

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for **IAO Actuarial Consulting Services Inc.**

With respect to automobile insurance rates for

COMMERCIAL VEHICLES

Written Hearing

Heard at Saint John, New Brunswick

PANEL:	Ms. Marie-Claude Doucet	Chair
	Mr. Jim Jessop	Member
	Mr. 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” or “NBIB”) convened a Panel of the Board to conduct a written hearing (the “Hearing”) on August 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 IAO Actuarial Consulting Services Inc. (the “Applicant” or “IAO”) with respect to automobile insurance rates for commercial vehicles in New Brunswick. IAO publishes advisory rates based on industry experience, which may be adopted on a discretionary basis by individual subscribers of IAO.

- [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 round of questions to the Applicant.

- [3] On July 4, 2018, the OAG notified the Board of its withdrawal as an intervenor to this matter. On July 5, 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	IAO Actuarial Consulting Services Inc. Commercial Vehicle Rate Filing	Jan. 15, 2018
2	Questions from EY	March 21, 2018
3	IAO Response to EY	March 27, 2018
4	IAO Commercial Vehicles Amended Filing	April 10 2018
5	Questions for EY	March 27, 2018

6	IAO Response to EY	April 19, 2018
7	EY Review Summary	
8	Correspondence to IAO from NBIB	May 10, 2018
9	IAO Response to NBIB	May 10, 2018

[5] Following the hearing, the Panel ordered the Applicant to adjust its overall indication for the impact of the following change:

- Modify the Health Service Levy rate to use the amount as published by the General Insurance Statistical Agency (GISA) in the 2017 Automobile Exhibit Introduction and Actual Loss Ratio Exhibit, Atlantic Provinces (AUTO1003-ATL), in compliance with the NBIB Information Bulletin 2018-01.

[6] The required changes as per above resulted in an overall indication greater than the amended indication of 5.22% but still less than the selection of 4.92% as proposed by IAO.

[7] The Panel, after examining the evidence in its entirety, approves the rate change of **+4.92%** proposed by the Applicant.

[8] The approved rates will be effective on September 15, 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 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

[10] The Applicant filed a rate revision application for the Commercial Vehicles category on January 15, 2018, and amendment on April 10, 2018 proposing an overall average rate increase of 4.92%, based on an indication of 5.22%.

[11] The Board issued a Notice of Hearing on June 22, 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.

[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 July 4, 2018.

[13] On July 5, 2018, the CAI also informed the Board of its withdrawal as an intervenor.

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

2. Evidence and Positions of the Parties

IAO Actuarial Consulting Services Inc.

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

[16] IAO presented a Filing to the Board with an overall indication of +5.22% and proposed to select an average rate change of 4.92% based on its indication. Following are the changes proposed to the existing rates by coverage:

Bodily Injury (BI)	- 7.25%
Property Damage (PD)	- 1.85%
Property Damage – Direct Compensation (DCPD)	+ 10.01%
Accident Benefits (AB)	- 7.25%
Uninsured Auto (UA)	- 4.48%
Collision (CL)	+ 10.62%
Comprehensive (CM)	+ 18.85%
Specified Perils (SP)	- 4.58%
All Perils (AP)	+ 13.92%
SEF 44	0.00%
Total	+ 4.92%

[17] The rates contained in the Filing are promulgated assuming a target return on equity (ROE) of 12%, a 6.20% 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 \$695.44 to approximately \$729.67.

[18] 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

[19] 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. There was one round of questions from the OAG before the Board was notified that the OAG was discontinuing its intervention and would not participate further in the hearing process.

Consumer Advocate for Insurance

[20] 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

[21] The Panel has reviewed all of the written evidence before it.

[22] In the present matter, the Panel of the Board determines that IAO 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 the required amendment on August 28, 2018.

[23] The Panel addresses key issues individually as follows:

1) Minor Injury Regulation Loss Adjustment Factor

[24] The Applicant selected the Minor Injury Regulation (MIR) Loss Adjustment Factor based on the New Brunswick Private Passenger Vehicle (PPV) trend analysis as of December 31, 2016. The reform impact of 25% for BI and AB (Medical Rehabilitation) was selected and applied by IAO in the current filing.

[25] While the Panel finds the Applicant's MIR Loss Adjustment Factor selection to be reasonable in all of the circumstances, it suggests that for future filings IAO should consider basing its analysis on Commercial Vehicles' data, or provide justification for any alternative methodology.

2) Loss Trend Selection

[26] 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.

[27] In the present Filing, the Applicant selected loss trends based on the compounded annual change from 2006 to 2016 (excluding potential outlier years judgmentally selected), as opposed to using the exponential and linear regression annual changes. It is noted that the exponential and linear regression, as shown by IAO over the same trending period used in the compounded annual trend approach does result in different trends. In previous filings, IAO utilized a similar approach to the present, however based on a longer trend period. IAO provided the explanation that it used the trend beginning in 2006 as it believes the early data reported by companies to GISA, was neither consistent nor accurate being the first year in a data reporting change.

[28] The Panel is not satisfied with the rationale and support provided by IAO with respect to its trend selection process, and therefore the Panel cannot find the loss trend selections to be entirely reasonable.

[29] 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, the Board approval of rate filings should not imply the approval of each individual assumption or methodology used to derive the approved rate indication.

3) Average Rate Group Differential

[30] In order to determine the rate group exposure distribution used to calculate the average rate group differentials, the Applicant relies on surveys from member insurance companies. In previous filings, IAO used a survey completed in 2008 comprised of results from seven insurance companies. For the current filing, the Applicant used a weighted average of results from the 2008 survey results and an updated survey of 2017 comprising of results from two insurance companies writing Commercial Vehicles.

[31] While the general approach used by the Applicant to calculate the average rate group differential is found to be acceptable, the Panel finds that the Applicant should survey its subscribers on a more frequent basis in order to yield more accurate results. The Board will therefore expect as such in the Applicant future rate applications.

4) Health Service Levy

[32] In the present filing, IAO used the HSL rate of 11.06% prescribed by the Board in 2016 to derive a portion of fixed expenses per exposure. However, a trend was applied by IAO to fixed expenses resulting in a projected HSL greater than the prescribed rate used in the indications. IAO provided the explanation that given the increase in the HSL rate in the last three years and IAO's effective date of March 1, 2018 implying an average written date of September 1, 2018, they expect an increase in the HSL for 2018-2019.

[33] The Panel disagrees with the approach adopted by IAO and directs the Applicant to make the appropriate correction to its Filing to comply with the Board's Information Bulletin 2018-001.

4. Decision

[34] For the reasons set out above, the Board finds the Applicant's Filing fails to meet the standard of just and reasonable in its entirety and therefore orders the following change to be made:

- Modify the Health Service Levy rate to use the rate published by GISA in the AUTO1003-ATL, Automobile Exhibit Introduction and Actual Loss Ratio Exhibit for Atlantic Provinces, in compliance with NBIB Information Bulletin 2018-01.

[35] The impact of this change will be to increase the overall rate indications from an average increase of + 5.22% to an average increase of + 5.48%. However, since the Panel does not accept or approve the Applicant's loss trend selection, the Board does not approve IAO's indications. It is the view of the Panel, however, that the proposed average rate change is less than what the Applicant's indications would have been, had more reasonable loss trends been applied. As a result, the proposed rate is just and reasonable in all of the circumstances.

[36] **The proposed average rate change of + 4.92% selected by the Applicant is approved to be adopted.**

[37] The approved rates will be effective on September 15, 2018 for new business and 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