

New Brunswick Insurance Board

DECISION

IN THE MATTER:

Of a rate revision application for The Wawanesa Mutual Insurance Company
With respect to automobile insurance rates for Private Passenger Vehicles

Written Hearing

Heard at Saint John, New Brunswick, October 23, 2018

Panel:

Mr. Brad Woodside (Panel Chair)

Mr. Jim Jessop (Member)

Ms. Elizabeth Turgeon (Member)

Date of Written Hearing: October 23, 2018

Decision Rendered:

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 (the “Panel”) to conduct a written hearing on October 23, 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 The Wawanesa Mutual Insurance Company (the "Applicant" or "Wawanesa") 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 the Province of 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 in the interrogatory process by submitting one (1) round of questions to the Applicant.
- [3] The CAI intervened as well, filing a brief written submission.
- [4] On October 5, 2018, the OAG notified the Board of its withdrawal as an intervenor to this matter.
- [5] For the purpose of the written hearing, the Panel accepted the following exhibits as part of the Record as shown below:

EXHIBIT	DESCRIPTION
1	Wawanesa PPV Original Filing dated Apr 06 2018
2	Wawanesa PPV Actuarial Justification Amendment dated Apr 11 2018
3	Wawanesa PPV Amendment dated Apr 23 2018

4	Wawanesa PPV Round 1 Questions from NBIB dated Apr 27 2018
5	Wawanesa PPV Round 1 Questions from NBIB dated Apr 30 2018
6	Wawanesa PPV Round 1 Response to Qs from NBIB dated May 2 2018
7	Wawanesa PPV Round 1 Questions from EY dated May 2 2018
8	Wawanesa PPV BI Indication Error Alert dated May 9 2018
9	Wawanesa PPV Round 2 Questions from NBIB dated May 10 2018
10	Wawanesa PPV Round 2 Response to Qs from EY dated May 14 2018
11	Wawanesa PPV Round 2 Response to NBIB dated May 16 2018
12	Wawanesa PPV Round 3 Question from NBIB dated May 29 2018
13	Wawanesa PPV Amendment Actuarial and Manual dated May 29 2018
14	Wawanesa PPV Round 3 Response to NBIB dated May 30 2018
15	Wawanesa PPV Round 3 Questions from EY dated May 30 2018
16	Wawanesa PPV Round 3 Response to EY dated Jun 1 2018
17	Wawanesa PPV Follow up to Phone call with NBIB dated Jun 6 2018
18	Wawanesa PPV Round 4 Questions from NBIB dated Jun 6 2018
19	Wawanesa PPV Round 4 Response to NBIB dated Jun 11 2018
20	Wawanesa PPV Round 5 Questions from NBIB dated Jun 11 2018
21	Wawanesa PPV Round 5 Response to NBIB dated Jun 12 2018
22	Wawanesa PPV EY Actuarial Summary Review dated Jun 19 2018
23	Wawanesa PPV Round 6 Questions from NBIB dated Jun 26 2018
24	Wawanesa PPV Round 6 Response to NBIB dated Jun 26 2018
25	Round 1 Questions from OAG dated Aug 17 2018
26	Round 1 Response to OAG dated Aug 29 2018

[6] The Panel, after examining the evidence and submissions made by the parties, determines that the rate change of **11.69%** proposed by the Applicant is accepted for the reasons set out below.

[7] The approved rates will be effective on January 1, 2019, for both new and renewal business.

1. Introduction

[8] 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 provided by the *Act*. One key responsibility for the Board is to ensure that rates charged or proposed to be charged are just and reasonable (*Act*, s. 267.5). 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% (as is the case here), if the insurer files rates more than twice in a 12 month period, or if the Board so orders, the insurer must appear before the Board. The onus is on the insurer to prove that its rates are just and reasonable.

Procedural History

[9] On April 6, 2018, the Applicant filed a rate revision application for the Personal Passenger Vehicle (“PPV”) category, proposing an overall average rate increase of 11.69%.

[10] On July 5, 2018, the Board issued a Notice of Hearing and convened a Panel of the Board to conduct a hearing on the matter. The OAG and CAI both provided notice of their respective intentions to intervene in the rate hearing.

[11] The OAG withdrew from its intervenor status on October 5, 2018 after receiving answers to interrogatories from the Applicant.

[12] Between April 6, 2018, when the application was filed and the hearing date on October 23, 2018, numerous written questions were asked of the Applicant by the Board and its actuary (Ernst and Young) respecting the justification for the proposed rate increase. The

Applicant in turn provided answers to the questions in writing. Those questions and responses formed part of the record for consideration by the Panel, as did the OAG's interrogatories.

[13] On October 12, 2018, the Applicant filed a brief written final submission for consideration by the Panel (Exhibit 27, Record, p. 1799).

[14] On October 15, 2018, the CAI filed a brief written submission (Exhibit 28, Record p. 1802).

[15] On October 23, 2018, the Panel convened for a written hearing at the New Brunswick Insurance Board office in Saint John, New Brunswick.

2. Evidence and Positions of the Parties

The Wawanesa Mutual Insurance Company

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

[17] In the filing, Wawanesa stated that its overall indicated rate change was +30.27%, but proposed to select an overall average rate change of +11.69%.

[18] Wawanesa claimed that it was attempting to mitigate the impact to its insureds of the base rate change by capping at the coverage level (i.e., individual coverages will not increase more than 25%).

[19] Wawanesa's current average premium is \$671.83, with a proposed average premium of \$752.54 after capping, based on the 11.69% proposed rate change.

[20] The indicated rates contained in the filing were produced assuming a target Return on Equity (ROE) of 12.00%, a Return on Premium of 1.85%, and a Premium to Surplus Ratio of 2.00.

[21] Following are the changes proposed to the existing rates by coverage:

COVERAGES	Selected After Capping
Bodily Injury (BI)	18.96%
Property Damage (PD)	22.38%
Direct Comp – Property Damage (DCPD)	14.32%
Accident Benefits (AB)	22.03%
Uninsured Auto (UA)	0.00%
Collision (CL)	1.11%
Comprehensive (CM)	2.89%
Specified Perils (SP)	-1.12%
All Perils (AP)	5.55%
SEF 44	0.00%
Total	11.69%

[22] In its filing, Wawanesa expressed concern with rate adequacy and maintaining its market position. Wawanesa provided the following rationale for its selection of 11.69% as its proposed rate change (Exhibit 6, Record p. 862):

“Our indication is about +30%. Taking a rate increase of 30% would create substantial rate shock for our current policyholders and likely decrease retention dramatically. We implemented a new predictive model effective May 2017 which was focused at rate segmentation and reducing adverse selection on our book. We have since increased our base rates effective January 2018, but our indication still shows we need to take further steps to address our overall rate inadequacy. Keeping the overall impact on our current book to 11.69% allows us to take another step towards rate adequacy, while not shocking our current book too drastically”.

[23] In its Final Submission (Exhibit 27), Wawanesa further addressed increasing rates and its current situation:

“... Wawanesa’s mission: ‘As a policyholder-owned mutual insurance company, we will continue to earn trust by providing quality products and services at the lowest price which supports long-term growth and financial stability’. To be true to our mission, we attempt to use all opportunities at our disposal to manage our loss costs proactively. We also work with our independent broker partners to try to limit the frequency and size of any premium increases to the lowest possible amount. We have been proactively working with the government’s latest reforms to the automobile insurance product and limiting our rate increases to see if we could manage to keep them within expected levels. We do not have any stockholders or investors to pressure us for profit. We serve our policyholders and they would prefer if we only increase rates when we have no other option. We now have no other option in New Brunswick. We have limited our rate increases; however, loss costs are escalating. With our policyholders’ best interests in mind, we will increase our rates over the next few years until we obtain rate adequacy. We will increase rates as slowly as possible to lessen the impact to New Brunswickers.”

We also recognize the concerns with consumer reaction. To facilitate support, we have tempered our requested increase relative to the indication. Even so, our proposal is significantly higher than we would normally request. As the largest insurer in the province, with a strong team in Moncton and a service office in Fredericton, we wish to maintain our financial viability in this market...”

Office of the Attorney General (OAG)

[24] The OAG was given the opportunity to query the Applicant through a written interrogatory process. After receiving answers to its first round of interrogatory questions, the OAG discontinued its intervention and participated no further in the hearing process.

[25] The questions and answers (Exhibit 25 and 26 respectively), however, formed part of the Record before the Panel.

[26] Among other things, the OAG's questions related to Wawanesa's non-claim related expenses (i.e., the increase in Wawanesa's fixed expense costs per vehicle), Wawanesa's credibility of its experience period data (i.e., the mismatch between the number of years for the credibility measurement and the number of years in the experience period for the rate indication calculations), and Wawanesa's selected loss cost trends.

Consumer Advocate for Insurance (CAI)

[27] In a written submission, Exhibit 28, the CAI expressed concerns about the 11.69% increase in rates proposed by the Applicant, noting that the Applicant had increased rates last year by 6.96%. The CAI questioned whether it was "just and reasonable" to adopt and approve a second proposed change in two consecutive years.

3. Analysis and Reasons

[28] The Panel has reviewed all of the evidence before it, including the submissions of the parties.

[29] In the particular circumstances of this filing, the Panel determines that the Applicant has met the burden of satisfying the Panel that the selected rates are just and reasonable. In

arriving at that conclusion, the Panel considered a number of particular issues as discussed below.

Data Used By Wawanesa to Support Filing

[30] This was Wawanesa's first filing using data from its new internal database called the "Enterprise Data Warehouse" ("EDW"). Wawanesa acknowledged that there were some changes to data from 2017 to 2018 as a result of using the new system. For example, that there were some timing differences in recognizing reserve changes between the old and new databases (Exhibit 16, Record, p. 1497 and Exhibit 22, Record, p. 1624).

[31] The Panel concludes that in this particular case, the use of the internal EDW system to generate data was reasonable and the resulting reserve changes would not result in a material impact on the overall indication.

[32] The Panel was satisfied that the data supplied by Wawanesa for ratemaking was consistent with data from the General Insurance Statistical Agency (GISA) (See Exhibit 10, Record, p. 882).

Determination of Ultimate Losses (Loss Development Factors Selection)

[33] As of July 1, 2017, Wawanesa changed its case reserving practice on Bodily Injury ("BI") claims. Due to the change in case reserving practice, for this application, Wawanesa adopted the Berquist-Sherman Method to adjust for difference in historical and future expected case reserve level.

[34] In these particular circumstances, different methodologies would not create a sufficient impact on indicated rates to materially affect the review of proposed rates. The Panel need not come to any conclusions on the reasonableness of the use of the Berquist-

Sherman method in this particular application. However, in the future, should there be any change in the way the company determines its ultimate losses in its ratemaking process, the Applicant is reminded that it bears the onus to satisfy the Panel that the use of that method was appropriate in the circumstances. That is, the Applicant should justify the methodology used.

Loss Cost Trend Selections

[35] The Panel notes that Wawanesa used its own experience in analyzing trends. The Panel has reviewed the loss cost trend selections and found them to be justified and reasonable.

Fixed Expenses

[36] In this filing, Wawanesa allocated its fixed expense to only the mandatory coverages. That represented a change from prior filings where it allocated the fixed expenses to all coverages. Wawanesa explained the shift on the basis that when an insured added optional coverages, the fixed expenses incurred by Wawanesa did not change. Therefore, that insured's premium, before and after adding the optional coverages, should include the provisions for the same proportion of Wawanesa's fixed expenses.

[37] The Panel considered the issue and in the circumstances of this filing accepted Wawanesa's methodology of applying its fixed expenses to mandatory coverages only as reasonable.

Credibility Standards

[38] In determining Wawanesa's credibility factors, Wawanesa used its claim counts over a five-year period ending in 2017, but included only the latest three years of experience ending in 2017 to determine its indicated rate level change.

[39] Both the Board's actuary and the OAG expressed concerns with this inconsistency. Wawanesa provided the following explanation (Exhibit 26, Record p. 1654):

"Wawanesa has consistently used 5 years of claims data as our credibility standard (except for the previous NB PPV filing). This has been our best practice for PPV reviews in all provinces for many years. We've recently revisited this best practice through internal discussions on this point due to the regulator questions that have come up.

Our decision at this time is to continue to use 5 years as we have been doing because, even though we only give weight to 3 years in our indication, our experience period is based on 5 years and we may start giving weight to 5 years for some of the more volatile coverages in future indications. Also, we have been using 5 or more years of data fairly consistently for some of the other parts of the indication such as loss development and trending."

"The reasons we have considered thus far have not caused us to believe a change is necessary to our current practice"

[40] The Panel considered all the evidence on this issue. This Panel is of the view that it is more appropriate to use the same time period of data when determining credibility factors and calculating the indication. There should be consistency between the experience years used in calculating the indication and the determination of credibility. The Panel notes, however, that the inconsistency in data here did not affect the Panel's ultimate decision on this Application.

HST Adjustments

[41] In this filing, the Applicant applied an HST adjustment of 1.8% to all coverages. The Panel is of the view that the 1.8% does not apply uniformly across coverages. Therefore, the HST will not have an equal impact on all claim costs and thus for some coverages the full impact may be less than 1.8%. Again, sensitivity analysis reveals that any adjustments in this regard will not have a material impact on the overall indication in this case.

4. Decision

[42] For the reasons set out above, the Panel determined that Wawanesa met the burden of establishing that the proposed rate change of 11.69% was just and reasonable and the Panel accordingly approves that change.

[43] The approved rates will be effective on January 1, 2019, for both new and renewal business.

[44] While not determinative in this case, the Panel takes the opportunity to remind parties that, consideration should be given to the Panel's comments above regarding the justification of methodology used in determining ultimate losses, consistency in data use, and how the HST is applied. While these comments are not binding on future panels of this Board, it is anticipated that they will carefully consider these issues.

[45] The Panel wishes to thank all parties for their participation and co-operation.

Dated at Saint John, New Brunswick on October 23, 2018

Brad Woodside, Panel Chair

Vice-Chair, New Brunswick Insurance Board

WE CONCUR:

Elizabeth Turgeon

Jim Jessop