

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for **PROMUTUEL DE L'ESTUAIRE**
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. Francine Kanhai	Member
	Mr. Bernard Gautreau	Member

Date of Written Hearing: February 13, 2018

Decision Rendered February 22, 2018

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 February 13th, 2018 at the offices of the Board, in Saint John. The purpose of the Hearing was to consider the rate revision application (the “Filing”) submitted by Promutuel de l’Estuaire (the “Applicant” or “Promutuel”) with respect to automobile insurance rates for private passenger vehicles (PPV) in New Brunswick. Promutuel 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 initially advised the Board of their intention to intervene.
- [3] On January 11, 2018, the OAG notified the Board of its withdrawal as an intervenor to this matter. On January 21, 2018, the CAI also notified the Board of her discontinuance as an intervenor.
- [4] For the purpose of the written hearing the Panel accepted the following exhibits as part of the Record as shown below:

EXHIBIT	DESCRIPTION	DATE
1	Private Passenger Rate Filing (2017-231)	Sept. 15, 2017
2	Questions from EY Round 1	Oct. 6, 2017
3	Promutuel Responses to EY Round 1	Oct. 13, 2017
4	Questions from EY Round 2	Nov. 2, 2017
5	Promutuel Response to EY Round 2	Nov. 6, 2017
6	Questions from EY Round 3	Nov. 9, 2017
7	Promutuel Response to EY Round 3	Nov. 14, 2017

8	Questions from EY Round 4	Nov. 27, 2017
9	Promutuel Response to EY Round 4	Nov. 30, 2017
10	Promutuel Further Response to EY Questions Round 3	Dec. 1, 2017
11	Actuarial Summary	Dec. 5, 2017

[5] The Panel, after examining the evidence in its entirety, approves the rate change of **+5.92%** proposed by the Applicant.

[6] The approved rates will be effective on May 1, 2018 for new and 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 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 15, 2017, proposing an overall average rate increase of 5.92% with an indication of 15%.
- [9] The Board issued a Notice of Hearing on December 21, 2017 and convened a Panel of the Board to conduct a hearing on the matter. The Office of the Attorney General and the Office of the Consumer Advocate for Insurance both provided notice of their respective intentions to intervene in the rate hearing.
- [10] However, on January 11, 2018, before the written interrogatory process was initiated, the OAG provided the Board with its notice to withdraw as an intervenor in this matter.
- [11] On January 21, 2018, the CAI also informed the Board of its withdrawal as an intervenor.
- [12] Finally, the Panel held the written hearing on February 13, 2018.

2. Evidence and Positions of the Applicant

- [13] The Applicant's Filing forms the main portion of its submission and the evidence before the Panel.
- [14] Pursuant to its mandate, the Board, upon receipt of the rate application, proceeded to investigate the Filing in order to determine whether the proposed rates are "just and reasonable".
- [15] Promutuel presented a Filing to the Board with an overall indication of +13.38% and proposed to select an average rate change of +5.92% based on its amended indication of 13.38%. Following are the changes proposed to the existing rates by coverage:

Bodily Injury (BI)	+ 9.90%
Property Damage (PD)	+2.13%
Direct Compensation – Property Damage (DCPD)	+7.03%
Accident Benefits (AB)	+ 3.90%
Uninsured Auto (UA)	- 2.23%
Collision (CL)	+ 9.47%
Comprehensive (CM)	- 0.96%
Specified Perils (SP)	+ 3.37%
All Perils (AP)	+ 6.74%
<u>SEF 44</u>	<u>0.00%</u>
Total	+ 5.92%

[16] The rates contained in the Filing are produced assuming a target return on equity (ROE) of 12%, a 8.45% target return on premium (ROP) and a 2:1 premium to surplus ratio. The proposed overall average rates would increase from the current average of approximately \$811.17 to approximately \$859.17.

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

3. Analysis and Reasons

[18] Further to a review of the Record (Exhibits 1 to 11), the Panel of the Board has identified issues with some of the approaches and methodology used by the Applicant in its Filing. The Panel addresses each issues individually as follows:

1) Loss Trend Selection

[19] The selection of loss trend rates requires the analysis of past data and the application of professional judgement in order to select trend rates for each coverage, and is achieved by separately selecting and then combining frequency and severity trend rates, representing past experience and future expected results.

[20] In the present Filing, the Applicant selected trends based on an analysis of industry experience by IAO Actuarial Consulting Services Inc. (IAO)'s selected trend analysis from their 2016 Filing. The Panel identifies some issues with this general approach adopted by Promutuel that require analysis and discussion.

[21] The first issue noted by the Panel is that by using trend selections contained in IAO's 2016 rate filing, Promutuel does not rely on the most recent data available. IAO's 2016 rate filing used data as of December 31, 2015. While the approach to use IAO data in itself may be appropriate in some circumstances, Promutuel's reliance on the 2016 IAO filing when making its final trend selection, results in the exclusion of 2016 data, leading to an analysis that does not provide an accurate reflection of the changes in loss trends.

[22] Furthermore, the Panel finds that the Applicant does not provide adequate justification for the application of IAO's data in its present rate application. Promutuel explains only that the use of data contained in IAO's 2016 filing is appropriate as it has been approved by the Board.

[23] On this specific matter, the Panel wishes to point out that rate applications can be approved as a whole by the Board, as long as they are determined to be just and reasonable, overall. Therefore, Board approvals of rate filings should not imply the approval of each individual assumption used to derive the approved rate indication. As it stands, the Panel has reservations and residual concerns as to whether IAO's 2016 filing provides the most accurate reflection of industry experience for the present Filing.

[24] Therefore, the Panel concludes that the Applicant did not provide the necessary justification on the applicability of IAO's trends to Promutuel or the reason as to why this is the most appropriate body of data to rely on for trend selection in the present Filing.

2) *Complement of Credibility*

[25] To the extent that a Company's own experience is not fully credible, the insurer must select a complement of credibility in order to be considered fully credible. Promutuel,

lacking data to reach its full credibility standard, selected the IAO's pure premium and weighted loss costs from its 2016 filing as the complement of credibility.

[26] In its responses to the Board's consulting actuaries' questions (Exhibit 3, page 5), Promutuel provided the explanation that IAO provided the most practical complement to use. The Applicant added that IAO's complement helped Promutuel achieve competitiveness of rates, being still relatively small in the market, and needing to follow industry trends to remain in the flow.

[27] The use of IAO as a complement of credibility in this case raises concern to this Panel, for the reasons previously set out, due to the analysis based on data dating as of December 31, 2015, and also due to Promutuel's reliance on it as a reflection of the industry experience.

[28] The Panel finds that the Applicant did not convince the Board that industry credibility weighed loss cost derived in IAO's prior 2016 filing provides a reasonable complement of credibility and therefore rejects its use in the circumstances.

3) *Minor Injury Regulation Loss Adjustment Factor*

[29] The Applicant, due to its low volume of losses, ultimately decided to rely on MIR selection from IAO's latest approved filing. Promutuel therefore selected to apply an impact of +20% for the BI coverage, and 11.51% for AB and UA coverages.

[30] The Panel finds that while the selected MIR adjustment factor of 20% for the BI coverage is reasonable, the Board was not provided with convincing evidence by the Applicant that the MIR had a significant impact on the AB and UA coverages. Additionally, the Panel again finds that it was not provided with the adequate support for the applicability of IAO's 2016 filing trend and expected loss ratio for the selection of the MIR adjustment trend, and therefore finds it to be unjustified.

4) Harmonized Sales Tax (HST)

[31] In its Filing, the Applicant did not make any adjustment to prior historical claims experience to reflect the change in HST rate from 13% to 15% effective July 1, 2016. In the answers to the questions submitted by the Board's Consulting Actuary (Exhibit 10, page 1), Promutuel submits that the HST changes has no impact on its indication.

[32] The Panel disagrees with the Applicant that the increase in HST has no impact on the indication. Though not material to the present Filing, the Board will require Promutuel to defend and justify its position if maintained in future filings.

4. Decision

[33] For the reasons set out above, the Panel finds that the Applicant's indication is not just and reasonable in its entirety.

[34] The Board however finds that the Applicant's selected overall average rate change of +5.92% applied for to be supported by its Filing as a whole.

[35] The Applicant is therefore **approved to adopt the proposed average rate change of +5.92%.**

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

[37] ***As a result of the Panel's finding that the indications have not been justified, Promutuel is precluded from using those current indications in future filings.***

Dated at Saint John, New Brunswick, on February 15, 2018

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

WE CONCUR:

Francine Kanhai, Board Member

Bernard Gautreau, Board Member