# New Brunswick Insurance Board

# DECISION

IN THE MATTER:
Of a rate revision application for LLOYD'S UNDERWRITERS

With respect to automobile insurance rates for
***Snow Vehicles***

Hearing Date: July 13, 2017
Heard at Saint John, New Brunswick

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| **BOARD:** | Ms. Marie-Claude Doucet | Chair |
| | Mr. Jim Jessop | Member |
| | Mr. Bernard Gautreau | Member |

**FORMAL INTERVENOR:** **Consumer Advocate for Insurance**
Ms. Michèle Pelletier

Decision Rendered: July 24, 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 ("Panel" or "Board") to conduct a written hearing on July 13, 2017 at the office 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 Lloyd's Underwriters (the "Applicant" or "Lloyd's") with respect to automobile insurance rates for snow vehicles (SV) in New Brunswick. Lloyd's is an incorporated insurance company authorized to practice automobile insurance rate in New Brunswick, and has been offering insurance coverage for Snow vehicles since 2012.

[2] In compliance with subsection 19.71(2) of the *Insurance Act,* the Board provided notice of the hearing to the Office of the Attorney General ("OAG") and the Consumer Advocate for Insurance ("CAI"). The OAG decided not to exercise its statutory right to intervene in this matter pursuant to subsection 19.71(4) of the *Insurance Act*. The CAI did exercise its right to participate to the Hearing as an Intervener pursuant to subsection 19.71(4) of the *Insurance Act* and has presented written submissions to the Board for the Hearing.

[3] The Panel accepted the following exhibits as part of the record in this matter as shown below:

| EXHIBIT | DESCRIPTION | DATE |
|---|---|---|
| **1** | Original Snow Vehicle Rate Filing (2016-353) | December 9, 2016 |
| **2** | Ernst & Young Review Summary | July 10, 2017 |
| **3** | Submission from the Consumer Advocate for Insurance | July 6, 2017 |
| **4** | Response to the CAI from Lloyd's | July 11, 2017 |

[4] The Applicant filed a request for a rate change of +26.50%, leading to an average annual premium increase of $79.13.

[5] The proposed rate increase of +26.50% presented by the Applicant is **approved by the Board.** The approved rates will be effective on October 01, 2017 for new and renewal business.

## 1. Introduction

[6] 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 prescribed 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 once every 12 months from the date of its last filing. If the proposed rates reflect an average increase greater than 3% or if the insurer files rates more than twice in a period of twelve months, the insurer will be required to appear before the Board to provide justification.

### Procedural History

[7] On December 9, 2016, the Applicant filed a rate revision application requesting a premium increase of +26.50% for snow vehicles, that is in excess of the 3% threshold triggering the mandatory hearing process.

[8] The Board issued a Notice of Hearing on June 9, 2017 and convened a Panel of the Board to conduct a written hearing on the matter. After receiving notice of the hearing, the Office of the Attorney General waived its right to intervene in the present rate hearing. The CAI notified the Board of its intention to exercise its right to act as intervener in the matter.

[9] Prior to the hearing, both the CAI and the Applicant presented written submissions to the Board.

## 2. Evidence and Position of the Applicant

### Background on Lloyd's Underwriters

[10] Lloyd's Underwriters business model differs from traditionally operated insurers, operating under various Syndicates that cover different policy's coverages: Accident Benefits (AB), Liability, and Physical Damages. Therefore, each Syndicate only covers one of the three sections of the policy. Pursuant to this business model, Lloyds's assesses the profitability of each Syndicate separately and must ensure each Syndicate is profitable,

without having the option of cross subsidizing, as opposed to traditionally operated insurers.

## Lloyd's Underwriters Filing

[11]The Applicant's Filing forms the main portion of its submission and the evidence before the Panel. The Board's consulting actuaries reviewed the Filing for material errors, and conducted an analysis of the methodology utilized by the Applicant along with the assumptions made, to ensure compliance with accepted actuarial principles. The consulting actuaries noted that the Health Service Levy used by the Applicant was not the rate prescribed by the Board, as a lower rate was utilized. Furthermore, it was noted that the HST adjustment of 2% on claim costs was not applied. Adjustments were not required by the Board on those two issues.

[12] Pursuant to its mandate, the Board then proceeded to investigate the rate filing submitted by Lloyd's in order to determine whether the proposed rates are "just and reasonable".

[13] Lloyd's presented a final Filing to the Board with an overall indication of +44.60% and proposed to select an average rate change in excess of its indication, the details of which for each coverage types before capping are as follows:

| | |
|---|---|
| Third Party Liability | 0.00% |
| Property Damage | 0.00% |
| Direct Compensation – Property Damage | 0.00% |
| Accident Benefits | 0.00% |
| Comprehensive | +10.00% |
| All Perils | + 50.00% |
| Underinsured Motorist | 0.00% |
| ***Total*** | ***+ 26.50%*** |

[14] The revised rates contained in the Filing are produced assuming a target return on equity of 10.50% and a 2:1 premium to surplus ratio. Proposed average rates would increase from the current average of approximately $298.62 to approximately $377.75.

[15] The Applicant also proposed a reduction of 5% to it's New Brunswick Federation of Snowmobile Clubs Inc. membership discount (decreasing from 20% to 15%), and further proposed changes to the wording in its manual clarifying its intent. Finally, Lloyd's also applied for the change to the definition of the new operator surcharge, imposing a 25% surcharge on all coverages to operators with less than three (3) years experience who have not completed the safety training course.

[16] The Applicant submits that the Filing was prepared utilizing sound actuarial methods and practices, 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

[17] The Panel has reviewed all of the written evidence before it, along with the arguments and submissions of the Applicant.

[18] Further to a review of the points of interests raised by the Board's retained actuaries and by the CAI, the Panel addresses the key issue(s) identified below:

### *1) Indication vs. Selection*

[19] The Applicant selected a rate change of +26.50%, while its indication was of +44.60%. Lloyds argues that its selection is the result of the poor trended loss ratios over the experience coverages for Comprehensive and All Perils. Lloyds further submits that the average rate level indication changes for these two coverages are not adequate to maintain the viability of its snow vehicles business program.

[20]The Applicant also argues that at the rates currently in-force, with the All Perils coverage currently being underpriced in comparison to the industry, it cannot be profitable, and therefore will be required to withdraw from the market if it is unable to achieve price adequacy.

[21]The CAI did not present submissions on this specific issue.

[22]The Panel of the Board recognize that the Applicant's pricing under its snow vehicle program is lower than the average written premiums in the industry. Furthermore, the Board understands that without price adequacy, Lloyd's will be unable to continue writing All Perils coverage under the snow vehicle program, and it's policy holders will have to obtain coverage through another insurer in the industry charging premiums that are on average higher than the premiums Lloyd's is presently applying for.

### *2) Loss Trends*

[23] The CAI argues in its submission that due to the small size of the snow vehicle market in the Province of New Brunswick, not enough data has emerged since the adoption of the 2013 *Minor Injury Regulation* (MIR) to achieve proper pricing. The CAI further submits that statistical data shows that claims have been declining since 2016 for Private Passenger Vehicles (PPV).

[24] The Applicant does agree that due to the limited number of claims and historical experience (having only started the snow vehicle program in 2012); greater volatility is expected from year to year. That said, other factors, including but not limited to trends based on the General Insurance Statistical Agency (GISA)'s industry PPV data and adjustment factors, have been used by the Applicant to project losses and premiums into the future. The Applicant also applied the balance of credibility to the volatility of the experience. As a result the overall indicated average rate level change after credibility was much lower than the average rate level change achieved prior to its' application.

[25] The Panel of the Board agrees with the actuarial methodology used by the Applicant to project losses and finds it to be reasonable.

### *2) Profit Provision – Return on Equity*

[26] For the calculation of its overall rate level change need, Lloyd's includes a profit provision targeting a return on equity (ROE) of 10.5%, a premium to surplus ratio (PS) of 2 to 1, as well as a return on premium (ROP) of 6.79%.

[27] The process of developing rates, which are just and reasonable, requires rate applications to account for a reasonable provision for profit as measured by return on equity (ROE). The inclusion of a reasonable target ROE will increase the overall indications, which ultimately provides additional revenue that becomes the profit from each policy issued.

[28] The CAI submits that the ROE has a massive impact on premiums and questions whether a return of 10% to 12% is just and reasonable in the current market.

[29] The Panel finds that Lloyd's target ROE is reasonable in light of the current market conditions and agrees with the Applicant selections on profitability.

### *3) New Operator Surcharge*

[30] In its' application, Lloyd's requests the approval of the change to the definition of the New Operator Surcharge. The current wording provides that a new operator with less than 1 year experience who had not obtained the appropriate safety training course be subject to a 25% surcharge on all coverages. The Applicant requests that, under this rule, the experience period required of a new operator without the safety training course be extended to three years, as opposed to one year.

[31] Pursuant to paragraph 19.3(1) the ***Off Road Vehicle Act*** of New Brunswick, the operator of a snow vehicle who is at least 14 years old, but under the age of sixteen, must have completed safety training in order to operate an snow vehicle.

[32] The Board finds the extension of experience period from one year to three years for the surcharge to new operators without the safety training course to be reasonable.

## 4. Decision

[33] The Board has considered all of the evidence presented, including the submission of the Applicant and the CAI.

[34] For the reasons set out above, the Board finds that the Applicant's Filing is just and reasonable in its entirety and therefore approves the requested average rate change of + 26.50% for snow vehicles.

[35] The approved rates will be effective on October 01, 2017 for new business and renewal business.

Dated at Saint John, NB on July 24, 2017

Marie-Claude Doucet, Panel Chair

Chair, New Brunswick Insurance Board

WE CONCUR:

Jim Jessop

Bernard Gautreau