FSRA
Financial Services Regulatory Authority of Ontario

Approach

Effective Date: December 20, 2022
Identifier: No. AU0132APP

Ontario private passenger automobile annual review based on industry data as of December 31, 2021

Purpose and scope

This Approach Guidance specifies the “Benchmarks” for loss trend rates, reform factor[1] and other key actuarial assumptions that assist the Financial Services Regulatory Authority (“FSRA”) in reviewing Private Passenger Automobile (“PPA”) insurance rate filing applications based on statutory requirements. It supplements the Financial Services Commission of Ontario (“FSCO”) Major Filing Guideline and FSCO Technical Notes for Automobile Insurance Rate and Risk Classification Filings, which were transferred from FSCO to FSRA following FSRA’s assumption of regulatory authority effective June 8, 2019.

This Guidance specifies the Benchmarks and describes how FSRA uses the Benchmarks in its review of auto insurance filings. This year’s annual review includes:

- how FSRA uses benchmarks in its review of auto insurance filings
- FSRA’s expectations when a pricing actuary relies on the work of others
- FSRA’s expectations concerning rate level adequacy at the coverage level
- FSRA’s progress report on the territory rating study

Rationale and background

FSRA mandate

In supervising and regulating the insurance sector, FSRA is required to administer and enforce sector statutes and their respective regulations in alignment with FSRA's statutory objects,[2] in particular:

- regulate and supervise the auto insurance sector
- promote high standards of business conduct in the industry
- monitor and evaluate developments and trends related to auto insurance
- contribute to public confidence in the auto insurance sector
- protect the rights and interests of consumers
- promote transparency and disclosure of information
- foster a strong, sustainable, competitive, and innovative auto insurance sector

FSRA's Approach as outlined in this Guidance is in line with FSRA's statutory objects and its duties under the *Auto Insurance Rate Stabilization Act, 2003* ("AIRSA").

Ratemaking legal framework

Section 3 of the AIRSA requires that an application ("rate filing") for approval of rates and risk classification systems ("RRCS") be in a form approved by FSRA and be filed together with such information, material, and evidence as FSRA specifies. Details of the applicable forms are outlined in the Private Passenger Automobile Filing Guidelines - Major and its associated Technical Notes for Automobile Insurance Rate and Risk Classification Filings, which this Guidance is intended to supplement.

Section 3 of the AIRSA also requires all insurers writing non-fleet automobile insurance on the Ontario Automobile Policy ("OAP 1") or Ontario Driver's Policy ("OPF 2") to have their rates and risk classification system approved or authorized by FSRA.[3]

FSRA is required to refuse the approval of rate filings if, amongst other factors, the proposed risk classification system or the proposed rates are not "just and reasonable." Benchmarks are used to assist FSRA in making this determination.

Rate regulation principles

FSRA's statutory obligations and Rate Regulation Principles ("RRP") are foundational to FSRA's approach to auto insurance rate regulation. FSRA's decision to provide an updated Approach on Benchmarks was guided by the principles of Transparency & Disclosure and Simplicity under the RRP.

Improved benchmarking review process

FSRA continues to evaluate and enhance its processes to achieve regulatory efficiency and effectiveness while protecting the interests of consumers.

Procedural improvements to FSRA's review of the benchmarks include:

- The scope of the actuarial assumptions analyzed for the annual review has been broadened, while the scope of actuarial assumptions analyzed for the mid-year review remains unchanged.
- Benchmarks will continue to be published twice a year using industry data available from June 30th ("mid-year") and December 31st ("annual").
- Consultation will be held for the annual review only. The mid-year update will be appended to the annual review guidance when the information is available.

These practices enable more meaningful feedback, enhance transparency around FSRA's rate approval considerations, and protect consumers by assisting FSRA in determining whether auto insurance rates are just and reasonable.

Benchmarks

Use of benchmarks

Benchmarks are key actuarial assumptions developed based on the review of industry data, and are used to evaluate the following:

- Fair Rates for Consumers - Benchmarks assist FSRA in reviewing insurers' auto insurance rate filing applications based on statutory requirements. If an insurer's ratemaking assumptions are not supported by its own data, to the extent credible, FSRA can use the Benchmarks to guide the rate approval decision process.

- Market Competition - Benchmarks are published twice a year with updated industry loss experience, which provides a means for insurers to compare their loss experience with the industry loss experience in projecting competitive rates.

- Market Health - Benchmarks serve as a regulatory tool for FSRA to monitor the insurance industry loss experience as a whole, and evaluate developments and trends related to auto insurance.

As Benchmarks are developed based on the review of the industry data, they may not represent an individual insurer's business. FSRA indicated in the 2020-H2 Guidance that insurers are no longer permitted to directly adopt the Benchmarks without justification. FSRA requires that all actuarial assumptions be fully supported with an analysis of the insurers' own data, to the extent credible, regardless of whether FSRA Benchmarks are assumed.

As guided in Section 2620.04 of The Canadian Institute of Actuaries Standards of Practice ("CIA SOP"),[4] actuaries are expected to consider one or more sets of related experience when their data is not fully credible.

Derivation process

FSRA retained Oliver Wyman (the "Consultant") to independently derive the loss trend rates and reform factors. The Consultant's report, which outlines the complete derivation of Benchmarks, can be accessed through the links found in Appendix 1.

The Consultant's analysis reflects feedback that FSRA received through a public consultation process. Further details on this consultation can be found in FSRA's Summary of Consultation on Ontario Private Passenger Automobile Annual Review based on Industry Data as of December 31, 2021. A summary of the comments received, and the Consultant's responses may be found in Appendix H of the Consultant's report.

The analysis of the Benchmarks is based on the Ontario insurance industry Private Passenger Automobile ("PPA") loss and loss adjustment expense experience reported to the General Insurance Statistical Agency ("GISA") as of December 31, 2021. FSRA's actuaries have conducted a thorough review of GISA data to ensure its validity and worked closely with GISA's Consulting Actuary to ensure the resulting projections are reasonable (see Appendix 3).

- First, as per CIA SOP regarding the use of another actuary's work, the Consultant independently reviewed the reported claim counts and claim amounts experience to estimate the ultimate claim counts and claim amounts.

- Second, the Consultant compared their estimated ultimate claim counts and claim amounts to those based on the GISA Consulting Actuary's loss development factor selections for reasonableness.

- The Consultant concluded that the GISA Consulting Actuary's selected factors are reasonable, and there are no material differences in the selected loss trend rates. The Consultant, therefore, accepted and applied the GISA implied development factors to the underlying loss experience data used in the Benchmark analysis.

FSRA benchmarks for loss trend rates and reform factors

The Benchmarks, as outlined below, apply to rate filings submitted on or after December 20, 2022.

	Loss trend rate	
	Past trend	**Future trend****
Coverage	Prior to Oct. 1, 2021	After Oct. 1, 2021
Bodily Injury	-4.6%	-4.6%
Property Damage	4.8%	4.8%
Direct Compensation – Property Damage	8.7%	8.7% to 14.4%
Accident Benefits - Med/Rehab/AC	-0.9%	-0.9%
Accident Benefits - Disability Income	-0.4%	-0.4%
Accident Benefits - Funeral and Death	-1.3%	-1.3%
Accident Benefits - Total	-0.8%	-0.8%
Uninsured Automobile	-3.5%	-3.5%

Coverage	Loss trend rate: Past trend (Prior to Oct. 1, 2021)	Loss trend rate: Future trend** (After Oct. 1, 2021)
Collision	8.5%	8.5% to 14.2%
Comprehensive	10.1%	10.1% to 15.8%
Specified Perils	10.1%	10.1% to 15.8%
All Perils	8.9%	8.9% to 14.6%
OPCF 44	1.4%	1.4%
All Coverages Combined*	**3.6%**	**3.6% to 6.6%**

*All Coverages Combined is a weighted sum of the component coverage based on each coverage's share of losses

**The future trend rates for Direct Compensation – Property Damage, Collision, Comprehensive, Specified Perils, and All Perils have been adjusted to reflect the higher-than-historical average inflation rate for passenger vehicle parts, maintenance, and repairs.

Coverage	Reform factor
Accident Benefits - Med/Rehab/AC	0.805
Accident Benefits - Disability Income	0.871
Accident Benefits - Funeral and Death	1.000
Accident Benefits - Total	0.820
Other Coverages	1.000

Insurers are expected to consider the inter-dependency between the loss trend rates and the reform impact in their trend analysis.

Commentary

Over the past year, rising inflation has been brought on by labour and supply trends as a result of the COVID-19 pandemic and are reflected in the Consumer Price Index ("CPI"). The Consultant acknowledges that the rise in inflation associated with vehicle parts, replacement vehicles, rental fees, maintenance, and repair costs that began in late 2021, and surged in 2022 is not fully embedded in the claims cost data analyzed in the Consultant's loss trend analysis. The Consultant suggests that insurers "use the most recent CPI data for vehicle maintenance and repair costs in Ontario" to adjust the past severity trend that can be used to support a selected future trend rate.

FSRA has assessed the monthly CPI data for various transportation-related product groups in Ontario in relation to the Ontario PPA Physical Damage ("PD") coverages' claims severity trends in the past 10 years. While the impact of inflation that will affect future claim costs is not limited to vehicle parts and repair costs, vehicle parts and repair costs make up a large portion of the PD claims cost.

It is FSRA's view that past loss trend rates are not an accurate indication of future trend rates given the current inflationary environment. Future trend rates should be adjusted upwards by reflecting the latest CPI index for passenger vehicle parts, maintenance, and repair costs to account for the higher-than-historical average inflation rate.

Based on the Ontario CPI as of August 31, 2022, the annual inflation rate for passenger vehicle parts, maintenance, and repair costs has reached 7.4%, which is significantly higher than the historical average inflation rate of 1.7% as observed between 2010 and 2021. For this reason, FSRA has derived a range of future loss trend rates for PD coverages based on the observed inflation rate.

Insurers should consider other factors, such as injury coverages claims cost, economic index, and the value of new and used vehicles and rental costs, when selecting future trend rates. FSRA will continue to monitor the latest inflation rate affecting the claim costs and will reflect any material changes in future trend rates in the mid-year benchmarks update.

Appendix 2 provides a comparison of the new Benchmarks with those previously released. The all coverages combined future trend rate ranges from 3.6% to 6.6% to reflect the higher-than-historical average inflation rate for vehicle parts, maintenance, and repair costs as of August 31, 2022.

The Benchmarks for loss trend rates and reform factors measure the rate of change in loss cost experience without the influence of COVID-19. Historical loss cost data should be adjusted to remove any impact of COVID-19 prior to the application of the Benchmarks. Further adjustments on the loss cost data may be required to reflect the expected COVID-19 impact on the proposed rating period. Appendix G of the Consultant's report details the COVID-19 impact on claims cost analysis.

FSRA's view on rate level need

While each insurer entered the pandemic with a different financial position, and some were experiencing significant rate inadequacy prior to 2020, FSRA is of the view that insurers' overall rates were generally adequate. As such, most of Ontario's insurers were in a position to quickly adjust rates and offer rebates throughout the pandemic.

While the pandemic was a one-time event impacting the claim frequency, the claim severity (average cost per claim) has materially increased throughout the pandemic. On an all coverages combined basis, the claim severity increased by 12% between 2019 and 2021.

Property and Casualty insurance ratemaking is prospective in nature, and the insurance prices that insurers are setting today reflect the expected auto insurance claims cost that will be incurred in 2023-2024. The cumulative rate level needs that pricing actuaries develop will need to consider the following:

- past claim cost trends that are not yet reflected in insurers' current rates
- insurers' perspective on future claim cost trends between now and the proposed policy period

FSRA expectations

Investment return on cash flow assumption

As each insurer has its own investment portfolio of assets that reflects their investment strategies, FSRA expects insurers to calculate their own portfolio yield, rather than applying the industry average investment yield, in calculating the present value of cash flows.

FSRA replaced the Benchmark investment return on cash flow of 2.25% with a rate selected by each insurer that reflects their own investment portfolio of assets in the 2020-H2 Guidance. The discontinuation of the Benchmark investment return on cash flow adheres to Section 2620.15-17 of the CIA SOP, which speaks to insurers' use of their own expected investment return when discounting claims in calculating indicated rates. Specifically, Section 2620.15 states that:

> "The investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate."

Furthermore, the CIA SOP guides that revenues from all sources of funds, rather than investment income revenues generated from risk-free assets only, would be considered in the determination of the indicated rates. Section 2620.01 of the CIA SOP states that:

> “The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time.”

FSRA’s approach has been, and continues to be, consistent with the CIA SOP in the determination of indicated rates. Accordingly, FSRA expects that the insurers’ selected investment return on cash flow assumption will be reasonably close to the insurers’ investment yields earned in the recent past.[5] Also, the selected investment return on cash flow assumption should reflect the unique investment portfolio of assets and the anticipated future investment returns of insurers.

Pricing actuaries’ best practices

FSRA requires a completed and signed Certificate of the Actuary (“Certificate”) for all rate filing applications by a Pricing Actuary (“PA”), who is a fellow of the CIA, regardless of whether the PA produces their own work or chooses to rely upon that of others.

Accountabilities

In signing the Certificate, the PA assumes full responsibility for the methods and assumptions used to determine the indicated rates.

Specifically, the PA confirms that:

- data is sufficient and reliable
- assumptions and methods used are appropriate
- the actuarially indicated rates have been calculated in accordance with Accepted Actuarial Practices (“AAP”)
- indicated rates, including classification differentials, are just and reasonable
- the risk classification system distinguishes risks fairly between classes

Insurers remain responsible for exercising appropriate due diligence in overseeing the conduct of PAs acting on their behalf.

In Fall 2021, the Canadian Automobile Insurance Rate Regulators Association ("CARR"), on behalf of its members, retained Oliver Wyman to review the PA's use of the Appointed Actuary's work in rate applications. The CARR consulted the CIA and industry actuaries for feedback to establish the oversight obligations and reporting responsibilities for PAs. The feedback received by CARR was reflected in a final report "Pricing Actuary's Estimate of Ultimate Loss Amounts".

Processes and practices

FSRA assumes that the PA takes full responsibility when using others' work and attesting that the indicated rates are just and reasonable. Oliver Wyman suggests the following best practices when the PA uses the work of others in rate applications:

- Discussing the purpose of their work and the associated materiality standard with the other party, including especially whether the other party's valuation work is suitable for the purpose of determining future rates for a specific coverage in Ontario.

- Ensuring that the granularity of data used in the other party's valuation work aligns with the experience period data used by the PA to determine indicated rates for a specific coverage in Ontario. Justifying the use of different data (i.e., the aggregation of various lines of business, companies and/or provinces) and explaining any adjustments made to accommodate the difference.

- Ensuring that the valuation date of the data used by the other party in their valuation work aligns with that used by the PA to determine indicated rates for a specific coverage in Ontario. Explaining any adjustments made to accommodate the difference.

- Reviewing the valuation work of the other party to understand the methods, adjustments, assumptions and the rationale(s) underlying the selected best estimate of the ultimate loss amount. Specifically:

    a) The PA should ensure that the assumptions made by the other party in loss development work (e.g., loss trend rates, premium on-level factors, reform factors, etc.) are consistent with the PA's own ratemaking assumptions in the rate filing.

b) If the PA finds that a portion of the other party's valuation work is not appropriate for its use, then any modification to the other party's work should be supported by the PA in the rate filing.

Back testing of rate setting accuracy

FSRA will engage insurers for retrospective evaluation of the insurer's rate setting accuracy in the following circumstances:

- the expectations outlined above have not been satisfied (this would include the PA being unable to explain discrepancies in assumptions)
- the rate level indication is significantly higher than the insurer's proposed rate change
- the insurer, based on FSRA's assessment, seems to be using the Standard Filing Guidance in a manner other than for the purpose of keeping rates aligned with changing claims costs

Rate level adequacy at the coverage level

FSRA expects insurer's rates to be accurate at the coverage level, with each coverage price being reflective of its cost. This practice is expected to better align the relationship between premiums paid by consumers and the cost of the coverages they have chosen.

FSRA will continue to monitor and evaluate insurers' rate level adequacy at both the overall and coverage levels. In reviewing insurers' rate filing applications, FSRA may request that insurers provide additional support to ensure the overall and by-coverage proposed changes are in line with the indications and actual rate needs.

FSRA's review of territory rating in auto insurance

FSRA's supervision and regulation of auto insurance RRCS includes the review of territory rating in rate filing applications. RRCS, including territory rating, must meet statutory standards prior to FSRA's approval.

Background

The current territory definition guidelines, outlined in the Technical Notes for Automobile Insurance Rate and Risk Classification Filings are highly prescriptive and have not been reviewed or updated since their establishment on January 31, 2005. The existing guidelines are not aligned with FSRA's principles-based and outcome-focused regulation framework.

FSRA will address territory rating as part of its Automobile Insurance Rate and Underwriting Regulation Reform Strategy ("Strategy") to make auto insurance rating and underwriting fairer for consumers, a commitment under the proposed 2023-24 Statement of Priorities. The territory review is one of several projects in FSRA's Strategy informing recommendations to improve fairness in the regulation of auto insurance rates and underwriting.

Review process

In June 2022, FSRA engaged Pinnacle Actuarial Resources, Inc. ("Pinnacle") to perform a study on rating territories in Ontario auto insurance.

Pinnacle's territory rating review is comprised of the following parts:

- Part 1 - Review FSRA's existing territory requirements relative to FSRA's RRP, and research territory rating practices in other jurisdictions across North America.

- Part 2 - Perform data analysis based on General Insurance Statistical Agency ("GISA") data. Define, detect, and measure potential unfair discrimination in territory rating. Provide recommendations to FSRA on building a principles-based and outcome-focused territory rating framework.

Pinnacle completed Part 1 of its review and provided a report to FSRA in October 2022. The report can be accessed through the links in Appendix 1.

As a part of FSRA's Strategy, data collection and consultation activities will be followed up by draft reforms to the legal framework for rates and underwriting. This may include new guidance on territory rating.

Summary of pinnacle's key findings to date

- Pinnacle assessed FSRA's existing territory requirement relative to FSRA's RRP, outlined in FSRA's Standard Filing Guidance. Pinnacle advised that FSRA will need to decide on the appropriate balance and prioritization among key RRP since it may not be possible to equally satisfy all RRP simultaneously.

- A number of FSRA's current territory requirements are in conflict with FSRA's RRP. For example, some requirements attempt to regulate inputs rather than outcomes.

- Several outcome focused tests, which may extend beyond territory rating, could be integrated into FSRA's approach.

- There is no specific definition of fairness. Some of the existing requirements are perceived to improve fairness but there is no evidence this is the case. FSRA, insurance companies, and consumers should collaborate to establish a definition of fairness for insurance pricing. Then, metrics can be defined to determine whether regulatory changes are required.

- Analyzing fairness ultimately is not a question of whether specific variables are fair or not (such as territory), but whether ultimate premiums are fair. The ultimate solution is not related to one variable, but to the overall adjustment of the premium outcome.

- In most US states there are no specific rules applicable to territory rating. Rather, territories are subject to the same regulatory process as most other rating variables. In Alberta, significant issues in the market led to substantive reductions in territory restrictions.

Next phase

FSRA will continue to be transparent about the progress of its territory rating review and its Strategy. In Spring 2023, FSRA expects to receive and publish a final report from Pinnacle on the territory rating topics described above.

Effective date and future review

This Approach became effective on **December 20, 2022**. The next Benchmarks development process began in Fall 2022.

About this Guidance

This Guidance is an Approach. Approach Guidance describes FSRA's internal principles, processes and practices for supervisory action and application of Chief Executive Officer discretion. Approach Guidance may refer to compliance obligations but does not in and of itself create a compliance obligation. Visit FSRA's Guidance Framework to learn more.

Appendices and reference

Appendix 1 - Associated documents

The table below provides a quick reference to all Guidance documents, consultation summaries, and benchmarking reports produced since this Approach Guidance was launched.

Benchmark Effective period	GISA data evaluation date	Guidance	Consultation summary	Supporting report
December 20, 2022	December 31,2021	Current Guidance	"2021-H2 Consultation Summary"	**Oliver Wyman Report:** "Ontario Private Passenger Vehicles Annual Review" **Pinnacle Report:** "Territory Rating Review Report"

Benchmark Effective period	GISA data evaluation date	Guidance	Consultation summary	Supporting report
January 31, 2022	June 30, 2021	"2021-H1 Guidance"	N/A	**Oliver Wyman Report:** "*Ontario Private Passenger Vehicles Mid-Year Review*"
October 20, 2021	December 31, 2020	"2020-H2 Guidance"	"2020-H2 Consultation Summary"	**Oliver Wyman Report:** "*Ontario Private Passenger Vehicles Annual Review*"
June 30, 2021	June 30, 2020	"2020-H1 Guidance"	N/A	**Oliver Wyman Report:** "*Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors*"
September 23, 2020	December 30, 2019	"2019-H2 Guidance"	"2019-H2 Consultation Summary"	**Oliver Wyman Report:** "*Ontario Selected Private*

Benchmark Effective period	GISA data evaluation date	Guidance	Consultation summary	Supporting report
				Passenger Vehicles Loss Trend Rates and Reform Factors”
May 15, 2020	June 30, 2019	“2019-H1 Guidance”	“2019-H1 Consultation Summary”	**Oliver Wyman Report:** “*Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors*”

Appendix 2 - Comparison to previous benchmarks

This appendix focuses on the change in future loss trend rates by comparing the previous Benchmark as of June 30, 2021, and the new Benchmark as of December 31, 2021.

On an All Coverages Combined basis, the future loss trend rate for the new Benchmark ranges from 3.6% to 6.6%, compared to the previous Benchmark of 3.3%. The table below compares the change in future loss trend rates for major coverages the total change.

	Future loss trend rate	
Coverage	**Previous benchmark**	**New benchmark**
Bodily Injury	-5.9%	-4.6%
Accident Benefits	-0.2%	-0.8%
Direct Compensation - Property Damage	9.0%	8.7% to 14.4%
Collision	8.9%	8.5% to 14.2%
Comprehensive	9.9%	10.1% to 15.8%
All Coverages Combined	**3.3%**	**3.6% to 6.6%**

For the Bodily Injury coverage, the actual claims emergence for older accident years is higher than the prior estimate, leading to a material increase in claim severity. This, together with a change in the Bodily Injury projection methods by the GISA consulting actuary increases the Bodily Injury trend from -5.9% to -4.6%.

The increased future loss trend rates for PD coverages reflect the higher-than-historical average inflation rate for passenger vehicle parts, maintenance, and repair costs.

For more detailed information on the change in Benchmarks, please refer to the Commentary section of this Guidance.

Appendix 3 - FSRA’s process for reviewing and approving of GISA automobile statistical plan PPA factor report and ultimate loss projections

This appendix explains how FSRA ensures that the ultimate loss and claim count projections used by the Consultant in its analysis are fit for use.

Beginning in 2022, GISA’s consulting actuary is performing their valuation of ultimate losses for Ontario PPA based on full year loss development data. The “Automobile Loss Development Factor Report” has been significantly enhanced to include a comprehensive industry claims valuation.

GISA’s consulting actuary considers the following methodologies in their projections:

- Incurred Loss Development Method
- Paid Loss Development Method
- Claim Frequency and Severity
- Bornhuetter-Ferguson
- Cape Cod Method
- Benktander Method

Results from various projection methodologies are considered in the final ultimate losses’ selections.

In addition to reviewing industry aggregate loss development data for each coverage, FSRA reviews every insurer’s loss development data, twice a year, to identify any data reporting issues, changes in claims handling and case reserving practices. FSRA’s actuaries work with GISA’s consulting actuary, assessing the extent of each insurer’s data issues by adding, removing, and adjusting each insurer’s data one at a time to understand the impact. GISA’s final Loss Development Factors have accounted for adjustments made to those reporting issues, such that the impact of any distortions is immaterial at the industry aggregate level.

Additional details are available in GISA Exhibit - AUTO-0002-ON, 2021-2 Valuation of Ultimates Report, Ontario Private Passenger (excluding farming vehicles).

Appendix 4 - Mid-year update based on industry data as of June 30, 2022

This appendix will be updated based on 2022-H1 data as it becomes available.

References

FSRA's Summary of Consultation on Ontario Private Passenger Automobile Annual Review based on Industry Data as of December 31, 2021. Consistent with its commitment to transparency in rate regulation and guidance development, FSRA conducted a public consultation on the preliminary annual report prior to issuing this Approach Guidance. The Summary of Consultation outlines the feedback gathered and how it was considered in the final annual report.

Effective Date: December 20, 2022

---

[1] **Loss trends:** measure annual rates of change for past and future claim costs (examples of loss trend drivers: advancements in safety technology, changes in medical costs, monetary inflation).

Reform factors: restate historical losses to reflect the current level of claim costs as a result of prior product reforms. Reform factors enable the calculation of loss trends without being impacted by the effect of government reforms.

[2] See *Financial Services Regulatory Authority of Ontario Act* s. 3

[3] Pursuant to Section 3(2) of the *Auto Insurance Rate Stabilization Act, 2003*, an application for approval of a risk classification system or rates shall be in a form approved by the Chief Executive Officer and shall be filed together with such information, material and evidence as the Chief Executive Officer may specify. However, for the purposes of this Approach Guidance, the reference will be to FSRA.

[4] Section 2620.04 of the CIA SOP states that "the actuary would consider the blending of information from subject experience with information from one or more sets of related experience to improve the predictive value of estimates."

[5] With the introduction of the International Financial Reporting Standard 17 (IFRS 17) effective January 1, 2023, FSRA removed the previous reference to the "annual P&C-1 financial statement that insurers file with prudential

regulators" with respect to the selection of investment return on cash flow assumption. FSRA does not expect any insurer's selection of their investment return on cash flow assumption to change as a result of the introduction of IFRS 17.