

New Brunswick
Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for The Wawanesa Mutual Insurance Company

With respect to automobile insurance rates for

Private Passenger Vehicles

Written hearing date: October 11, 2017

Written hearing

Heard at Saint John, New Brunswick

Board:

Mr. Brad Woodside

Panel Chair

Ms. Elizabeth Turgeon

Member

Mrs. Heather Stephen

Member

Date of Written Hearing:

October 11, 2017

Decision Rendered:

October 19, 2017

Summary

- [1] Pursuant to subsection 267.5(1) of the *Insurance Act*, R.S.N.B., 1973 c. I-12, the New Brunswick Insurance Board (the “Board”) convened a Panel of the Board to conduct a written hearing on October 11, 2017 at the offices of the Board, Saint John. The purpose of the hearing was to consider the rate revision application (the “Filing”) submitted by The Wawanesa Mutual Insurance Company (the "Applicant" or "Wawanesa") with respect to automobile insurance rates for private passenger vehicles in New Brunswick. The Applicant is an insurance company duly licensed to write automobile insurance in New Brunswick.
- [2] In compliance with subsection 19.71(3) of the *Insurance Act*, the Board provided to the Office of the Attorney General (“OAG”), all documents relevant to the hearing. Pursuant to subsection 19.71(4) of the *Insurance Act*, the OAG initially intervened, and questioned the Applicant by way of written interrogatories. On September 12, the OAG notified the Board that based on the information received by way of interrogatory questions, the OAG would be withdrawing as an intervenor to this hearing. The Consumer Advocate for Insurance (“CAI”) intervened as well, supplying a brief written submission.

[3] The following documents were accepted as evidence by the Panel before the hearing:

EXHIBIT	DESCRIPTION
1	2017_03_28 Wawanesa ORIGINAL PPV Rate Filing NBIB reference 2017-045
2	2017_04_06 Questions from NBIB
3	2017_04_06 Response to NBIB
4	2017_04_17 Questions from E&Y
5	2017_04_20 Response to E&Y
6	2017-06-23 Additional Questions from E&Y
7	<i>2017-06-26 Response to Additional questions from E&Y (based on previous filing)</i>
8	2017-06-27 Additional questions from E&Y
9	2017-06-28 Response to E&Y Additional Questions
10	2017_06_28 Response to E&Y Additional Questions – Scenarios
11	2017_06_29 E&Y Review Summary
12	2017_08_18 Wawanesa PPV IR 1 Questions from OAG
13	2017_08_25 Wawanesa PPV IR 1 Responses to OAG
14	2017_09_05 Wawanesa PPV IR 2 Questions from OAG
15	2017_09_11 Wawanesa PPV IR 2 Responses to OAG
16	2017_09_28 CAI Final Submission Wawanesa PPV Filing
17	2017_09_25 Wawanesa Final Submission

[4] The Panel, after examining the evidence and submissions made by the parties, determines that the rates proposed by the Applicant are accepted for the reasons set out below.

[5] The approved rates will be effective on January 1, 2018 for new business and January 1, 2018 for renewal business.

1. Introduction

[6] The Board is charged 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 provided by the *Insurance Act*. One key responsibility for the Board is to ensure that rates charged or proposed to be charged are just and reasonable. Under the *Act*, each insurer carrying on the business of automobile insurance in the province must file with the Board the rates it proposes to charge once every 12 months from the date of its last filing. If the proposed rates reflect an average increase greater than 3% or if the insurer files rates more than twice in a period of twelve months, the insurer must appear before the Board.

PROCEDURAL HISTORY

[7] Following the filing of the rate revision application on March 28, 2017 the Board issued a Notice of Hearing on July 7, 2017 and convened a Panel of the Board to conduct a written hearing on the matter. The Office of the Attorney General and the Office of the Consumer Advocate for Insurance each provided notice of their respective intention to intervene in the rate hearing.

[8] Thereafter, the OAG and the Applicant participated in a process for two sets of written interrogatory questions to be exchanged, in addition to the questioning by the Board's consulting actuary.

[9] Based upon the responses to the interrogatories by the Applicant, the OAG gave written notice of its intention to withdraw as an intervenor for this hearing.

2. Evidence

[10] The Applicant's Filing forms the main portion of its submission and the evidence before the Panel. The Board's consulting actuaries reviewed the Filing for material errors, and conducted an analysis of the methodology utilized by the Applicant along with the assumptions made, to ensure compliance with accepted actuarial principles. This review indicated that the revised Filing was free of material error and contained no significant unresolved issues. The Board must then look further to determine whether the proposed rates are “just and reasonable” in all of the circumstances.

[11] Wawanesa presented a Filing to the Board with an overall indication of +31.7% and proposed to select a +9.74 average rate change, or +6.96 after capping. The Applicant proposed the following changes to existing rates by coverage:

	Before capping	After capping
Bodily Injury	+15.01 %	+11.19%
Property Damage – PD	0%	+6.19%
Property Damage – Direct Compensation	+15.02%	+9.4%
Accident Benefits	+15.03%	+10.01%
Collision	+5.02%	+2.65%
Comprehensive	0%	+2.13%
Uninsured Automobile	0%	0%
Specified perils	0%	-1.46%
All perils	0%	+0.05%
Underinsured Motorist – SEF44	0%	0%
Total	+ 9.74%	+6.96%

[12] The indicated rates contained in the Filing are produced assuming a target return on equity of 12% and a 2:1 premium to surplus ratio. Proposed average rates would rise to approximately \$680.70 from the current average of approximately \$620.26. The New Brunswick average premium is approximately \$782.

[13] For more than a decade, Wawanesa has been the largest insurer in this province. Despite rate increases in 2015 and 2016, rate indications remain high, over 30%. Wawanesa suggests that this indicates that its rates are inadequate, but wishes to avoid rate shock for policyholders. For these and other reasons, Wawanesa selects the proposed rate increase of 6.96% (after capping).

Office of the Attorney General

[14] 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 interrogatory process, the OAG discontinued its intervention and participated no further in the hearing process.

Consumer Advocate for Insurance

[15] The CAI, as well, was provided with all of the relevant documents. The CAI's written submission argued that claims have been declining and that the data is inadequate to fully measure the effect of recent changes to the Minor Injury Regulation (MIR).

[16] The CAI further questions the return on equity applied to the Applicant's indicated rate calculations, with the end result that the proposed rate increases are neither just nor reasonable.

Analysis and Reasons

[17] The Panel has reviewed all of the evidence before it, along with the submissions of the parties.

[18] In the particular circumstances of the filing, the Applicant has met the burden of satisfying the Panel that the selected rates are just and reasonable.

1. The Applicant's methodologies

[19] Wawanesa's previous rate filing was submitted in September 2016 and was approved for a rate increase of 2.83%. The previous filing introduced a more sophisticated predictive rating model designed to better segment risks and address the inadequacy in rates, most of which have been continued in the current filing. A further model refinement was introduced in this filing with the use of a present value cash flow determination of its underwriting provision. The use of cash flow methodology for this purpose, is common and accepted by this Board as being just in the circumstances of this filing. This filing continues to indicate a significant gap in adequacy. For this reason, Wawanesa proposes to make changes to base rates.

[20] The Applicant has also lowered its premium to surplus ratio from 3.25 to 2. Little explanation is given for this change, except that a different Panel of this Board has previously required an insurer to adopt this ratio. This Panel would have preferred a greater explanation for the adjustment to this ratio in the circumstances of the Applicant's filing but finds that the ratio of 2:1 is a reasonable one for this filing. The sensitivity analysis for this adjustment, in any case, was only 3% of the indicated rate requirement. This Panel accepts the ratio of 2:1 as justified.

[21] In relation to the MIR experience, as noted previously the CAI raised a concern that the full impact of these changes was not yet known. However, the Applicant chose to address this element by using only the last three (3) years of data in its calculations, all of which are

subject to the new provisions of the MIR. No adjustment is therefore necessary to factor in anticipated impact. This approach of using actual data to measure the real impact of the legislative changes is accepted by the Panel for this filing.

[22] To adjust data for changes to HST in mid-2016, the Applicant applied a factor to all losses, even though some of those losses would not be subject to HST. For this reason, the Panel finds that the indicated rates are somewhat overstated. In answer to EY's request for sensitivity analysis when removing the impact for AB and TPL, the indicated rate dropped from 31.7% to 31.3%.

[23] Similarly, the Panel does not accept the Applicant's use of a loss development factor that includes uncapped losses to apply to capped losses. Instead, a capped loss development factor should have been applied, though, again, this element is not a significant driver of the indicated rate.

[24] Another change made by the Applicant in this filing is the allocation of expenses. The unallocated loss factor has increased as a result from 8.6% to 9.3%. The Panel finds the new allocation methodology to be sound and impacts the indicated rate by only +0.6%.

[25] The selection of loss trend rates requires analysis of past data and the application of professional judgement in order to select trend rates that represent past experience and future expected results. The use by Wawanesa of its own experience is appropriate given its size and market share in New Brunswick.

2) Issues raised by the OAG during interrogatory phase

[26] Although the OAG withdrew as an intervenor in this hearing, the interrogatories were exhibits before the Board and were considered in detail. The Board considered the issues that the OAG had raised with the Applicant including the treatment of the cost of inspections, service charge fees, pension costs, contingent commissions, and complement of credibility. The Panel finds that the Applicant's responses and approaches are actuarially sound, reasonable and justified.

Decision

- [27] The Panel has considered all of the written evidence presented, the interrogatory questions and answers, and the submission of the parties, where applicable.
- [28] The Panel does not make any decision with respect to the reasonableness of the Applicant's indicated rate of 31.7%. However, the Panel notes that, even if adjusted to comply with the Panel's findings regarding HST and loss development factors, the revised indicated rate would be >+30%, far exceeding the selected rate of 6.96 % after capping.
- [29] The Applicant justifies its selection of 6.96% in the face of the much higher indicated rate on the basis of retention and customer recruitment, despite an implied ROE that is negative. The Panel is satisfied that the Applicant has justifiable business reasons for these decisions.
- [30] For the reasons set out above, the Board finds that the Applicant's Filing with its selected rates to be just and reasonable.
- [31] The approved rates will be effective on January 1, 2018 for new business and January 1, 2018 for renewal business.

Dated at Saint John, NB October 19, 2017

Brad Woodside, Panel Chair
Vice-Chairman, New Brunswick Insurance Board

WE CONCUR:

Elizabeth Turgeon

Heather Stephen