

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for **DOMINION OF CANADA 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. Bernard Gautreau	Member

Date of Written Hearing: August 27, 2018

Decision Rendered: September 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 August 27, 2018 at the offices of the New Brunswick Insurance Board, in Saint John. The purpose of the Hearing was to consider the rate revision application (the “Filing”) submitted by Dominion of Canada General Insurance Company (the “Applicant” or “Dominion”) with respect to automobile insurance rates for private passenger vehicles (PPV) in New Brunswick. Dominion 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”) 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 July 4, 2018, the OAG notified the Board of its withdrawal as an intervenor to this matter. On July 4, 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	Dominion Private Passenger Vehicle Rate Filing	March 3, 2018
2	Questions from NBIB	March 13, 2018
3	Responses to NBIB	March 13, 2018
4	Questions from EY	April 3, 2018
5	Questions for NBIB	April 5, 2018

6	Response to EY	April 9, 2018
7	Response to NBIB	April 9, 2018
8	Questions for EY	April 11, 2018
9	Response to EY	April 17, 2018
10	Questions from NBIB	April 17, 2018
11	EY Actuarial Review	April 19, 2018
12	Response to NBIB	April 23, 2018
13	Questions from OAG to Dominion	June 12, 2018
14	Responses to OAG	June 22, 2018
15	Dominion Final Written Submission	August 3, 2018

[5] The Panel, after examining the evidence in its entirety, approves the rate change of **+8.06%** proposed by the Applicant.

[6] The approved rates will be effective on October 15, 2018 for new and November 20, 2018 for 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, supra* 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. When the Board requires it to do so.

Procedural History

[8] The Applicant filed a rate revision application for the PPV category on March 3, 2018, proposing an overall average rate increase of 8.06%.

[9] The Board issued a Notice of Hearing on May 8, 2018 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] Prior to the Hearing, the OAG submitted one set of interrogatories to the Applicant, to which answers were provided. The OAG however provided the Board with its notice to withdraw as an intervenor in this matter on July 4, 2018.

[11] On July 4, 2018, the CAI also informed the Board of its withdrawal as an intervenor.

[12] A pre-hearing written final submission was provided by the Applicant to the Board on August 3, 2018.

[13] Finally, the Panel held the written hearing on August 27, 2018.

2. Evidence and Positions of the Parties

Dominion of Canada General Insurance Company

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

[15] Dominion presented a Filing to the Board with an overall indication of +32.43% and proposed to select an average rate change of 8.06% based on its first alternative indication. Following are the changes proposed to the existing rates by coverage:

Bodily Injury (BI)	+ 4.00%
Property Damage (PD)	0.00%
Property Damage – Direct Compensation (DCPD)	+ 20.24%
Accident Benefits (AB)	0.00%
Uninsured Auto (UA)	0.00%
Collision (CL)	+ 14.44%
Comprehensive (CM)	+ 3.17%
Specified Perils (SP)	- 2.53%
All Perils (AP)	0.00%
Total	+ 8.06%

[16] The rates contained in the Filing are produced assuming a target return on equity (ROE) of 12.5%, a 7.77% 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 \$782.95 to approximately \$846.03.

[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.

Office of the Attorney General

[18] 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 first round of the interrogatory process, however, the OAG

discontinued its intervention and did not participate further in the hearing process. The interrogatory questions and answers were part of the Record before the Panel.

Consumer Advocate for Insurance

[19] 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, on July 4, 2018, the Board was informed of the CAI's discontinuance as an intervenor in this matter.

3. Analysis and Reasons

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

[21] The Panel addresses each issue investigated individually as follows:

1) Loss Experience

[22] To the extent that Dominion's own loss experience is not credible, other sources of data, such as IAO Actuarial Consulting Services Inc. (IAO) or Industry data can be used as a complement of credibility. While Dominion used IAO's data as the complement of credibility in its previous filing, in the current filing Dominion opted to use the Industry data - provided by the General Insurance Statistical Agency (GISA) - as the complement of credibility.

[23] In the present Filing, it was noted that Dominion and the Industry both experienced very high loss ratios in the physical damage coverage. However, Dominion's experience for BI and AB was more favourable than that of the overall Industry. Nevertheless, more weight was given to the Industry experience by Dominion. The

Applicant explained its selection as being the result of the long tail nature of the BI and AB coverages, as well as their limited data volume.

[24] The Panel is satisfied by the support and rationale provided by the Applicant for its selection on loss experience and finds the methodology used to be reasonable.

2) Unallocated Loss Adjustment Expense

[25] In its review of the present Filing, the Panel notes that the Unallocated Loss Adjustment Expense (ULAE) ratio increased significantly from the previous filing, from 4.85% to 7.96%. The Applicant explains the increase by a change in the methodology used in its ULAE allocation method.

[26] In previous filings, Dominion allocated the ULAE based on direct paid losses, but found that this methodology resulted in sporadic disproportionate allocations, notably in non-claims functions. The Applicant explains that it consequently opted to allocate the ULAE based on claims census and claim count inventory in the present Filing in order to obtain more accurate results.

[27] The Panel is satisfied that both ULAE allocation methodologies are reasonable methods to use. In addition, the Panel accepts the rationale provided by the Applicant for the change in its methodology in the current filing and finds the approach used to be reasonable.

3) On-Level Premium Adjustment

[28] Insurers use the on-level premium adjustments, through the application of various approaches, in order to bring policies to current rates. In the previous filing, the Applicant applied the Parallelogram method to do on-levelling adjustments to its policies. This method does not require specific policy information and assumes an even distribution of policies written.

[29] For the purpose of the present Filing, Dominion opted to use the Extension of Exposure (EOE) methodology in order to develop on-levelling adjustment factors. The EOE method requires the insurer to re-rate each exposure to current rates. The Applicant explained the EOE as being the most accurate method to bring historical policies to current rate level, and now has the ability to robustly re-rate historical exposures.

[30] The Panel is satisfied that both on-level premium adjustment approaches are acceptable in the Industry, and the Panel finds to be reasonable the use of the EOE method adopted by the Applicant.

4. Decision

[31] In the present matter, the Panel of the Board determines that Dominion's assumptions, calculations and methodology used in its Filing are supported and reasonable.

[32] The Applicant is therefore **approved to adopt the proposed average rate change of 8.06%** as filed.

[33] The approved rates will be effective on October 15, 2018 for new business and November 20, 2018 for renewal business.

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

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

WE CONCUR:

Jim Jessop, Board Member

Bernard Gautreau, Board Member