

# New Brunswick Insurance Board

## DECISION

IN THE MATTER:

Of a rate revision application for Intact Insurance  
Company with respect to automobile insurance rates

for

***PRIVATE PASSENGER VEHICLES***

Hearing date: August 21- 22, 2017

Heard at Saint John, New Brunswick

**Board:**

Ms. Marie-Claude Doucet	Chair
Ms. Francine Kanhai	Member
Mr. Bernard Gautreau	Member

**APPEARANCES:**

**Applicant:**

<b>Intact Insurance Company</b>	
Mr. Hussain Z. Dhalla	Vice President
Ms. Nadia McPhee	Legal Counsel

**Formal Intervenors:**

<b>Office of The Attorney General</b>	
Mr. Michael Hynes	Solicitor
Ms. Maya Hamou	Solicitor
Ms. Paula Elliott	Consulting Actuary
<b>Consumer Advocate for Insurance</b>	
Ms. Michele Pelletier	Consumer Advocate

Date Decision Rendered: September 12, 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 and conducted a hearing on August 21 and 22, 2017 at the Delta Hotel in Saint John. The purpose of the hearing was to consider the rate revision application (the “Filing”) submitted by Intact Insurance Company (the "Applicant" or "Intact") 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”) and the Consumer Advocate for Insurance (CAI), all documents relevant to the hearing. Pursuant to subsection 19.71(4) of the *Insurance Act*, the OAG and the CAI were granted statutory Intervener status. The OAG questioned the Applicant by way of interrogatories and cross-examination of the Applicant’s witness and made written and oral representations to the Panel. The CAI was unable to attend the hearing and adopted the position of the OAG.
- [3] During the hearing process, the Panel accepted twenty-two (22) documents as exhibits as part of the record as shown below:

<b>EXHIBIT</b>	<b>DESCRIPTION</b>
<b>1</b>	2017-03-02 Intact Private Passenger Rate Filing (original)
<b>2</b>	2017-03-15 Questions from KPMG
<b>3</b>	2017-03-22 Intact Response to KPMG
<b>4</b>	2017-03-22 Questions from NBIB
<b>5</b>	2017-03-24 Intact Response to NBIB
<b>6</b>	2017-03-28 Further Questions from NBIB
<b>7</b>	2017-03-29 Intact Response to NBIB
<b>8</b>	2017-03-30 Questions from KPMG
<b>9</b>	2017-04-05 Intact Response to KPMG
<b>10</b>	2017-04-13 Further Questions from KPMG
<b>11</b>	2017-04-21 Intact Response to KPMG
<b>12</b>	2017-04-27 Intact Revised UW Manuals

<b>13</b>	2017-06-01 KPMG Review Summary
<b>14</b>	2017-05-15 Question from NBIB
<b>15</b>	2017-05-17 Intact Response to NBIB
<b>16</b>	2017-06-01 Intact Amendment
<b>17</b>	2017-06-27 Questions from OAG Round 1
<b>18</b>	2017-07-05 Response to OAG Round 1
<b>19</b>	2017-07-13 Questions from OAG Round 2
<b>20</b>	2017-07-21 Response to OAG Round 2
<b>21</b>	2017-08-04 OAG Final Submission
<b>22</b>	2017-08-04 Intact Final Submission

[4] The Panel, after reviewing documentary evidence and submissions made by the parties, and after consideration of the testimony provided by witnesses during the hearing, determines that the rates proposed by the Applicant must be modified as set out below.

[5] The Panel ordered the Applicant to provide alternative rate indications that incorporate the following changes:

- 1) Modify the ultimate loss selections for Bodily Injury (BI) to rely 100% on the results from Bornhuetter-Ferguson (BF) Method for accident years 2014, 2015 and 2016, assuming that the initial expected loss trend and therefore the initial expected loss ratios remain unchanged (i.e. 43%, 45% and 46.5% respectively).
- 2) Update the severity and loss cost trend analyses for BI to reflect the results from item 1. Update the selections for the severity and loss cost trends in light of the modified modeled trends. Update the rationale for such selections.
- 3) Modify the ultimate loss selections for Accident Benefits (AB) to rely 100% on the results from BF Method for accident years 2014, 2015 and 2016, assuming that the initial expected loss trend and therefore the initial expected loss ratios remain unchanged (i.e., 68%, 66% and 64% respectively).
- 4) Update the severity and loss cost trend analyses for Accident Benefits to reflect the results from item 3. Update the selections for the severity and loss cost trends in light of the modified modeled trends. Update the rationale for such selections.
- 5) Modify the projected ultimate weighted loss ratio at current rates for Collision (Coll), assuming that equal weights are applied to each half year from 2012 to 2016.

- 6) Modify the projected ultimate weighted loss ratio at current rates for Direct Compensation (DC), assuming that equal weights are applied to each half year from 2012 to 2016.
- 7) Modifying the proposed rate change for Underinsured Motorist to -1.22%, as proposed by Intact in its September 5<sup>th</sup> Response to the Board's Hearing follow up request.

[6] The Applicant had proposed to adopt a selected overall average rate change of +10.68% (prior to proposed capping). The Applicant is ordered to adopt the rate application as modified above with an approved overall rate change of +6.96%. The Applicant is further ordered to apply capping as previously proposed.

[7] The approved rates will be effective November 22, 2017 for new business and December 22, 2017 for renewal business.

## I. Introduction

- [8] 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 at least once every 12 months from the date of its last filing. If the proposed rates reflect an overall 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.
- [9] Intact submitted a second Filing in a twelve-month period on March 2, 2017, requesting an overall average rate increase of greater than 3%, resulting in the Board issuing a Notice of Hearing on May 19, 2017. The OAG and the CAI provided notice of intent to intervene in the rate hearing.
- [10] Prior to the hearing, through its consulting actuaries, the Board served the Applicant with a series of questions, to which answers were provided. The Interveners were also granted the opportunity to pose written questions to the Applicant, by way of two rounds of questions and answers. The OAG, through its consulting actuary, availed itself of this opportunity.
- [11] During the hearing, Mr. Hussain Z. Dhalla testified as an expert witness for Intact and Ms. Paula Elliott testified as an expert witness for the OAG.
- [12] The CAI was not present at the hearing but prior to the hearing communicated her position that her office adopted the position of the OAG.

## II. Evidence and Positions of the Parties

### *Intact Insurance Company*

- [13] The Applicant's March 2, 2017 Filing (Exhibit 1) and its Amendment dated June 1, 2017 (Exhibit 16) form the main portion of its submission and the evidence before the Panel. The pre-hearing review process utilized by the Board included having the Board's consulting actuaries review the Filing for material errors, and conduct an analysis of the methodology utilized by the Applicant along with the assumptions made, to ensure compliance with accepted actuarial principles. This review included questions from the Board, as well as questions from the Board's consulting actuaries, to Intact. Further to these questions,

answers were provided by the Applicant, including the Applicant submitting its Amended Filing (Exhibit 16). The Board then proceeded with the hearing in order to further investigate this Rate Filing and determine whether the proposed rates are “just and reasonable”.

- [14] Intact presented a Filing to the Board with an initial overall indication of +11.12%, later modified to +10.98% in its Amended Filing and proposed to select a +10.68% overall average rate change (+9.55% after applying a capping mechanism). Indicated overall average rate level changes by vehicle were capped at +15% to limit policyholder dislocation. The Applicant indicated that the Filing was based on the latest statistical information for private passenger automobiles and proposed the following changes to existing rates by coverage (prior to proposed capping):

Bodily Injury (BI)	+14.05%
Property Damage – Tort	<i>Incl. in BI</i>
Property Damage – Direct Compensation	+13.03%
Accident Benefits (AB)	+0.03%
Uninsured Automobile	<i>Incl. in AB</i>
Collision	+19.10%
Comprehensive	-0.04%
Specified Perils	<i>Incl. in Comp.</i>
All Perils	+8.11%
<u>Underinsured Motorist – SEF44</u>	<u>+2.90%</u>
<b>TOTAL</b>	<b>+10.68%</b>

- [15] The revised rates contained in the Filing are produced assuming a target Return on Equity (ROE) of 12% and an overall 2:1 premium-to-surplus ratio. Proposed average rates would rise from the current average of approximately \$702 to approximately \$769.

- [16] The Applicant argues 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**

- [17] The OAG was provided with the Filing and all related documents. The OAG was also given the opportunity to further query the Applicant through two rounds of written questions to which the Applicant responded. The OAG was afforded the opportunity to cross-examine

the witness for the Applicant at the hearing and made both oral and written submissions to the Board.

- [18] In its final written submission (Exhibit 21) the OAG, through a report by its consulting actuary Oliver Wyman (OW), presents a summary of its position (Exhibit 21, Page 2):

*Following Intact's general methodology for determining its rate level needs, but with alternate assumptions, judgements and calculations that we believe to be reasonable, we find that Intact's overall rate level change need to be less than the +10.7% change proposed by Intact.*

- [19] The OW report presents a detailed review of the Applicant's rate application (Exhibit 21, p. 9):

***Background—Intact Rate Application***

*Intact submitted a private passenger automobile rate application to the Board dated March 1, 2017. We were asked to review the application by the Attorney General's Office, a party to the rate application review proceeding.*

- [20] Continuing under "Discussion of Issues" (Exhibit 21, p. 11), the OAG's position is described as follows:

*We reviewed the rate level indications developed by Intact, and in doing so examined all aspects of Intact's ratemaking procedure. There are several aspects of Intact's analysis of its rate level needs where we believe that alternate calculations and /or assumptions should be considered by the Board:*

- A. Intact's selected ultimate loss amounts*
- B. Intact's selected loss trend rates*
- C. Intact's selected premium trend rates*
- D. Intact's profit provision*
- E. Intact's complement of credibility*
- F. Coverage Specific Issues*

- [21] The OW Report provides a detailed analysis of each point above (Exhibit 21, pp. 11 - 34), and concludes with a summary of key findings with respect to the issues identified above and provides points for the consideration of the Board (at page 34 and 35, Exhibit 21):

***Concluding Summary***

*It is our opinion that in determining whether the private passenger automobile rates proposed by Intact are just and reasonable, the Board should give consideration to the reasonableness of alternate assumptions and adjustments to Intact's rate level indication calculations that we discuss in this report. Absent any additional information provided by Intact:*

- 1) We find that Intact estimates of its ultimate loss amounts may be high for Bodily Injury and Accident Benefits. Substituting the alternate ultimate loss amounts that we find reasonable would reduce the overall rate level indication from +11.0% to +9.4%.*
- 2) We find that Intact's selected trends for Bodily Injury (too high), Property Damage (too low) and Accident Benefits (too low) are based on data that is too limited and volatile. We find the trend rate based on Industry experience that Intact selected more reasonable in this circumstance. Substituting these alternate Industry loss trend rates that we find reasonable would increase the overall rate level indication from +11.0% to +11.5%.*
- 3) We find that Intact's selected premium trends to be too high (sic) for DCPD, Collision, and Comprehensive; and those based on the post AXA merger experience over 2013 to 2015 to be more reasonable. Substituting the alternate loss trend rates that we find reasonable would reduce the overall rate level indication from +11.0% to +7.6%*

*We find Intact's complement of credibility approach which includes an adjustment for Intact's estimate of rate inadequacy from its prior filing (which we did not review) to result in rates that may be too high. Removing this adjustment by Intact would reduce its overall rate level indication from +11.0% to +8.8%.*

- 4) We find the 40% weight assigned to accident year 2015 for Collision to be too high given the unusually harsh winter in 2015. IN this circumstance we find equal weight to each of the accident years in the experience period (2012 to 2016-1) more reasonable. Using these weights would reduce the Collision rate indication from approximately +41% to +32%.*
- 5) We find Intact's target pre-tax ROE of 16.9% (12% after-tax) to be equivalent to a profit provision of \$7.12 for every \$100 of premiums. A 1 percentage point decline in the target ROE would reduce Intact's selected profit provision by approximately 1 percentage point (from +11% to +10%).*

6) *We find the proposed increase for Underinsured Motorist coverage of +2.9% to be unsupported based on both Intact's and the Industry experience.*

### **III. Analysis and Reasons**

- [22] The Panel has reviewed the Applicant's Filing, the written submissions provided by all parties, and the testimony of Intact's expert witness and the OAG's expert witness.
- [23] During direct examination and cross-examination, the witnesses for each party outlined their respective positions and answered questions challenging their reasoning for selections and judgement. Each was given the opportunity to explain why the chosen assumptions and actuarial methodologies were more or less appropriate given the facts and data available in this particular case.
- [24] As is often the case with rate application hearings, the decision of the Panel must take into account an analysis of opinion testimony provided by expert witnesses trained in the actuarial sciences.
- [25] Witnesses who are qualified as experts to testify before any Panel of the Board are able to do so by virtue of their experience and training, primarily in the actuarial sciences. The Panel accepts such witnesses and the opinion evidence that they have to share, as expert evidence is helpful to the members of the Panel and allows for a more fulsome exploration of the evidence.
- [26] The Panel recognizes that in most hearings, the experts may be employees or retained consultants on behalf of a party. However, it bears repeating that in the determination of the weight to be placed upon the opinion of any expert witness, the Panel will consider not only the position of the witness vis-à-vis a party, but also the demeanour of the witness and any hesitation to concede an obvious point.
- [27] Expert evidence is most helpful to the Panel when it is given in a forthright and objective manner, even during cross-examination. In the opinion of this Panel, it is proper and helpful, when possible, for qualified experts to answer hypothetical questions during direct or cross examination based on the data, information or documents in the record, even where such responses would not support the position being taken by the expert.
- [28] The Panel, in this instance, finds that it is just and appropriate for Intact to adjust certain assumptions, calculations or methodology within the Filing, and adopt the resulting rate indications, rather than the rate indications as set out in the Filing. The primary issues are discussed below.

#### **1) The Applicant's Selection of Ultimate Loss Amounts (Loss Development Factors)**

[29] The OAG takes issue with Intact’s selection of loss development factors (LDF) for the BI and AB coverages, resulting from the application of the Incurred Loss Development (ILD) Method, the Bornhuetter-Ferguson (BF) Method and the Expected Loss Ratio (ELR) Method. More specifically, the OAG disagrees with the Applicant’s weighting attribution to the methods for years 2012 to 2016-1<sup>1</sup>.

**a) Bodily Injury**

[30] Selected loss amounts by accident year resulted from Intact’s weight distribution on the various loss estimation methods. The weights judgmentally attributed by Intact for each year are as follows:

<b>Year</b>	<b>ILD Method</b>	<b>BF Method</b>	<b>ELR Method</b>
2011	100%		
2012		100%	
2013		100%	
2014		50%	50%
2015		25%	75%
2016-1			100%

[31] The BF Method being a weighted average of the ILD and the ELR methods, the OAG questions the weights selected by the Applicant for years 2014, 2015 and 2016-1.

[32] The OAG further argues that Intact’s selected ultimate loss amounts have a significant impact on its average severities for 2015 and 2016-1. The Intervener further argues that applying the most weight to the ELR Method results in Intact’s ultimate loss amount being considerably higher than the industry average severities.

[33] Additionally, the OAG submits that the Applicant’s estimated losses for 2015 and 2016-1 are much higher than its estimated loss amount for 2013 and 2014, while its reported claim count for 2015 and 2016-1 are lower than its reported claim count for 2013 and 2014 (at same stage development), which the OAG submits is inconsistent.

[34] The OAG also raises concern with Intact’s selection of a loss trend rate of +1.77% for BI, a considerably higher loss trend rate than the Industry’s at +0.38% (measured by Intact over 2011 to 2015). This selection has a significant impact, as it leads to higher ultimate loss amounts under the ELR Method. The OAG therefore suggests that Intact should

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<sup>1</sup> 2016-1 refers to the first half year.

have selected the Industry's trend rate and resulting expected loss ratios, as this approach would have been more reasonable.

- [35] During his cross-examination, Mr. Dhalla testified that the weighting of the three methodologies is consistent with the methodology used by Intact's appointed actuary for determining the proper claim liabilities for this coverage.
- [36] On this issue, the Panel disagrees with the methodology used by the Applicant, and finds this to be an inappropriate approach in this particular circumstance. The Panel finds that allowing the Applicant to attribute weights both on the BF and ELR methods for a given accident year has a compounding effect, therefore resulting in a larger weight being attributed to the ELR method and less to the actual claim data. The Panel agrees with the OAG's position taken during the Hearing that in the present matter, the most appropriate method to use in the estimation of Intact's ultimate loss amount by accident year is to attribute 100% weight on the BF Method. As a result, the Panel requires the Applicant to update its premium rate indications accordingly.
- [37] The Panel also requires the Applicant to update the severity and loss cost trend analysis for BI to reflect the result of the above, as well as update the selections for the severity and loss cost trends in light of the modified modeled trends.

***b) Accident Benefits***

- [38] The weights judgmentally attributed by the Applicant for years 2011 to 2016-1 under the AB coverage are as follows:

<b>Year</b>	<b>ILD Method</b>	<b>BF Method</b>	<b>ELR Method</b>
2011		100%	
2012		100%	
2013		100%	
2014		65%	35%
2015		25%	75%
2016-1			100%

- [39] As was the case for the BI coverage, the OAG questions the weights selected by the Applicant for the AB coverage years 2014, 2015 and 2016-1, due to the BF Method being a weighted average of the ILD Method and ELR Method. The inconsistency in weights assigned for those years between the BI and AB coverages is also a concern of the OAG.

- [40] It is noted that in its initial filing, the data used by Intact under the BF and ELR Methods for the AB coverage was from all of the Atlantic Provinces, rather than that of only New Brunswick. The OAG submits that this is of importance given that the reported loss ratio for Nova Scotia is significantly higher than the reported loss for New Brunswick. The OAG points out that this has the impact of overestimating New Brunswick's actual loss.
- [41] In its submissions, the OAG suggested that the above noted method is not appropriate for pricing purposes, and submitted to the Board that the most appropriate method in the circumstances was to use New Brunswick data.
- [42] The Panel notes that further to the Board's consulting actuaries' review, Intact made the appropriate modifications, using New Brunswick data only to calculate its ultimate loss under the AB coverage.
- [43] During his testimony, in response to the above noted submission, Mr. Dhalla explained that in applying the ELR method, Intact has allocated losses between the various Atlantic Provinces based on their respective long-term loss ratios and as such it attributed more losses to Nova Scotia in order to avoid over allocation of losses to New Brunswick.
- [44] The Panel accepts the methodology utilized by the Applicant with respect to the data (New Brunswick only) used for the purpose of determining the ultimate loss amount under the AB coverage. However, the Board disagrees with Intact's weights between the BF and ELR methods for years 2014, 2015 and 2016-1. The Panel finds that allowing the Applicant to attribute weights both on the BF and ELR methods for a given accident year has a compounding effect, therefore resulting in a larger weight being attributed to the ELR method and less to the actual claim data. The Panel therefore finds that in the present matter, the most appropriate method to use in the estimation of Intact's ultimate loss amount by accident year is to attribute 100% weight on the BF Method. As a result, the Panel requires the Applicant to update its premium rate indications accordingly.
- [45] As was the case for the trend analysis for the BI, the Panel also requires that Intact update the severity and loss cost trend analysis for AB to reflect the above, as well as update the selections for the severity and loss cost trends in light of the modified modeled trends.

## **2) The Applicant's Selected Loss Trend Rates**

- [46] The selection of loss trend rates requires analysis of past data and the application of professional judgement in order to select trend rates that fairly represent past experience and future expected results.
- [47] In its rate application, Intact uses a regression model to select loss trends for loss cost, frequency and severity based on its internal data and compares to similar results based on industry wide data. In doing so, the Applicant measured its own severity trend rate at 7%, but judgmentally selected a severity trend rate of +3%.
- [48] In Intact's responses to the second round of questions asked by the OAG (Exhibit 20, page 3966 of the Record), Intact submits *"the severity trend of 3% was selected to obtain a resulting loss cost trend that is a balance between the clear strong loss cost trend derived from Intact 2011-2015 data and the flatter trend resulting from the 2011-2015 industry data"*. In support of the reasonableness of its selected trend rate, Intact presented a summary of calculated trends, including for the period of 2011 to 2015 which resulted in a R<sup>2</sup> of 83.19%, validating its model.
- [49] The OAG argues that Intact does not have sufficient historical claim experience upon which to base loss trend rates for some coverages like BI. The OAG submits that because Intact does not have sufficient data on which to select its loss cost trend rates, the Applicant should utilize the Industry's trend rate of +0.38%, rather than the selected loss cost trend rate of 1.77% for BI.
- [50] In cross-examination, Mr. Dhalla responded that Intact's own data, being sufficiently credible to be complemented, should not simply be discarded in the trend analysis to rather use industry data, which does not depict an identical portfolio to that of Intact.
- [51] The Panel accepts that the methodology utilized by the Applicant in its Filing with respect to the development of loss trend rates is reasonable and appropriate in the circumstances. The Panel is persuaded by the Applicant that its selected loss trends utilize standard and acceptable actuarial practice and apply reasonable actuarial judgement.

### **3) The Applicant's Premium Trend Rates**

- [52] The OAG submits that in order to remain consistent, as for the loss trends, Intact should also utilize Industry data for the selection of premium trend rates for the BI, AB and Property Damage (PD) coverages. Furthermore, the OAG raises concerns about selected premium trend for the short tail coverages - Collision and Comprehensive.
- [53] The methodology employed by Intact was to consider the period-to-period percentage change in the on-level average premium for the full years 2008 to 2015 and the first half

of 2016, to then proceed to select premium trend for each coverage based on the analysis of the year-to-year percentage changes.

[54] The OAG questions the above noted methodology and argues that Intact's selections are too low as it fails to :

- 1) take into account "seasonality" (between the first half of the year and second half of the year) in its measurement and selection of premium trend and;
- 2) take into consideration the changes in average on-level premiums prior to 2011 (prior to the 2011 merger with AXA), which they argue may not accurately reflect Intact's current portfolio.

[55] The OAG suggests that due to the effect of seasonality, the percentage change from 2015 to 2016-1 that has been calculated by Intact is understated, as no adjustments were made in the selection of premium trend rates for Collision and Comprehensive coverages.

[56] In its final written submission (Exhibit 21, page 4004 of the Record), Intact submits that now having the benefit of the 2016 second half year data that has emerged, it is currently in a position to substantiate that seasonality had minimal impact on the premium trends and that the first half year was actually representative of the second half year. This latest collection of data was before the Panel as a result of the interrogatories, and is found in the Record before this Panel at page 4047 of the Record (Exhibit 22).

[57] The Panel considered this 2016 second half year data provided by Intact and concludes that the decrease in premium trends observed in the first half-year of 2016 is not the result of seasonality, as suggested by the OAG's consulting actuary.

[58] In light of the above, the Panel finds Intact's methodology to be reasonable in the circumstances.

#### **4) The Applicant's Selected Profit Provision**

[59] The Applicant prepared its Filing by selecting a target after-tax ROE of 12%, and average premium-to-surplus ratio of 2 to 1 (varying on coverage), as well as a pre-tax Return on Investments (ROI) of 2.82% in 2017 and 2.66% thereafter for surplus.

[60] The position of the OAG is that based on the assumptions made by Intact, it selects a profit provision, as a percentage of premiums, at 7.12% (\$7.12 of profit per \$100 of premium from its policyholders). The OAG additionally argues that this is not consistent with Financial Services Commission of Ontario ("FSCO")'s profit guidelines.

- [61] The Panel rejects the argument of the OAG with respect to consistency with FSCO's profit guidelines, as the Ontario regime significantly differs from that of New Brunswick and therefore their guidelines cannot simply be adopted without detailed analysis in support.
- [62] To date, the Board has not issued benchmarks with respect to profit provision and will continue to monitor and assess such issue on a case-by-case basis, in light of the current market conditions.
- [63] The Panel finds that Intact's target ROE and ROI are reasonable in light of actual market conditions and agrees with the Applicant's selection on profit provision.

## **5) The Applicant's selection of Complement of Credibility**

- [64] The OAG argues that the methodology utilized by the Applicant for the calculation of complement of credibility (Exhibit 21, page 4024 of the Record) leaves it unable to assess the appropriateness of the calculation because it relies on the reasonableness of a prior rate application which the OAG did not review, as stated (Exhibit 21, page 30):

*Since we did not review Intact's prior rate application, we are not in position to accept the basic premise underlying Intact's application of the complement of credibility: that Intact's projected loss ratios and rate level change need as presented in its prior application are reasonable. In particular, we would likely have had similar concerns as respects the loss development, loss trend, premium trend, and profit.*

- [65] The Panel notes that in connection with this hearing, the OAG was provided with the prior approved rate filing. Further, although the OAG was not a party to the previous rate application approval process, the Board has reviewed all prior rate filings by the Applicant, including its overall indication, and has determined them to be just and reasonable.
- [66] The Panel finds that the selection of the approach used by Intact to develop the complement of credibility is a generally used method in the industry and finds it to be reasonable in the circumstances. The Panel therefore accepts the methodology adopted by the Applicant.

## **6) Coverage Specific Issues**

### **a) Collision**

- [67] The Applicant estimates a rate level change need for Collision of +40.97%. Intact attributes most of this increase to the following factors:
- a. Poor experience resulting from the harsh winter in 2015; and
  - b. Assignment of 40% weight to the 2015 accident year.
- [68] The issue raised by the OAG on this coverage is that Intact's selection of weight, based on actuarial judgement, attributes most weight to the more recent experience (years 2015 to 2016-1). The OAG submits that Intact rather should have assigned equal weight to accident years 2012 to 2016-1 in order to avoid a higher percentage being attributed to the year 2015 with the most significant loss cost and a lower percentage to the year 2012 with the lower loss cost. For the purpose of this methodology, equal weights of 11.11% would be attributed to every half year from 2011 to 2016-1.
- [69] Furthermore, the OAG takes the position that since 2015 was an unusual year in terms of weather conditions leading to a poorer claim experience, Intact should temper the weight assigned to that specific year.
- [70] While the Board does not discard Intact's weight distribution method in itself with respect to the calculation of the rate level indication calculated for Collision, the Panel agrees with the position presented by the OAG in the circumstances.
- [71] Furthermore, while Intact's weight distribution methodology utilized to calculate the Direct Compensation (DC) coverage was not questioned by either of the interveners in this matter, the Board finds that this coverage, impacted in the same way by weather conditions as is the Collision coverage, also should be assigned equal weights to accident periods 2012 to 2016-1.
- [72] Consequently, the Panel orders the Applicant to modify its Collision and DC rate level indications by assigning equal weights to the accident periods 2012 to 2016-1.

***b) Underinsured Motorists (UIM)***

- [73] The Applicant estimates a rate level change need for UIM to be – 1.09%, but proposes an increase of +2.90%. Intact estimates weighted projected ultimate loss ratio of 27.7% based on its own experience as of 2016-1, and the Industry's ultimate 5 year loss ratio ending 2016 at 17%. Based on its target ROE of 12%, Intact's target loss ratio for the UIM is 69.2%.
- [74] The OAG argues that Intact's position to request an increase of +2.90% for the UIM coverage is simply unsupported based on its own experience and on the Industry experience.

- [75] During the hearing, Intact conceded to the Panel the lack of support for requested rate level change of +2.90% for the UIM coverage.
- [76] In light of the evidence presented by the parties at the Hearing, the Panel requires that Intact modifies its rate level indication for UIM to -1.22%, as proposed by Intact in its September 5<sup>th</sup> Response to the Board's Hearing follow up request.

## **Recommendations to the Board Arising from Issues Raised During Hearing**

- [77] During the File Review and Hearing, it was noted by the Panel that only Intact's data was utilized for the purpose of both Intact and Trafalgar Insurance Company of Canada ("Trafalgar")'s Rate Applications, and that Trafalgar's experience was not taken into account.
- [78] The Panel recommends that for the purpose of future rate applications, in the instance that Trafalgar chooses to rely on Intact's data, analysis and rates to set its own rates, Intact should incorporate Trafalgar's into its analysis.

## IV. Decision

- [79] The Applicant's rate revision application proposes an overall average increase of 10.86% (prior to capping).
- [80] The Board has considered all of the evidence and submissions presented by the parties.
- [81] For the reasons set out above, the Panel finds the Applicant's Filing not to be just and reasonable in its entirety and requires that the Applicant modifies its proposed overall rate change to **+6.96%**. This corresponds to the overall rate indications calculated by the Applicant after implementing the following changes:
- 1) Modify the ultimate loss selections for Bodily Injury to rely 100% on the results from Bornhuetter-Ferguson (BF) Method for accident years 2014, 2015 and 2016, assuming that the initial expected loss trend and therefore the initial expected loss ratios remain unchanged (i.e., 43%, 45% and 46.5% respectively);
  - 2) Update the severity and loss cost trend analyses for Bodily Injury to reflect the results from item 1. Update the selections for the severity and loss cost trends in light of the modified modeled trends. Update the rationale for such selections;
  - 3) Modify the ultimate loss selections for Accident Benefits to rely 100% on the results from BF Method for accident years 2014, 2015 and 2016, assuming that the initial expected loss trend and therefore the initial expected loss ratios remain unchanged (i.e., 68%, 66% and 64% respectively);
  - 4) Update the severity and loss cost trend analyses for Accident Benefits to reflect the results from item 3. Update the selections for the severity and loss cost trends in light of the modified modeled trends. Update the rationale for such selections;
  - 5) Modify the projected ultimate weighted loss ratio at current rates for Collision, assuming that equal weights are applied to each half year from 2012 to 2016;
  - 6) Modify the projected ultimate weighted loss ratio at current rates for Direct Compensation, assuming that equal weights are applied to each half year from 2012 to 2016; and
  - 7) Modifying the proposed rate change for Underinsured Motorist to -1.22%, as proposed by Intact in its September 5<sup>th</sup> Response to the Board's Hearing follow up request.
- [82] The impact of these changes will be to lower overall rate indications from an average increase of 10.98% to an average increase of 6.96%. The Applicant is ordered to adopt

the rate application as modified above with an approved overall average rate change of **+6.96%**. The Applicant is further ordered to apply capping as proposed.

[83] Rates are to be in effect November 22, 2017 for new business and December 22, 2017 for renewal business.

Dated at Saint John, New Brunswick on September 12, 2017.

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Marie-Claude Doucet  
Chair, New Brunswick Insurance Board

WE CONCUR:

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Francine Kanhai  
Panel Member

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Bernard Gautreau  
Panel Member