Moderator Anh Tu Lee: Good afternoon, everyone, and welcome to the mock-up of the rate hearing . . . What we want to cover today is how the rate hearing happens; it’s very similar to the New Brunswick process. It’s really to help you to understand how to get yourself prepared for a hearing. So it’s not a bashing session. It’s not a ranting session. You’re not trying to overhaul the entire process. It’s trying to understand how do you need to get prepared if you come up to a hearing. That’s what it is.

In terms of the agenda, after the preamble there is the mock hearing itself. After that, we’ll be sharing some advice on how to get prepared, and we’ll finish with the Q&A.

In terms of what happens in rate hearings, if some of you haven’t gone through one recently, in this case we are assuming that the paper rate filing went through and the advisor to the board has reviewed it. Probably one, two, three, four rounds of questions. The board themselves have reviewed it. Probably also two or three rounds of questions as well. And then, after that, it’s the turn of the OAG—the Office of the Attorney General—to review it and ask; as well, there are two rounds of questions. And then, following all of this, we have the hearing itself.

For today’s hearing, we have a wonderful cast. But before I go to the cast itself, because we have only an hour and 15 minutes we cannot go through a full hearing. You need to realize that there are all the topics that you have in a filing. They could be subject to questions in a hearing, and those are the possible areas that can come under scrutiny.

We are just going to discuss the trends on BI, and it’s to help give you the flavour of the depth of the knowledge that you need to bring to the table when you go to a hearing.
So, our wonderful cast. You have Marie-Claude Doucet. She is President and Chair of the NBIB [New Brunswick Insurance Board] and she will be playing herself—Madame Chair, chair of the panel. You have Rachel Dutil, working for KPMG. She is going to be Mrs. Panel. Usually in New Brunswick panels, you have an audit member, but we’re just trying to reduce the cast. She will be representing the two panel members. You have Jean Roy, who is chief actuary at Zurich. He will be playing Mr. Legal—basically the legal counsel for the Applicant. You have Todd Orrett, from RSA Canada. He will be playing the role of Mr. Actuary, the actuary for the Applicant. In this case, it’s a general insurance company, or GI Co. You have Kevin Duff from the NBIB, who is going to play the role of the Attorney General. And Shams Munir from Ernst & Young, who will be Mr. Casualty, the actuary advisor to the OAG. I am Anh Tu Lee and I am with KPMG. I will be the moderator today and I will have the tiny role of the advocate for the consumer advocate.

Let’s start with Marie-Claude.

Speaker Marie-Claude Doucet: Good afternoon. I am Madame Chair. I’ll be acting as chair of this panel for the purpose of this hearing, and I welcome you to today’s hearing. As you know, the hearing today is with respect to the private passenger automobile insurance advisory rate application by a general insurance company, to be referred to today as GI Co., or the Applicant. On September 10, the board received the Applicant’s advisory rate application, which requested an increase to rates by an average of 5 percent. This hearing is pursuant to the Insurance Act and the board will issue a decision as soon as possible following this hearing. As a reminder, I will point out that this board is not a court and the procedures used here today are designed to allow this panel to gather the information necessary to ensure that it can reach a decision with respect to the rate application before us today. This hearing is primarily designed to be inquisitive in nature. The board is appreciative of the diligence shown by the parties in preparing and answering the interrogatory questions and submissions.

As chair of this panel, I want to reiterate that the panel members have read the material that has been submitted by consent in the exhibit books. In addition to allowing each party to present evidence and to challenge some of the other evidence where necessary, this hearing will also provide members of the panel an opportunity to ask questions directly to all parties. I will allow each party to the hearing to make a brief opening statement to outline the evidence and their position. Please do not unnecessarily duplicate the written submissions you have made.

The order of witnesses was provided last week. We’ll begin with the Applicant calling their witness, followed by the questioning by the interveners if necessary. This will be followed by the interveners’ opportunity to call witnesses, followed by questioning by the Applicant. Of course, at any time, the panel members may ask questions of any of the parties in order to clarify any issues. Thereafter, the parties will then have an opportunity to make brief closing statements.

The board members on today’s panel are myself and Mrs. Panel.

May I have appearances for the Applicant, please?
Speaker Jean Roy: Thank you. Mr. Actuary, as the actuary representing the Applicant and myself, Mr. Legal, as the legal counsel of the Applicant.

Speaker Doucet: Thank you. May we have the appearances for the intervener of the Office of the Attorney General, please?

Speaker Kevin Duff: Mr. Casualty as the actuary advisor to the Office of the Attorney General, and myself, Mr. OAG, as the Attorney General.

Speaker Doucet: OK. Can we have the appearances for the intervener of the consumer advocate for insurance, please?

Moderator Lee: Yes, I am Mrs. Advocate, representing the consumer advocate.

Speaker Doucet: OK, so as we begin, there are a couple other items. We’ll be making a transcript of today’s hearing, so please ensure that you minimize interruptions to avoid . . . and avoid talking over someone else because of the transcript. The transcript will be made available to the parties after it is completed.

Through the pre-hearing meeting process, the parties have agreed upon a number of exhibits, which have been provided to the panel members. I will mark the exhibits according to the agreed-upon exhibit list and they are all included in the binder that has been provided to each party.

Finally, unless there are any objections, the board is prepared to recognize the professional credentials of the professional witnesses before the board today. And if there are no objections, there is no requirement to restate these credentials as part of the evidence. Are there any questions before we start?

G1 Company, would you like to make an opening statement?

Speaker Roy: Yes. Thank you, Madame Chair. Members of the board, we appreciate your time and attention to this matter. We have prepared this filing with due care, complying with the filing guidelines and considering the rate-making practices that are generally accepted in the actuarial profession. We reviewed carefully the data history, the model statistics, and the expense budget. We applied professional judgment in selecting the various assumptions underlying this filing. We believe that this filing reflects well the indicated rate change needed for the product to remain profitable. Yet, we are proposing to implement half the indicated rate increase. This would allow the product to break even while still attaining reasonable business retention. We trust that the board will find our proposal reasonable. Thank you, Madame Chair.

Speaker Doucet: Mr. OAG?

Speaker Duff: Yes, thank you. Members of the board, the Attorney General is here as an intervener for the purpose of protecting the public interest. Members of the public are, almost without exception, affected either directly or indirectly by automobile insurance rates. In order to protect those interests, the legislature provides broad intervener rights to the Attorney General to review each filing that will be heard before this board and provide evidence as to alternative and more reasonable assumptions that affect the
indicated and selected rates. Our actuary, Mr. Casualty, will provide this board with objective evidence challenging the Applicant’s foundations and calculations and provide what we believe would be more appropriate calculations for the board’s consideration. The rates that result from those alternative calculations are what we suggest are just and reasonable.

Speaker Doucet: Thank you. Miss Advocate?

Moderator Lee: Yes, the consumer advocate for insurance has a similar mandate to the Attorney General to protect the interests of insurance consumers. It is important for consumers that insurance rates remain stable and fair. And in that regard, our office adopts the position of the Attorney General.

Speaker Doucet: Thank you. GI Co., you may call your first witness.

Speaker Roy: Thank you. I would like to call Mr. Actuary.

Speaker Doucet: OK. Mr. Actuary, do you solemnly and sincerely affirm that the evidence you will give before this board today will be the truth?

Speaker Todd Orrett: I do.

Speaker Doucet: Thank you. Mr. Legal, you can proceed.

Speaker Roy: Thank you. I would like to take you to the filing review summary starting at Page 1 of the binder. Were you involved in the preparation of this document?

Speaker Orrett: Yes, the submissions, calculations, and assumptions are mine, compiled with the assistance of members of my team.

Speaker Roy: Thank you. Now, could you explain please the chart at the top right-hand corner of page 1, and also could you please explain the difference between indicated and proposed rate change?

Speaker Orrett: Sure. That is where we set out what our calculations have indicated as necessary to pay expenses of the company, the cost of claims, and a reasonable profit based on certain assumptions. That is the indicated rate change. The proposed rate change is the rate change we have selected with an exercise of judgment, taking into account market forces. We are here today requesting approval for the proposed rate change.

Speaker Roy: Thank you. So, your proposed rate change is about half of your indicated rate change?

Speaker Orrett: That’s correct. We proposed a 5 percent rate increase.

Speaker Roy: And what is the rationale for the selection of your proposed rate change?

Speaker Orrett: On page 3, we note that we believe that a rate increase is necessary this year because rate indications continue deteriorating. If we don’t raise rates incrementally to meet the changes in the market, we would find ourselves artificially holding low rates, only to come to the board in the future to request larger rate increases. That would be
prejudicial to our customers and would negatively affect the stability of rates in the province overall.

**Speaker Roy:** Thank you. Could you tell us by how much the average policy premium would change upon implementation of your proposed rate change?

**Speaker Orrett:** On average, the annual premiums would increase by about $31, from $620 to $651, and that’s on page 1 of the document as well.

**Speaker Roy:** Thank you. Now, what has GI Co.’s previous experience been like in this market?

**Speaker Orrett:** Last year, our rate indication was an increase of 6 percent and we implemented 2.9 percent. At page 35 of the binder, you can see a chart of our historical position in the market. This shows how our rates have historically been lower than our competitors in this province, and even with the proposed rate increase in this filing we believe that we remain among the lowest, although we don’t have the particulars of the filings of other companies this year.

**Speaker Rachel Dutil:** If I may—for two consecutive years, your proposed rate increases are half of your indication, only to get break-even. Isn’t it a threat to future rate stability? Will that result in more significant rate increases being asked next year?

**Speaker Orrett:** That’s a good question. Not necessarily, though. We are planning additional analysis to refine underwriting rules and rate classification in time for next year’s filing. We expect those enhancements to offset some of the need for future rate increases.

**Speaker Roy:** Thank you. Can you briefly describe how you obtained the rate indication?

**Speaker Orrett:** Sure. We used a loss ratio approach. For the numerator, we projected historical claims to reflect the expected future costs underlying renewals and new business effective on or after April 1, 2018. Claims take time to emerge and settle, so we take the development into account when we estimate the ultimate costs. We also applied loss trends to reflect claims inflation. For the denominator, we used the premiums for past rate changes and for premium trends. We compared the projected loss ratios with our target loss ratios to obtain the indicated rate change.

**Speaker Roy:** Thank you. Could you explain loss trends? What are they?

**Speaker Orrett:** Loss trend analyses model the evolution of frequency and severity of claims over time. It reflects the changes in various factors like the propensity to claim. It also reflects changes in the cost of material and labour. We use loss trends to bring historical claim costs to the future level.

**Speaker Roy:** Thank you. Can you explain the difference between the past loss trend and the future loss trend?

**Speaker Orrett:** Sure. The past loss trends are applied to the historical claims costs to bring them to the common level as at the valuation date. In this case, December 31, 2016.
The future loss trends are applied from December 31, 2016, to the future average loss date, which in this filing is April 1, 2019. The past trends and future trends may differ because the conditions underlying the past trends may not continue in the future.

**Speaker Roy:** And could you explain how you select the future loss trend?

**Speaker Orrett:** Generally, we review the trend signals in shorter historical periods and exercise judgment when we select future trends.

**Speaker Roy:** And do you believe that your selected trends lead to a fair and reasonable rate indication?

**Speaker Orrett:** Yes.

**Speaker Roy:** That’s all I have. Thank you.

**Speaker Doucet:** Thank you. Mr. OAG, do you have any questions for this witness?

**Speaker Duff:** Yes, Madame Chair. Thank you very much. I would ask you to turn to Exhibit 1, page 136 of the binder. Mr. Actuary, could you tell us what are the selected past and future frequency trends for the BI coverage?

**Speaker Orrett:** Yes. We selected -2 percent as the past frequency trend and 0 percent as the future trend.

**Speaker Duff:** And how many years of data are extracted for this trend analysis?

**Speaker Orrett:** Twelve years.

**Speaker Duff:** And how many years were included in your model for the selected past trend?

**Speaker Orrett:** Three and a half years.

**Speaker Duff:** Is it reasonable to discard the previous historical periods from your trend model?

**Speaker Orrett:** Yes, I believe so, because the trends in the prior period do not reflect the frequency evolution under the current legislative environment.

**Speaker Duff:** Using such a short trend period, isn’t that self-prophecy?

**Speaker Roy:** Objection, Madame Chair. The question is unclear and does not bring additional information.

**Speaker Doucet:** Perhaps you might rephrase the question.

**Speaker Duff:** Let’s move on then. On Exhibit 1, page 136, column 17, can you read the trended frequency for the past seven half-years?

**Speaker Orrett:** Sure—0.31 percent, 0.3 percent, 0.3 percent, 0.33 percent, 0.31 percent, 0.31 percent, and 0.31 percent.
**Speaker Duff:** That implies that the trended frequencies fall in a very tight range, that the data used in the trend model is the same as the data used for your indication. Aren’t these indications of model overfitting?

**Speaker Orrett:** Not necessarily. As part of actuarial procedures, we have to select the trend that—or, we have to select the data that is relevant to the product and the circumstances under review. That the results fall in a tight range actually increases our confidence in our projections under the current legislative environment.

**Speaker Dutil:** Excuse me, would it be possible to clarify the concept of model overfitting?

**Speaker Duff:** To illustrate the concept of overfitting, the use of a very short trend period recycles the same information through the rate indication. It would effectively force all of the historical data towards the most recent frequency and ignore other information, wouldn’t it, Mr. Actuary?

**Speaker Orrett:** When we use a shorter trend period, we no longer have to estimate the reform impact, and the resulting rate indication is reflecting the most current legislative environment.

**Speaker Duff:** It really is a yes or no question, Mr. Actuary. GI Company’s trend analysis does not consider the signal in the data prior to 2013 H2, does it?

**Speaker Orrett:** Yes, it ignores the information that is irrelevant to the period to be priced.

**Speaker Duff:** OK, let’s turn to the data underlying the collision trends on Exhibit 1, page 165, column 15. Can you read the trended frequency for the last seven half-years, please?

**Speaker Orrett:** Sure—2.7 percent, 3 percent, 2.5 percent, 3.3 percent, 2.7 percent, 2.6 percent, and 2.7 percent.

**Speaker Duff:** Would you agree that the collision frequency of 3.3 percent for 2015 H1 is high in comparison to other periods?

**Speaker Orrett:** Yes.

**Speaker Duff:** Could you explain why the collision frequency for 2015 H1 is higher?

**Speaker Orrett:** Sure. In 2015, we experienced a harsher winter than average.

**Speaker Duff:** Was the collision trend analysis adjusted to remove the effects of the harsher winter?

**Speaker Orrett:** Yes. On Exhibit 1, page 165, column 16, the adjustment was made.

**Speaker Duff:** OK, so back to the BI trend analysis, was the BI frequency also adjusted for the harsher winter?

**Speaker Orrett:** No, it wasn’t necessary. As shown earlier today on Exhibit 1, page 136, column 15, the frequency is relatively flat for the last three-and-a-half years. It reaches 0.333 percent for 2015 H1. While slightly higher than the other periods, an adjustment would not affect the indicated trend.
Speaker Duff: Did you review Mr. Casualty’s BI frequency trend rates, as found in Exhibit 20, page 648?

Speaker Orrett: Yes.

Speaker Duff: You would recognize that this exhibit uses a longer historical period and adjusts for the harsher winter?

Speaker Orrett: Yes.

Speaker Duff: Can you read the BI frequency for 2015 H1 after the winter adjustment?

Speaker Orrett: It is 0.29 percent.

Speaker Duff: And would you say that the adjusted frequency of 0.29 percent is reasonable?

Speaker Orrett: The adjustment is not necessary.

Speaker Duff: OK, but the question was not whether the adjustment was necessary. Let’s assume that the adjustment is required. Is the adjusted frequency reasonable?

Speaker Orrett: If the adjustment is required, yes.

Speaker Duff: The frequency trend rates shown on this page are resulting from the use of a longer data history and the winter adjustment. Is the outcome reasonable?

Speaker Orrett: I think that the trend rates we chose are the most reasonable and accurate.

Speaker Duff: You would agree with me, though, that there are different approaches to calculate trend rates?

Speaker Orrett: Yes, there can be.

Speaker Duff: I will ask you again, would you agree that the trend rates that Mr. Casualty sets out on Exhibit 20, page 648, are among actuarially reasonable frequency trend rates?

Speaker Orrett: Sure, but we feel ours are more accurate because they reflect the current legislative environment.

Speaker Duff: With respect, I didn’t ask for your opinion on which was more accurate, but just a yes or no. Are Mr. Casualty’s loss trend rates reasonable?

Speaker Orrett: Yes.

Speaker Duff: Thank you, Madame Chair. Those are all my questions.

Speaker Doucet: Mr. Legal, would you like to redirect your witness?

Speaker Roy: Yes, I would, Madame Chair. Mr. Actuary, would you explain the rationale as to why it was not necessary to adjust the BI frequency for the harsher winter?

Speaker Orrett: While the harsh winter increased the frequency of collision and direct compensation claims, the accidents were less severe. We saw more damages to vehicles,
but the events did not proportionally generate more bodily injury claims. As seen on Exhibit 1, page 136, the BI frequency did not peak.

**Speaker Roy:** So, the winter adjustment for BI frequency is not appropriate?

**Speaker Orrett:** That’s correct.

**Speaker Roy:** Those are all my questions.

**Speaker Doucet:** Thank you. Any other witnesses for GI Co.?

**Speaker Roy:** No. Thank you.

**Speaker Doucet:** OK. Mr. OAG, you may call your first witness, please.

**Speaker Duff:** I would like to call Mr. Casualty.

**Speaker Doucet:** OK, Mr. Casualty, do you solemnly and sincerely affirm that the evidence you will give before this board today will be the truth?

**Speaker Shams Munir:** I do.

**Speaker Doucet:** Thank you. Mr. OAG, you may proceed.

**Speaker Duff:** Thank you. I’ve just got to catch my breath.

[Laughter]

**Speaker Duff:** How did you prepare to give evidence here today?

**Speaker Munir:** After reviewing the Applicant’s final rate filing, I drafted interrogatories for the Applicant to answer and ultimately prepared a report on all the available material. You will find it as Exhibit 24, which starts at page 825 of the binder.

**Speaker Duff:** On page 826, you set out four areas of concern, and I’m going to ask you to confine your testimony to the first one. What are your observations regarding the Applicant’s selection of BI frequency trends?

**Speaker Munir:** As detailed in Exhibit 24, I am concerned about the approach to model the frequency trends. The historical period included in the model is too short. The information embedded in the prior periods is still very valuable, yet it has been ignored.

**Speaker Duff:** In this case, what would be a reasonable alternative?

**Speaker Munir:** I requested GI Co. to provide an alternative indication using the 12 years of data and reflecting seasonality.

**Speaker Duff:** And why would this alternative model be preferable to the one filed by GI Co.?

**Speaker Munir:** It improves the degrees of freedom from four to 10 because it is exploiting all the data available. It also resolves into a fairly good fit with an adjusted $R^2$ of 87 percent. The closer the adjusted $R^2$ is to 100 percent, the better the fit is.

**Speaker Duff:** What is the indicated past trend according to this alternative model?
Speaker Munir: According to GI Co.’s calculations, the indicated past trend is -5.7 percent. Exhibit 20, page 648 of the binder.

Speaker Duff: So, the alternative frequency trend of -5.7 percent represents an improvement over the selected -2 percent filed by the Applicant?

Speaker Munir: Yes.

Speaker Duff: What is the impact of using this alternative frequency trend on the rate indication?

Speaker Munir: According to Exhibit 20, page 643 of the binder, the indicated rate increase would reduce from 10 percent to 4 percent.

Speaker Duff: So, the Applicant’s proposed rate change of +5 percent would be unfair as it is above this alternative indication, wouldn’t it?

Speaker Munir: Yes.

Speaker Duff: Those are all my questions. Thank you.

Speaker Doucet: GI Co., do you have any questions for this witness?

Speaker Roy: Yes, Madame Chair. The alternative frequency model covers 12 years, and over those 12 years there was a 2007 and 2013 reform. How was the alternative model adjusted for these two reforms?

Speaker Munir: The alternative model did not need adjustment. As you can see on Exhibit 20, page 648, the graph shows no disruption or cliff in the frequency.

Speaker Roy: But is it an accepted practice to use indicators before and after reform?

Speaker Munir: Only when there is compelling evidence that the reforms are affecting the frequency should such practices be in place. The data on Exhibit 20, page 648, rather indicates a relatively consistent improvement in frequency.

Speaker Roy: And a model with a reform indicator showing an adjusted $R^2$ higher than the current 87 percent would be a reasonable model to use, wouldn’t it?

Speaker Munir: When there is no need for such indicators, their actual use would only decrease the degrees of freedom and increase the chance of overfitting.

Speaker Roy: Well, according to the calculation I have in hand here, the model using 12 years in reform indicators would indicate a -2 percent trend post-reform and it would achieve an adjusted $R^2$ of 94 percent.

Speaker Duff: Madame Chair, objection. This is new evidence that’s presented past the deadline for final written submissions. It’s simply not possible for me and our expert actuary to review the document on the spot in sufficient detail. I suggest that it’s impossible to proceed with a fair hearing at this time if you allow this document to be admitted into evidence, and an adjournment for a lengthy time would simply be undue delay.
Speaker Doucet: The objection is sustained. Mr. Legal, this calculation cannot be used as evidence in this hearing.

Speaker Roy: Thank you. The alternative model assumes the same trend in the past and in the future, doesn’t it?

Speaker Munir: Yes.

Speaker Roy: And what factors can contribute to your frequency trend of -5.7 percent? What continuous improvement can we foresee in the future to sustain the -5.7 percent?

Speaker Munir: Well, there are multiple factors like car safety features, federal programs investing in roads and infrastructure, as well as awareness campaigns regarding the risk of texting or distracted driving.

Speaker Roy: And yet, the Applicant model, using three and a half years’ results and a frequency trend of -2 percent, indicates that the factor that you just mentioned may not result in a continued trend of -5.7 percent in the future. Would a future trend of 0 percent or -2 percent be reasonable?

Speaker Munir: This is speculation. There is no reason to believe that technology development would abate or that the awareness campaign would be ineffective.

Speaker Roy: Hmm. Those are all my questions. Thank you very much, Mr. Casualty.

Speaker Doucet: OK, Mr. OAG, would you like to redirect?

Speaker Duff: No, thank you.

Speaker Doucet: Mr. OAG, do you have any other witnesses?

Speaker Duff: No, I don’t. Thank you, Madame Chair.

Speaker Doucet: OK. GI Co., would you present your short closing arguments, please?

Speaker Roy: Thank you. The board’s role is to determine whether the rates are just and reasonable. In our view, the analysis must start with what the premium must cover. In other words, the projected future cost, the projected future operating cost, and a margin for profit. Projecting future claim costs is an art requiring experienced professional judgment and business acumen.

We looked at the claim history of our insured and attempted to extrapolate what the future is likely to look like. The future cannot, of course, be determined with any degree of precision or [expectation of] exacting accuracy. My team of actuaries are undisputedly experts in their field and have used their accepted actuarial practices in performing their calculation. For loss trend rates, GI Company has used the experience period that has resulted in the best predictor of future trends in order to bring forward our own experience. While we have experienced 12 years of frequency decline in BI, we do not believe that this rate of improvement is sustainable much longer. It is not a matter of if, but of when. Our rate indication is for an increase of 10 percent. We are proposing a 5 percent increase, striking the balance between rate adequacy, market stability, and consumer needs. Thank you for your consideration.
Speaker Doucet: Thank you. Mr. OAG?

Speaker Duff: Thank you, Madame Chair. The OAG is the representative of the public interest at this hearing. The board has our submission on the whole of the Applicant’s filing, but for purposes of my closing remarks I will restrict my comments to one issue: the Applicant’s selection of inappropriate BI loss trend rates.

In our submission, we explain that GI Co. should not be using loss trend rates based on only 3.5 years of historical data. The 12 years of data that are available to GI Co. offer important information that should not be ignored. Furthermore, there’s no sign that the frequency trends will turn around. The alternative assumptions we present lead to a lower indicated rate increase. We recognize once again that you are asked to determine whether the proposed rate change is reasonable. We suggest that a reasonable rate is the lowest rate that is supported by reasonable assumptions and sound actuarial practices. We do not believe that GI Co.’s proposed rates can be seen as reasonable. These proposed rates are selected based on an analysis of indicated rate change that, in our view, is not supported by reasonable assumptions.

As such, the board should request that GI Co. substitute the loss trend rates with the alternative model proposed by the Attorney General. In our opinion, these revised indicated rates would be a more reasonable—I’m sorry, more appropriate estimate for the board to use in their evaluation of the reasonableness of the proposed rates. If this change is made, the OAG, on behalf of the public of New Brunswick, agrees that the resulting recalculated rates are reasonable in all of the circumstances. Thank you, Madame Chair.

Speaker Doucet: Thank you. Mrs. Advocate?

Moderator Lee: Similar to the OAG, we represent the public interest at this hearing. We support the OAG arguments and we would like to bring to your attention this additional consideration: the average household income in this province is the second-lowest in Canada after Nunavut. It has increased on average by 2.5 percent in the last year. During the same time, the CPI has changed by 2.2 percent. An unjustified increase in the insurance premium of 5 percent would only decrease the average household purchasing power. The $31 increase in insurance premium requested by the Applicant is actually equivalent to 17 percent of the cost of school supplies for one child in fifth grade. Thus, we agree with the OAG that the reasonable rate change is the lowest rate that is supported by reasonable assumptions and sound actuarial practices. Thank you.

Speaker Doucet: We’d like to thank all the parties for their contribution today. The board members will be deliberating the issues and the board will render its decision as soon as possible. This hearing is now adjourned.

Moderator Lee: I think we’ll have a round of applause for this one.

[Applause]

Maybe going around and asking what is your advice, because you’ve been through some hearings, either in person or have been participating . . .
Speaker Orrett: I can provide a few of my own personal thoughts having gone through this process a few times. As you can see just from some of the descriptions in the filing, it says, “Refer to page 645 or 826 of the binder.” This is realistic. This is the amount of volume of information that gets produced that the board has to then go through and try to understand and then come to a decision as to what’s just and reasonable. Bottom line is that you have to, as the actuary, know all aspects of the filing. This is something that gets very detailed. At the end of the day, you’re defending your own filing, the filing that you’re putting before the board with respect to the company that you’re filing about.

The other thing that I’d share is that this is not something that pricing actuaries go through on a regular basis, to provide expert testimony to boards. So you really have to come prepared because the Attorney General’s actuary has gone through this many times. They’re seasoned as to how to deliver expert testimony, so you’re really coming in at a little bit of a disadvantage. You have to really, as they say, be like a Boy Scout and be prepared.

Moderator Lee: And how about Marie-Claude?

Speaker Doucet: One thing that I need, that actuaries need to keep in mind when they appear before a board, is that, first of all, in many jurisdictions in Canada the board members that are sitting in front of you hearing the evidence are not actuaries. So it’s important to keep your presentation simple and try to explain the concepts because, most of the time, some of the language that is used or actuarial concepts are something that actuaries may see on a daily basis. But board members that do not have an actuarial background would not necessarily understand every concept, so it’s important. Usually, we’ll jump in. We’ll ask questions if there’s something that we do not understand, but it’s also important for actuaries to try to explain it in a simple manner to the board members that are hearing this evidence.

Another thing that actuaries should keep in mind is that you are qualified experts, so if you are asked to provide your opinion, you should provide it to the board because this will enable the board to make the best decision possible.

There is also the fact that you can always call the board. If you’re preparing a hearing, you can always call the board to speak with any of the staff members. Ask some questions like, “What is required of me? How should I prepare?” I can’t speak for all of the jurisdictions, but I know that in New Brunswick we try to be very helpful because it’s important for us to have all the information possible and to have the most seamless process possible. If you can call us and ask questions, we’re always open to answer your questions so that you can better prepare for a hearing.

This is essentially the advice that I would have for you guys.

Unknown: (?) comments that I just learned about recently, that in Canada, if the actuaries are obliged by the professional standards of practice in the actuarial (?) as well, which I know if you’re (?) the actuary, you (?) professionalism, but we don’t mention that, and that’s going to be a change when the CIA starts in 2019 or (?) professionalism
training. It’s actually something worth noting (??) they should probably meet those standards of practice and (??) on it.

**Speaker Roy:** To add a little bit to what Todd mentioned in the “be prepared”, usually when you put your filing together you will select your own assumption. You’ll have a reason why you’re selecting your assumption. As you saw in the mock-up here, there can be different views, and in your preparation you should probably push a little bit beyond the set-up of your regular filing to see what alternative could be evaluated out of the data that I’m looking at, and I’ve selected this approach. What else could be possible? Be prepared to answer it because, as the consumer advocate said, it’s the minimum that can be supported by your filing. So, if you have a good reason why you’re selecting the assumptions that you’re selecting, you should be able to address those issues if you have considered them. If you have not considered them, it’s going to be difficult on the spot to make up the explanation. It’s not going to be as convincing.

**Speaker Duff:** A couple of things. First of all, thanks for paying attention to what we do in our small province down in New Brunswick, and you’re all more than welcome to come to Saint John . . . That being said, there are a couple of things.

One is to. . . build on what Jackie was saying in terms of being prepared to be an expert witness. You know, one of the things that we’ve observed is that sometimes actuaries aren’t the best expert witnesses in—from the perspective of being willing to give opinion evidence; to stand behind their professional judgment and explain why they’ve selected something versus what somebody else may select. Certainly, we understand that professional judgment is a very personal thing. You need to know your audience, to go to what Marie-Claude was saying, and understand that when actuaries are providing evidence, our board members recognize that there’s no right or wrong answer, generally speaking. I mean, occasionally there is, but for the most part there’s no right or wrong answer. So, our board members are trying to make decisions and choose between two mostly correct points of view, and it’s very, very difficult for them as non-actuarial professionals, when they’re making their decisions and writing their decisions up, to explain why this opinion has more weight than that opinion. So, if you are able to stand behind your judgment, stand behind your opinion, and be passionate about why you’ve chosen or made certain assumptions, or applied certain judgment, professional judgment, to your filing, then it’s much more valuable for our board members.

The only other thing I can say, to go to what Todd said [about being] prepared, is surprisingly they’re going through more reforms in Ontario at FSCO, or what used to be FSCO, or what’s going to be something else. So at some point, this process may become more standardized in different jurisdictions, this full-hearing, public process, because administrative law, as being sent down from the Supreme Court, is tending towards a more public process in these types of administrative tribunals.

**Unknown:** Can I ask another question? Do you ever hear language—because now, I couch everything I talk in standards language—“This is the 2 percent, -2 percent, my best estimate.” Each and every assumption according to standards of practice has to stand on
its own. You know: “Yes, 5.7 maybe within a range that’s reasonable, but it’s not my best,” and if you look at the definition of best estimate in the standards, it’s a value that’s neither biased up or down. So, you kind of couch it all in that standards language. I would think that would hold more power and weight with the tribunal. I’m asking; I haven’t done this myself.

**Speaker Doucet:** No, it’s not something that I’ve seen personally myself since I’ve only been appointed to the board a year ago, but I agree with you. I think that would hold some weight, yes.

**Unknown:** Is it considered a best practice to (??)two sets of rates, one actual calculated increase and then one (??)? Or in a sense, is that showing that you’re not even sure about your own indicated rate change?

**Moderator Lee:** Actually, in most of the hearings that I’ve been at, in the background, the proposed is actually different from the indicated. We need to remember that behind that you have all the calculations, all your best estimates, all your judgment behind it. But at the end, there are other forces, and that’s what, on this side, they would try to argue for, that that 5 percent is that market force. How much business I’m willing to lose, and so on. There are others of those constraints that they are actually taking into account for the proposed. To get it short, yes, I have seen, most of the time, the two indicated and proposed being divergent.

**Unknown:** And standards only apply to the indicated.

**Unknown:** Yes.

**Unknown:** We talk about this in the course on professionalism. It’s all about indicating, the actuarial indication (??).

**Moderator Lee:** Yes, and it’s not necessarily like two indications, really. It’s one actuarial indication and one proposal. It’s two different things. You shouldn’t be coming with two actuarial indications. That would not be proper.

**Speaker Duff:** I was just going to say that the process is generally that the [OAG] and their consulting actuary are focused on the rate indication; they’re focused on forcing the rate indication lower than perhaps it currently is. Then, at the end of the process, there will be a comparison to what the selected rate change was. Let’s say the indication in this case was 10, selection was 5; the Attorney General would be focused on trying to get the indication below that selected amount. And if they were successful in doing that, they would argue that the selection is too high.

**Unknown:** (??), I would say as well you’ve got a little bit of sense of what goes on in a hearing. Part of what the board is expecting is there’s going to be some vigorous cross-examination. So if you’re coming in with multiple rate levels, you are going to be vigorously cross-examined to death. [It] would, from a process standpoint, really lend itself to [you] saying, “I’ve applied the standards of practice. Here is my best indication. Here is the story and the support around it . . . Here’s what I’m going to stay with and that will hopefully carry and win the day.”
One other thing I’d add is that this is a rate hearing. First of all, it’s a public hearing. Therefore, there could be media there, either print media or I’ve seen the CBC there, depending on how interesting the issue is and how newsworthy it is. So, be prepared to have cameras in front of you. I want to make sure that—when Kevin talks about this is a public hearing, it truly is, and anybody from the public can show up. They don’t have—they need to ask for intervener status, but you can have print media and TV media there. So, I would very strongly suggest that if you’re going through this process, you really need to hire a lawyer who understands administrative law; not just any lawyer. If you’re thinking to try and cut costs because maybe you don’t feel it’s worth it to spend the money, this is what you’re going to have to rationalize from a company standpoint, to say, “Do I want to go and go to a rate hearing?” If you do, you need to be all-in. It’s not half-way. It is a very vigorous process.

Unknown: And I’d bring a peer reviewer. I’ve never been an expert witness but I’ve been a peer reviewer on a number of occasions where I’d sit and listen. If you get your tongue twisted, which can happen, then the attorney can be used, can clarify something (??) due process.

Unknown: Yes.

Speaker Doucet: Yes, that’s a good point. You’re allowed to bring people that will sit behind you and help you through different things, and you’re allowed to take a pause and [have] somebody pass you some information so you can answer the question. That’s fine.

Moderator Lee: As long as it was already submitted as part of the exhibits. As we saw in this mock hearing, if you’re bringing new evidence it might not always be accepted during the hearing itself, so it needs to come before the final submission or at the final submission and at that point and time . . .

Shawn Doherty . . . couldn’t be here, but he gave us many [pieces of] advice, and we’ll have two slides of those to take away. One of them is that if you have any graphs that can help to better understand the story, put them there. Make sure that they are in the filing itself or that they are part of your response, so [that] during the hearing you can refer to those graphs, you can refer to those tables. That’s part of being prepared.

Being prepared means, as well, you hire legal counsel. But you have to work with that legal counsel, so the legal counsel can really know what questions to ask, what position and information they are trying to get at. It’s not always easy for that person to actually understand the entire image, and that takes quite a bit of work between the legal counsel and the Applicant.

I think Shams had something, too.

Speaker Munir: Yeah, this is a question for Marie-Claude, but maybe Kevin, you might have a bit more experience with your involvement over the many, many, many years and many, many filings. At the board, do you—what are some of the bigger issues that you’ve seen repeatedly over the years . . . in performing this entire role of rate oversight? And the second question would be you’ve obviously seen lots of actuarial support and
evidence and so on. Any comments or any suggestions for our profession to take away or consider when we’re doing this type of work? Just the big ones.

[Laughter]

**Speaker Doucet:** You have all the experience, so . . .

**Speaker Duff:** Well, thanks, I’ve only got two more minutes, so I can’t give you a very long answer. But look, we—a couple of things. One is that if you are curious about the hearing process, you can go to the New Brunswick Insurance Board’s website. We do publish a hearing procedures manual. A lot of the material that we went over today is published there and we’re constantly evolving and changing.

In terms of advice: the rate filings generally are very solid. We don’t have a lot of concerns with the material that’s being submitted by the companies. It’s just common—important that pricing actuaries recognize that the board is fulfilling its legislative mandate, that we’re not here to make life more difficult for the companies and for you to get your rate applications approved. Our job is to try to expediate the process and get your rate applications approved and get your new pricing out the door as quickly as possible.

In terms of the issues that have come up over the years, there are broad, broad ranges. Perhaps that’s something we should do. Perhaps we should publish some sort of summary of some of the issues. But profitability is always a key issue. Return on equity is always a key issue. That’s something where the Attorney General in New Brunswick—and in a lot of jurisdictions, I know the boards are concerned about return on equity and the profitability standard that companies build into their pricing models. I don’t think there’s any easy answer to that particular issue. You need to plant your flag and stake your claim and then make your arguments to the board.

But there are a lot of those issues that crop up in a lot of rate applications and I’m trying to think of some off the top of my head. Again, if you’ve got questions, if you’ve got concerns, the best preparation for a rate application is for you to review the material that has been submitted and the questions that have been asked by the Attorney General and the questions that have been asked by the board’s consulting actuaries and the final submissions of the Attorney General. The final submission of the Attorney General, almost without variation, provides a very good road map to the questions that are going to be asked at the rate application. So you shouldn’t show up at a rate hearing not knowing what questions you’re going to be asked.

**Speaker Doucet:** My advice would be to make sure to be extremely prepared for the hearing. You need to know your filing inside and out because the Office of the Attorney General will know it inside and out. And they have their expert who will have reviewed it, so it’s important to know the entire filing, the entire record that’s before the board, inside and out because being unprepared is going to be a disservice to you.

**Speaker Dutil:** I was just going to say it’s important that you know your own filing, but it’s also important that you have evaluated and looked at the Attorney General’s final
submission and really understood what’s in there and be prepared to talk about it, because they will ask you what your opinion is a lot of times on those assumptions. You have to be prepared with a response to that.

**Speaker Orrett:** One thing that I’ll add. One of the challenges is that you’re coming in to defend the filing, so you get all these questions asked of you. The Attorney General is also there when they ask to come as an intervener. You have the ability to question them. Often times, you’re so wrapped up with defending your own filing that you don’t have time or you don’t take the time to think about, “What questions should I be asking the Attorney General?” It’s important to do that exercise on top of everything to get prepared to defend your filing. It is a two-way street and it’s not—I would also encourage people to take that additional time. Hopefully they can build that time into their plan and the time (??).

**Unknown:** What are the consequences (??) to be sufficient or do you have to (??) or do you have a chance to (??)?

**Speaker Orrett:** I think that that comes—as you saw with some of the cross-examination that happened, the Board will have to take into account all of the evidence and make a determination as to what they feel is just and reasonable. And they have to go through quite a diligent process to outline in their approval notice how they came to the decisions they made and how all—each of the assumptions was done, especially when there are differences. And then, how does it all aggregate up together to say, from their point of view, how they deem that this rate application is deemed just and reasonable? Because if somehow administratively it’s not deemed just and reasonable, then there are other consequences that may happen. So, this is not just one actuary versus the other actuary. This is the board trying to decipher what is, in their opinion, just and reasonable, and make a determination from that.

**Speaker Doucet:** And often, the board will decide on the different issues and then we’ll ask the Applicant to provide the board with revised indications. The questions that will be asked will be very specific.

**Unknown:** The important thing now is so many companies are undergoing transformation and (??) that the truth is that the company actuary understands what’s happening in the data. The OAG is doing a mathematical exercise. And so you are so much better served if you not only defend yours but you’re able to say why that other person is (??) considerations.

**Speaker Duff:** To your question, the review process is really two-fold, at least in New Brunswick, and I think it’s similar in other provinces. You make your rate application, whatever date that is, and it goes through an internal review process at our board with our consulting actuaries, our staff. During that period, the rate applications are often modified through a conversation more than anything else. If our actuaries are having conversations with company actuaries, there can be modifications or the consulting actuaries may say, “Look, this may not fly with the board. Maybe you want to consider this.” And so there are opportunities to make modifications. Once it gets to the hearing
process, the rate application is generally set in stone, and the board’s role, once you’ve gone through the hearing process, is to make a decision one way or the other. Although the board can also pick some middle ground occasionally and it often does if that’s appropriate. But what will happen is at the end the decision will indicate and order the company to make certain changes to their rate filing, adopt certain numbers, and finally come up with the final, approved rate change.

**Speaker Roy:** Not to steal your thunder, but actually the website of the NBIB has the position of the most recent hearing and I have always found that they are well laid out and they give the thinking of the board in looking at the issues. “I’m agreeing here. I disagree with this one from the Attorney. I disagree with this one from the company.” So, it’s not a long document. It’ll take you maybe 15 or 20 minutes to read through, but it’ll give you a flavour for how they look at things.

**Moderator Lee:** That’s one good step in your preparation, reviewing some of the past hearing decisions. If your own company went through a hearing itself [relatively recently], it’s asking for the recording or the transcript, because it is only available for the company for their own hearing. You cannot ask for the transcript for a competitor; but for your own company, yes. It’s helping you to understand the flow of the information and the questions, and so on.

**Speaker Duff:** There’s a lot of good information out there. As I said, one of the questions we often get is with respect to confidentiality. Todd mentioned the media and the public hearing process. The board issued a decision 10 years ago on confidentiality and the process by which if you are in a hearing and the testimony is straying into territory where perhaps your company has adopted some sort of proprietary system that you don’t necessarily want all of your competitors to know about, you can request that those sections of the hearing be held in-camera. That’s an option. Generally speaking, the media doesn’t show up. The public doesn’t show up. It’s generally not an issue, but it can crop up . . . Confidentiality in particular is one that does pop up a lot.

**Speaker Orrett:** One thing I’ll add is that the regulations are very clear. If you’re filing above 3 percent, you must go to a hearing. That does not imply the inverse, to say that if you’re filing less than 3 percent there’s no way that you’re coming to a hearing. The board can decide based on whatever things that are contained in the hearing that they may want to see this company. It may be that they’ve never come before the board and they’re a fairly decent writer and they need to come before the board even though they may have filed less than 3. Don’t assume that just because you’re filing less than 3 you have no chance, that you are avoiding the rate hearing process: you may be called. A word of wisdom for those that think that filing less than 3 will get you outside of a rate hearing. Maybe. Usually, but that’s the board’s prerogative, to decide who they want to call to their hearing.

**Speaker Duff:** And we don’t have any control over the 3 percent. That’s legislated, so it’s . . . Don’t ask.

[Laughter]
Speaker Duff: The other thing I was going to say [goes] back to a comment I was making earlier about Ontario. As rate regulators, we do have a national organization that meets on a regular basis that discusses these issues, discusses the issues of things like hearing processes and procedures. Although there is a wide variance across the country today in terms of the processes that you will see even between New Brunswick and Nova Scotia, for instance, or New Brunswick and Newfoundland. Over time, I believe what you will begin to see is more convergence in some of the processes. As I said, the Supreme Court has been fairly clear in terms of the need for decision-making bodies to provide feedback in the form of reasons and their decisions. I suspect that, over time, administrative bodies like rate regulators will be adhering more to those practices, so you’ll see more of this as time goes by.

Moderator Lee: Any other questions?

Unknown: (??).

Moderator Lee: I think I’ve seen one instance where they called . . . Because you need to name your representative in terms of the actuaries for the Applicant, and there was one instance [where] instead of using legal counsel there were two actuaries and one was focusing [more] on the reserving side, while the other was focusing [more] on the pricing side, but that’s actually extremely rare. Most of the cases that I’ve seen recently were more legal counsel with the actuary.

There’s one actuary representing the company, and it’s not necessarily the one that has prepared the filing, that has signed the introduction letter to that filing. The witness actuary is taking the ownership of the work at that point in time. When we are talking about taking the ownership of the work, it’s making sure that all the standards of practice, all the assumptions, methodologies that have been applied by your staff, are something that you can endorse. It also means, when we are talking about reserving actuaries and all of that, that when you are receiving assumptions from another department, from another team, such as the reserves, it is part of your filing. You need to understand well enough why it is appropriate to use those assumptions, those selections, to get into—and being able to talk to it. Being able to defend them in the rate filing, in the rate hearing.

Speaker Dutil: I’m not sure if there’s been companies that have brought more than one witness, like one actuary and then another actuary, as a second witness, to a hearing. But you certainly will [learn], from my understanding, that the OAG will not allow two people on the stand at the same time and asking questions of two people. They’ll want just one person to answer questions, and if you brought two they’ll say, “You have to designate one of them to answer questions.” When they come and ask the questions, they don’t want to have the back and forth.

Unknown: (??).

[Laughter]

Unknown: Can you give us an example of that?
Speaker Doucet: Essentially, after the witnesses have both presented their evidence, both the parties and the consumer advocate and all the parties that are before the board, as we’ve seen, we adjourn the hearing and then the board convenes as a panel and then we deliberate. We deliberate on each and every single issue that was raised during the hearing, and then we provide the parties with the decision, so . . .

Speaker Dutil: It’s a written format, the way it’s going to be provided to the parties. It has—it’s going to be written and it’s going to be submitted to the parties first, before it is published, probably.

Speaker Doucet: Yes, after the decision is—in New Brunswick we translate all our decisions, so we have them translated and then after they’re translated they’re put up on our website so they’re available for everyone.

Unknown: 4.5 percent.

[Laughter]

Unknown: It’s a nice asset now to have this script and these slides because I don’t know why companies couldn’t ask the CIA if they could use this for internal professional development. I’d love to see us take a spin on it for the new professionalism course for new associates. It’s an asset we now have. Thank you to the board and all the people involved who helped contribute to it (??).

Unknown: How long does a hearing typically go?

Speaker Doucet: It really depends on how many issues are raised at the hearing, so it can go from three-quarters of a day to . . . two days. It could be longer, and that really depends on the amount of issues that are presented before the board.

Speaker Duff: We used to schedule one day for a hearing, but we were finding that that was really—because, I mean, people are coming down to Saint John. It’s not always easy to get there and get home from there . . . We were finding that we were really pushing the clock trying to get everything done in a day. So now, if it’s a public oral hearing we schedule two days. Normally a day and a half or even less will take care of it. I think it’s working out because it gives folks a chance to regroup at the end of the first day, come back the second day, and they can make points. If they’ve missed them, they can make those points on the second day.

Moderator Lee: Which also means that you need a lot of stamina. You can see it at the beginning. In the very first half-day, everyone is full of energy. It goes really well and then after lunch it goes even more quiet than here. On the other morning, you have a little kick but then it’s just like—it is quite grueling, OK? And it can become very, very technical. In this mock-up, we didn’t go to a lot of details in terms of the technicalities and the methodologies behind it, but it can become that way. So, you need to have a lot of stamina, a lot of energy, and [know] your file inside-out, not only from an assumption decision standpoint but also from a technical standpoint.
Speaker Dutil: Yes, you have to realize that even though the OAG is a lawyer, they’ve been really well prepared by their actuary. They know the technical terms. They know what they need to ask and how to grill in terms of technicalities as well.

Unknown: (??).

Speaker Doucet: If they can meet up?

Unknown: (??).

Speaker Doucet: The OAG or with the . . .

Unknown: (??).

Speaker Doucet: That would be—there’s always the rounds of questions. If they do have questions back and forth that are done in a written format, yes. Typically, whether they would meet before a hearing or not, I would doubt it because they’re at opposing sides. But they do have the opportunity to question each other with respect to the filing. So, yes.

Unknown: (??).

Speaker Doucet: Yes. Yes.

Speaker Dutil: Although, I don’t think you do get questions from the company to the OAG . . .

Speaker Doucet: No. To the OAG? No, that’s true.

Speaker Dutil: . . . before the actual public hearing, the oral portion of it.

Speaker Doucet: Yes.

Speaker Dutil: You have the questions that come from the OAG to the company and then you have the opportunity to defend your position and respond to that, and all of that, but you don’t necessarily know what the OAG’s position will be until their final submission. So, for you to ask questions the only real opportunity is at the actual public hearing.

Speaker Doucet: Yes . . .

Unknown: I think it’s—oh, go ahead.

Speaker Duff: If you need a clarification of something that came up in an interrogatory question as part of that process, you can certainly ask those types of clarification-type questions. The only thing to remember is that once we start the written hearing—I’m sorry, once we start the formal hearing process, everything is out in the open. Everything is shared. All parties have to be copied on all correspondence, just to avoid the appearance of any sort of improprieties and to make sure that everybody is aware of all the issues.

Unknown: (??) week and a half, the final submission of both sides, to set the (??). I’m not asking how much time you need, I mean the actual hearing.
**Speaker Doucet:** It really depends on the time that we can schedule the hearing, but typically we will give notice. There will be notice to the Office of the Attorney General as well as to the consumer advocate because they have an automatic right to be an intervenor to the hearing.

**Unknown:** Once you’ve submitted your final submission, once you’ve received everything, between that and the actual date of the public hearing.

**Speaker Doucet:** Oh, the final submission? Yes, usually that will be around two weeks. Yeah.

**Moderator Lee:** I would like to thank you, all the panelists with me. Some of them, they have called you very last minute and I really appreciate your time. I would like to really thank the New Brunswick board. They gave me the very first draft of the script and then we sanitized it and made it for this format here today. I would [also] like to thank Todd for accepting right from the beginning, “Oh, yeah, I can do this.” Thank you, everyone.

[Applause]

[End of recording]