This method is less precise than some other methods but is nevertheless a well-accepted actuarial methodology.

[36] The OAG, through its expert actuaries, OW, suggests that the extension of exposure method would be a more appropriate approach given the growth and changes in the insured mix that is evident in the Applicant's portfolio. That method is a precise, albeit more labour intensive, process whereby the insurer delves back into its database and re-rates each policy. This is only possible if sufficient details are available within the database to accurately determine the premium that would have been charged on those historical policies had the current rates and

rating factors been in effect at the time.

[37] The Applicant concedes that consideration was given to using the extension of exposure method to adjust premiums but given the relatively small changes in rates over the last 5 years, it believed that the resulting difference between the two methodologies would be negligible. The Applicant does not yet have the infrastructure to adopt the extension of exposures method but intends to do so in the future.

[38] The Panel notes, as does the OAG, that the Applicant is in a period of significant growth, and therefore the extension of exposures would be the more preferable methodology to bring premiums on level. However, the Panel accepts that the Parallelogram method, though not ideal, is a reasonable and acceptable approach as the Applicant works toward the adoption of the extension of exposures method for future filings. The Applicant is encouraged to do so, as future Panels will review the approach for reasonableness based on the circumstances then existing.

B. Use of Aggregated Data instead of Credibility Weighting

[39] Northbridge-G and ZIC are sister companies that have both been using the same rates and differentials (the Advisory Rates) for a number of years. Northbridge-G submitted its own rate application to the Board but its method of analyzing rate needs used the combined data from Northbridge-G and ZIC.

[40] The Board's Filing Guidelines require that the Applicant uses its own data to the extent possible. Where an insurer relies upon other sources of data, it must document that approach and explain why it is necessary.

[41] When Northbridge-G data is combined with that of ZIC, it is not adopting a traditional credibility analysis; rather, it is using a form of volume weighting. While this approach may be acceptable

and reasonable, the Applicant did not provide as much rationale and justification for this approach as the Panel would have preferred to see. Typically, this approach may be reasonable as long as the data is relevant for the entity using it.

[42] As part of the interrogatories from the OAG, the Applicant responded to questions concerning the differences between the Northbridge-G and ZIC operations of marketing, distribution, underwriting and claim settlement. The Applicant provided Loss Ratio Exhibits for the two companies and provided the following additional comparison information:

“Northbridge and Zenith have harmonized their underwriting guidelines for private passenger vehicles. They also share the same claims team, claims practices and processes.

Distribution is the primary difference with Northbridge writing through traditional insurance brokers with local offices. The marketing is the responsibility of each broker.

Zenith business is primarily written through a call centre using both a Zenith agency and insurance brokers who are also responsible for their own marketing. This broker business is driving the majority of the growth and as shown in 2.2, the risks are of a different client demographic and territory producing risk profile with a higher average premium than Northbridge.”

[Record, page 1544]

[43] This brief explanation should, at minimum, have been provided in the initial Filing when the use of the combined data was proposed. The absence of a thorough explanation of the applicability of the Northbridge-G data to the ZIC Filing makes the assessment more challenging for the Panel. Nevertheless, the Applicant’s explanation satisfies the Panel in the circumstances of this Filing, that the data is sufficiently relevant for the purpose for which it is being used. The Panel strongly encourages the Applicant, in future filings, to expand upon this explanation about the relevance of one company's data to the other’s rate filing as both companies continue to experience growth.

C. Use of Aggregated Data – Expenses – Difference in Distribution Channels

[44] As with the previous issue, the Applicant is adopting the same expense assumptions and loading for Northbridge-G and ZIC. The OAG suggests that it would be more appropriate to use expense data that is more fitting to the specific entity as the difference in expense costs and service levels between the two companies warrant different expense ratios. This issue relates primarily to contingent commission expenses.

[45] The Applicant responds to this criticism arguing that the variance in expected costs associated with the different distribution channels is immaterial and has little impact on indications.

[46] The aggregation of the data does not adversely impact Northbridge-G policyholders as it is ZIC policyholders who are receiving lower levels of personalized service, which could warrant the use of different expense ratios for the two sister companies.

[47] For the purposes of Northbridge-G's filing, the Panel accepts that the aggregation of the expense data does not adversely impact the rates proposed to be charged or render the rates unjust or unreasonable. Sensitivity analysis confirms that the effect on overall indicated rate change is immaterial.

[48] In future filings, as the books of business grow, the difference can widen, and the Applicant is strongly encouraged to anticipate that future panels will be monitoring the approaches and the effect of not weighting the differences between related companies.

D. Use of Aggregated Data – Difference in the Mix of Business – Off Balance

[49] The OAG highlights the fact that the application of off-balance factors is necessary to ensure that the changes to rating plan variables are revenue neutral. In response to interrogatories on this point, the Applicant proposed an alternative change to their original Filing – proposing that

the Northbridge-G base rates be off-balanced based on the impact of classification changes on the combined Northbridge-G and ZIC premiums. These base rates would then be multiplied by the two companies' combined indicated rate change and the resulting base rates would be adopted for both Northbridge-G and ZIC.

[50] The Panel therefore required the Applicant to amend the calculation of the off-balance to reflect the combined distribution of Northbridge-G and ZIC. The resulting revised indications were provided by the Applicant as part of their response to the Board's request for revision and included in the final average rate change ultimately approved by this Panel.

E. Trends: TPL-BI

[51] Loss trends are measures of the annual rates of change of past and future claims costs over time. The selection of loss trends by the Applicant requires the analysis of past data, and the application of professional judgment to model and select a trend rate that reasonably reflects the rates of change of past experience and are reasonable predictions of future expected rates of change. Loss trends are measured for each coverage, two of which are questioned by the OAG's expert evidence on the current Filing – Third Party Liability-Bodily Injury (TPL-BI) and Comprehensive.

[52] For the purpose of its trend analysis, the Applicant initially used the trend factors published in IAO's most recent rate filing approved by the Board (i.e., the 2020 IAO filing supporting the Advisory Rates). The Board notes however that the trend analysis in IAO's "New Brunswick PPA Loss Trend Analysis" was based on industry data as of December 31, 2018. Using this data, the Applicant's selected TPL-BI loss cost trend was +0.7%.

[53] During the review and interrogatory stages, concerns were raised that the data used was somewhat outdated, particularly in light of the requirements specified in the Board's filing guidelines that state that "Loss trends (sic) should be based on a review of the most recent

available New Brunswick industry-wide experience for each class of insurance and coverage to the extent possible.”

[54] In response to these concerns highlighted during interrogatories, the Applicant proposed an alternative loss cost trend of +0.1%, based on an analysis of the New Brunswick industry data from 2014H1 through 2019H2. The alternative trending model presented by the Applicant generated the following goodness-of-fit statistical measures: adjusted R-squared value of 69.2% and p-value of 5.9%, which are not optimal.

[55] The OAG suggested an alternative trend analysis, separately modelling the frequency and severity, based on the New Brunswick industry data. The OAG’s analysis relied on significantly longer data periods, and inserted scalars for the frequency trend at 2003H2 and 2013H2. The alternative trending models presented by the OAG’s expert generated goodness-of-fit statistical measures indicating a robust fit. The resulting loss cost trend suggested by the OAG was -0.98%.

[56] After consideration of the evidence as a whole, the Panel finds that the trends proposed by the OAG are well supported with robust indicators of being a good fit to the data. The Panel accepted the arguments of the OAG and required the Applicant to implement the following modifications to its past and future loss cost trends for TPL-BI:

- a. -0.98% based on the combination of a frequency trend of -6.20% and a severity trend of +5.57%

[57] The resulting revised indications were provided by the Applicant as part of their response to the Board’s request for revision and included in the final average rate change ultimately approved by this Panel.

F. Trends: Comprehensive

- [58] Similar to the approach it took for TPL-BI, the Applicant initially used trend factors based on industry data as of December 31, 2018 that were published in the 2020 IAO filing. Using this data, the Applicant's selected Comprehensive loss cost trend was +5.0%.
- [59] Raising similar concerns regarding the use of outdated data, the OAG suggested an alternative trend analysis in which it models the frequency and severity separately based longer data periods and including more recent data. Under this alternative trend modeling, the OAG derived a higher loss cost trend of +8.83%. The Board noted, however, that the OAG's trend analysis for the frequency component produced poor goodness-of-fit statistical measures, indicating that the hypothesis of a 0% trend cannot be rejected.
- [60] The Panel again accepts the methodology of the OAG but only with respect to the severity trend component.
- [61] For frequency, neither the Applicant nor the OAG proposed a robust trend model (i.e., neither model produce strong goodness-of-fit statistics). The Panel therefore orders that the frequency trend be set at 0.0%, with a resulting loss cost trend of +8.02%.
- [62] The Panel therefore required the Applicant to implement the following modifications to their past and future loss cost trends for Comprehensive:
- a. +8.02% based on the combination of a frequency trend of 0% and a severity trend of +8.02%.
- [63] The resulting revised indications were provided by the Applicant as part of their response to the Board's request for revision and included in the final average rate change ultimately approved by this Panel.

G. Other trends

[64] The Applicant also used trend factors for other coverages based on industry data as of December 31, 2018 that were published in the 2020 IAO filing. As part of the response to interrogatories, the Applicant provided an alternative set of trends for other coverages based on an analysis of the New Brunswick industry data from 2014H1 through 2019H2. The Panel reviewed the evidence on record, concluded that trends for other coverages based on the 2020 IAO filing are not unreasonable in these circumstances, and required no further changes.

H. Premium Trends

[65] As with the Loss Trends, the Applicant relied upon the premium trends published in IAO's most recent rate filing approved by the Board (i.e., the 2020 IAO filing). Given the differences in portfolio composition between the Applicant and the industry, the premium trends derived based on the Applicant's own data are generally higher.

[66] The Applicant argued that the indicated premium trends are however trending downwards and gradually moving closer to the published IAO premium trends.

[67] The Panel, having considered the submissions and the Record, determine that the Filing, as prepared, did not recognize sufficiently the Applicant's past experience and the general experience going forward.

[68] After consideration of the evidence as a whole, the Panel required the Applicant to implement the following modifications to its past and future premium trends for each coverage:

- a) As past premium trend, the average change in drift factors based on 6 years of the company's own data as presented in the Exhibit 4.e.2.1; and
- b) As future premium trend, the IAO selection.

[69] The resulting revised indications were provided by the Applicant as part of their responses to the Board's request for revision and, as with the other requested modifications, included within the Panel's final decision on approved rate level changes for Northbridge-G.

I. Covid-19

[70] Recent data has been affected to an unknown degree by the effects of the Covid-19 pandemic. The Panel takes notice that the pandemic is not yet over, and the long-term effects and implications are not yet known.

[71] For the analysis of data, the Applicant has assigned less weight to data from 2020, an approach which finds favour with both the OAG and this Panel.

[72] The CAI argues that adjustments should be applied as the loss experience that will emerge for 2020 and 2021 will be materially less than the rate indication model forecasts presented. She argues that the loss ratio will be drastically lower than what was expected.

[73] The Panel is satisfied that the Applicant has adopted a reasonable approach to take into account the uncertainties of the future by appropriately assigning lower weight to data during peak Covid-19 periods. The Applicant assumes that the impact will taper off at the beginning of 2022 and the accuracy of that assumption cannot currently be tested. It was appropriate to adjust losses for the accident year 2020 and future Panels will revisit this issue in the coming years.

J. Credit Score

[74] In this Filing, Northbridge-G is proposing to introduce a credit score discount as a rating factor for the determination of PPV insurance premiums. This discount will be offered on all coverages

(except endorsement) for customers who provide their consent for their credit score to be checked.

[75] The Applicant argues that the use of credit score as a rating factor is appropriate because of the inverse correlation with claim frequency. As such, it is argued, the consideration of credit score promotes risk equity and is predictive in risk classification for the purpose of setting rates. The Applicant proposes discounts for policy holders whose credit scores fall within certain bands.

[76] The OAG argues that the inclusion of credit scores in the rating formula may adversely impact those in vulnerable socioeconomic groups as it may lead to increased premiums. Furthermore, as the OAG notes the difficulty in establishing a direct causal relationship between credit score and exposure to automobile insurance losses, it argues that credit score may be a proxy for other restricted rating variables.

[77] The CAI objected to the use of credit score as a rating variable on the basis that by doing so, availability of insurance to consumers could be negatively impacted. Increased prices for insurance, she points out could affect those who can least afford it – seniors, the unemployed, newcomers. She correctly points out as well that low credit scores should not always have negative connotations; those with no mortgage and no debt also may have been assessed with lower credit scores. She concludes by noting that Newfoundland and Ontario do not allow inclusion of credit scores as a factor.

[78] New Brunswick, however, has no restriction on the use of credit scores, though other factors like gender, age and marital status are prohibited. The mandate of the Panel is to ensure that rates proposed to be charged are just and reasonable, and this includes considerations where there is strong correlation demonstrated between risk and a proposed rating factor.

[79] The Panel accepts, as similar panels of the Board have done in the recent past, that credit score-related discounts may be reasonable in the circumstances as there is a reasonable correlation

to risk. Furthermore, the Board will continue to maintain a watchful eye on developments related to this rating factor, subject to any guidance from the Superintendent of Insurance's office.

[80] The Panel considered the approach of Northbridge-G in adopting credit score as a rating variable and noted that there is little analysis in the Record of how the rating factors might be interrelated and how to avoid double counting. This leads to a somewhat unsophisticated analysis but not an unreasonable one at this stage. The Panel strongly encourages the Applicant to provide a more fulsome analysis of this inter-relationship for the purpose of future filings.

4. Decision

[81] For the reasons set out above, the Panel finds that the Applicant's Filing is not just and reasonable in its entirety and therefore orders the following changes to be made to the indication:

1. Modify the past and future loss cost trends to:
 - a. -0.98% for TPL-BI, which is based on the combination of a frequency trend of -6.20% and a severity trend of +5.57%; and
 - b. +8.02% for Comprehensive, which is based on the combination of a frequency trend of 0% and a severity trend of +8.02%.
2. Modify the premium trend for each subject coverage to use:
 - a. As past premium trend, average change in drift factors based on the 6-year of company's own data as presented in Exhibit 4.e.2.1; and
 - b. As future premium trend, IAO selection.
3. Include the amendment related to the selected differentials pertaining to years accident-free as per Exhibit 4.l.1 provided to NBIB on March 25, 2022.

4. Amend the calculation of the off-balance to reflect the combined distribution for Northbridge-G and Zenith Insurance Company (ZIC).

[82] The impact of these changes was calculated at the Panel's request in the additional request for revision provided to the Applicant on May 16, 2022. The impact being an amended indicated overall average rate level change of +27.8% and an amended proposed overall average rate level change for Northbridge-G of +18.15%.

[83] Based on the Applicant's responses, and for the reasons set out herein, the Applicant is ordered to incorporate changes to the rate application as set out in paragraph [81] and [82] above and Northbridge-G is approved to adopt the revised proposed average rate change of +18.15%.

[84] The approved rates will be effective on September 26, 2022 for new business and November 10, 2022 for renewal business.

Dated at Saint John, New Brunswick, on July 7, 2022.

Marven Grant, Vice-Chair
New Brunswick Insurance Board

WE CONCUR:

Heather Stephen,
Board Member

Georges Leger,
Board Member