

# New Brunswick Insurance Board

## DECISION

IN THE MATTER:

Of a rate revision application for **AVIVA GENERAL INSURANCE COMPANY**

With respect to automobile insurance rates for

***PRIVATE PASSENGER VEHICLES***

Written Hearing

Heard at Saint John, New Brunswick

**PANEL:**

Ms. Marie-Claude Doucet

Chair

Mr. Jim Jessop

Member

Ms. Heather Stephen

Member

Date of Written Hearing: February 27, 2018

Decision Rendered March 5, 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 27, 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 Aviva General Insurance Company (the “Applicant” or “Aviva General”) with respect to automobile insurance rates for private passenger vehicles (PPV) in New Brunswick. Aviva General 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. The OAG participated to the interrogatory process by submitting one [CPI]round of questions to the Applicant.
- [3] On January 16, 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	Aviva General Insurance Company Private Passenger Vehicle Rate Filing	Sept 15, 2017
2	Questions from NBIB	Oct 2, 2017
3	Aviva General Response to NBIB	Oct 2, 2017
4	Questions from EY	Oct 19, 2017

5	Aviva General Response to EY	Oct 27, 2017
6	EY Actuarial Review Summary	Nov 11, 2017
7	Written Interrogatories Round 1 from OAG	Jan 5, 2018
8	Aviva General Response to Interrogatories Round 1	Jan 12, 2018
9	Aviva General Final Written Submission	Feb 7, 2018

[5] Following the hearing, on March 1, 2018, the Panel ordered the Applicant to adjust its overall indication for the impact of the combination of the following three (3) changes:

- 1) Remove the selected Minor Injury Regulation (MIR) loss adjustment factor applied to the AB and UA coverages;
- 2) Apply adjustment factors of +1.77% for physical damage coverages (Property Damage (PD), Direct Compensation – Property Damage (DCPD), Collision (CO), Comprehensive (CM), Specified Perils (SP) and All Perils (AP)), +1.2% for Accident Benefits (AB) and +0.44% for Bodily Injury (BI) for experience prior to July 1, 2016 to account for the effect of the HST change;
- 3) Modify the Health Service Levy rate from 10.63% to 11.06%.

[6] The required changes as per above result in an overall indication of 15.80%.

[7] The Panel, after examining the evidence in its entirety, approves the rate change of **+13.04%** proposed by the Applicant.

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

## **1. Introduction**

[9] 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 of 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 to do so.

## **Procedural History**

[10] The Applicant filed a rate revision application for the PPV category on September 15, 2017, proposing an overall average rate increase of 13.04%.

[11] The Board issued a Notice of Hearing on November 20, 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.

[12] Prior to the Hearing, the OAG submitted one set of interrogatories to the Applicant, to which answers were provided. The OAG thereafter provided the Board with its notice to withdraw as an intervenor in this matter on January 16, 2018.

[13] On January 21, 2018, the CAI also informed the Board of its withdrawal as an intervenor.

[14] A pre-hearing written final submission was provided by the Applicant to the Board on February 7, 2018.

[15] Finally, the Panel held the written hearing on February 27, 2018.

## **2. Evidence and Positions of the Parties**

### **Aviva General Insurance Company**

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

[17] Pursuant to its mandate, the Board, upon receipt of the filing, proceeded to investigate the Filing in order to determine whether the proposed rates are "just and reasonable".

[18] Aviva General presented a Filing to the Board with an overall indication of +15.86% and proposed to select an average rate change of 13.04% based on its first alternative indication. Following are the changes proposed to the existing rates by coverage:

Bodily Injury (BI)	0.00%
Property Damage (PD)	+ 29.02%
Property Damage – Direct Compensation (DCPD)	+ 15.00%
Accident Benefits (AB)	+ 12.99%
Uninsured Auto (UA)	0.00%
Collision (CL)	+ 30.00%
Comprehensive (CM)	+ 23.97%
Specified Perils (SP)	0.00%
All Perils (AP)	0.00%
SEF 44	0.00%
<b>Total</b>	<b>+ 13.04%</b>

[19] The rates contained in the Filing are produced assuming a target return on equity (ROE) of 12%, a 7.06% 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 \$814.95 to approximately \$921.20.

[20] 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.

### **Office of the Attorney General**

[21] 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. Further to the first round of interrogatory, the OAG discontinued its intervention and did not participated further in the hearing process. The interrogatory questions and answers were part of the Record before the Panel.

### **Consumer Advocate for Insurance**

[22] The CAI was also provided with all the relevant documentation and had initially advised the Board of its intention to participate to this matter as an intervenor. However, the Board was thereafter informed of the CAI's discontinuance as an intervenor in this matter.

### **3. Analysis and Reasons**

[23] The Panel has reviewed all of the written evidence before it, along with the submissions made by the Applicant.

[24] In the present matter, the Panel of the Board determines that Aviva General must amend some of the assumptions, calculations and methodology used in its Filing. The Applicant was therefore ordered to provide the Board with the calculation resulting from those amendments on March 1, 2018.

[25] The Panel addresses each issues individually as follows:

**1) Minor Injury Regulation Loss Adjustment Factor**

[26] The Applicant selected the MIR factor based on Aviva General's average loss experience pre reform (July 1, 2010 to June 30, 2013) and post-reform (July 1, 2013 to June 30, 2017) periods. Aviva General therefore selected to apply an impact of +25% for the BI and UA coverages, and 15% to the overall AB coverage.

[27] The Panel finds that while the selected MIR adjustment factor for the BI coverage is supported and reasonable, the Board was not provided with convincing evidence by the Applicant that the MIR had such a significant impact on the UA and AB coverages.

[28] The Panel therefore directs the Applicant to remove the MIR adjustment factors applied to the UA and AB coverages.

**2) Harmonized Sales Tax (HST) Adjustment**

[29] In its Filing, the Applicant applied an HST adjustment of 1.8% to all coverages to reflect the change in HST rate from 13% to 15% effective July 1, 2016. During the Hearing concern was raised by the Panel of the applicability of HST to all subcoverages, as some coverages are not subject to HST.

[30] In the written interrogatory phase (Exhibit 7, page 1), the OAG suggested the use of adjustment factors of +1.77% for physical damage coverages (PD, DCPD, CO, CM, SP and AP), +1.2% for AB and +0.44% for BI for experience prior to July 1, 2016.

[31] The Panel agrees with the OAG that HST does not inherently apply to all subcoverages and therefore requires that Aviva General make the HST adjustments as proposed by the OAG.

**3) Selection of Loss Development Factors**

[32] Further to a review of the Applicant's selection of loss development factors (LDFs), the Panel noted that the Applicant used Industry based LDFs, as opposed to its own. In Exhibit 8, page 6, Aviva General submits that, in the absence of another reasonable alternative, this methodology was utilized to remain consistent with prior year's filing adding that this was the result of a low volume of data in New Brunswick. The Applicant also provided the Board with the explanation that Aviva General remains under transition of adjusting the open claims in the legacy RBC claims system to reflect Aviva General's claim reserving practice, and once the transition complete, it may then be reasonable to use Aviva General's LDFs in future filings.

[33] Section 4.b.1 of the NBIB's Filing Guidelines directs that the insurer's own data must be used to the extent possible. It also directs that should the insurer find it necessary to rely on outside data or a different source of data the company shall provide the source of data and an explanation of its applicability.

[34] While the general approach used by the Applicant in the selection of LDFs could be found to be reasonable, the Panel finds that it was not provided with the adequate support for the applicability of Industry based LDFs in the circumstances.

[35] The Panel applies the Filing Guidelines's direction that a company should use its own data for LDF selection unless it provides the Board with appropriate justification for using a diverging approach. Consequently, for the purpose of future rate Applications, the Board will expect the Applicant to use the company's own experience to select LDFs, unless it provides the Board with the appropriate support and reasoning for using another source of data.

#### **4) Health Service Levy**

[36] In the present Filing, the Applicant used the previous year's rate of 10.63%. The Health Service Levy (HSL) rate was however increased to 11.06% in 2017. Subsequently to the Board's consulting actuary's questions to Aviva General, the Applicant responded it was not aware of the increase to the HSL.

[37] The Panel directs that the Applicant makes the appropriate correction to its Filing using the rate of 11.06% for the HSL.

### **4. Decision**

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

- 1) Remove the selected Minor Injury Regulation (MIR) loss adjustment factor applied to the AB coverage;
- 2) Apply adjustment factors of +1.77% for physical damage coverages (Property Damage (PD), Direct Compensation – Property Damage (DCPD), Collision (CO), Comprehensive (CM), Specified Perils (SP) and All Perils (AP)), +1.2% for Accident Benefits (AB) and +0.44% for Bodily Injury (BI) for experience prior to July 1, 2016 to account for the effect of the HST change; and
- 3) Modify the Health Service Levy rate from 10.63% to 11.06%.

[39] The impact of these changes will be to decrease the overall rate indications from an average increase of +15.86% to an average increase of +15.80%.

[40] The Applicant is ordered to incorporate changes to the rate application as set out in paragraph 38 above and is **approved to adopt the proposed average rate change of +13.04%.**

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

[42] *As a result of the Panel's finding that the indication with respect to the loss development has not been justified, Aviva General is precluded from using this specific indication in future filings without further justification and modification.*

Dated at Saint John, New Brunswick, on March 5, 2018

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

WE CONCUR:

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Jim Jessop, Board Member

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Heather Stephen, Board Member