Approach

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Ontario private passenger automobile annual review based on industry data as of December 31, 2023

Purpose and scope

This Approach Guidance specifies the "Benchmarks" for loss trend rates, reform factors[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") Private Passenger Automobile Filing Guidelines - Major and 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.

[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.

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:

- Use of benchmarks in FSRA's review of auto insurance filings
- Perspectives on future claim costs
- Post-pandemic frequency levels
- Auto theft, anti-theft solutions and related surcharges
- Use of capping
- Rating by gender
- Use of credit information in auto insurance pricing and pricing models
- Investment return on cash flow assumption and target underwriting profit provision
- Pricing actuaries reliance on the work of others
- Rate level adequacy at the coverage level

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

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

- 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]

[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.

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.

Benchmarking review process

FSRA's benchmark review process involves the following:

- Benchmarks are published twice a year using industry data available from June 30th (“mid-year”) and December 31st (“annual”).
- Consultation is 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 not 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.** Actuaries are expected to consider one or more sets of related experiences when their data is not fully credible, in accordance with Section 2620.04 of The Canadian Institute of Actuaries Standards of Practice ("CIA SOP")[4].

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, 2023. A summary of the comments received, and the Consultant's responses may be found in Appendix I of the Consultant's report.

The analysis of the Benchmarks is based on the Ontario insurance industry PPA loss and loss adjustment expense experience reported to the General Insurance Statistical Agency ("GISA") as of December 31, 2023. 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).

[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."

- First, as per CIA SOP regarding the use of another actuary's work, the Consultant independently reviewed the reported claim count and claim amount 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 November 19, 2024.

Coverage	Loss trend rate	
	Past trend Prior to Oct. 1, 2023	Future trend After Oct. 1, 2023
Bodily Injury	-1.9%	-2.7% to -1.1%
Property Damage	4.8%	4.0% to 5.6%
Direct Compensation - Property Damage	9.1%	7.8% to 10.4%
Accident Benefits - Med/Rehab/AC	1.4%	-0.7% to 3.5%
Accident Benefits - Disability Income	-1.8%	-3.8% to 0.3%
Accident Benefits - Funeral and Death	-2.1%	-3.0% to -1.3%
Accident Benefits - Total	0.6%	-1.7% to 3.0%
Uninsured Automobile	3.5%	1.5% to 5.5%
Collision	9.2%	7.2% to 11.2%
Comprehensive - Theft	27.8%	23.5% to 32.1%
Comprehensive - All Other	6.1%	4.0% to 8.2%

Comprehensive - Total	13.6%	9.9% to 17.5%
Specified Perils	13.6%	9.9% to 17.5%
All Perils	8.8%	7.2% to 10.4%
OPCF 44	3.3%	2.6% to 3.9%
All Coverages Combined*	**5.6%**	**3.8% to 7.4%**

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

The benchmark loss trend factors developed based on December 31, 2023 industry data fall within a reasonable range of the benchmark loss trend factors previously developed based on June 30, 2023 industry data. The comparison of benchmark loss trend factors is presented in Appendix 2.

Coverage	Reform factor
Accident Benefits - Med/Rehab/AC	0.756
Accident Benefits - Disability Income	0.868
Accident Benefits - Funeral and Death	1.000
Accident Benefits - Total	0.799
Other Coverages	1.000

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

Commentary on future loss trend

Selecting future loss trends remains challenging due to the COVID-19 pandemic and the increase in inflation since late 2021. While high claim costs associated with inflation have begun to temper, as indicated by the modest increase in the recent Consumer Price Index ("CPI"), uncertainty still exists in the selection of future trend rates. To address this, FSRA offers a range of reasonable future loss trends at the coverage level, representing the 95th confidence interval of these trend rates.

When determining future trend rates, insurers should evaluate their inflation forecast in relation to auto insurance. This involves evaluating whether inflation is expected to stabilize, decrease, or increase. Insurers are expected to adjust past trend rates accordingly for the proposed policy period. Other factors, such as injury coverages claims cost, economic index, the value of new and used vehicles and rental costs, and the data points used in the fitted model, should also be considered when selecting future trend rates.

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.

Expectations

Post-pandemic frequency level

The COVID-19 pandemic fundamentally changed most people’s work mode. With more people adapting to remote and hybrid work models, the post-pandemic claim frequency level is expected to be different than historical claim frequency levels.

The Consultant compared frequency levels for three different periods: pre-pandemic (prior to 2020-1), in-pandemic (2020-1 to 2022-1), and post-pandemic (2022-2 and onwards), and observed that the frequency levels vary by period at the coverage level, except for the Comprehensive coverage. In general, pre-pandemic claim frequencies may need to be adjusted downward to reflect the lower claim frequency level in the post-pandemic period while the in-pandemic claim frequencies need to be adjusted upward to bring historical low frequencies to higher frequency levels in the prospective period. Section 9 of the Consultant’s report details the “Combined New Normal Factors” for each coverage impacted by the pandemic. The unwinding impact due to COVID-19 pandemic is implicitly included in the adjustment factors.

FSRA expects insurers to regularly review their claim frequency data, and appropriately reflect the post-pandemic claim frequency level in the proposed policy period.

Auto theft, anti-theft solutions and related surcharges

The surge in auto theft claims has led to higher losses for physical damage coverage. Auto theft peaked in 2023, easing somewhat in the first half of 2024 compared to the same period in 2023. Claims frequencies and severities remain elevated, however, and continue to weigh on auto insurance premiums. The Government of Canada is working with various industries and stakeholders, including port authorities, rail and shipping companies, and the automotive and insurance sectors, to combat auto theft.

Insurers introduced practices to encourage consumers to take steps to protect their vehicles. This includes adopting solutions that either prevent theft or aid in recovery, with a focus on vehicle makes and models commonly targeted. This enables insurers to continue to provide broad theft coverage to all consumers while mitigating losses and premium inflation.

FSRA is providing guidance as to approaches that achieve a balance between providing broad accessibility of key coverages such as theft and taking steps to reduce losses. Proposed anti-theft/recovery solutions should consider the following:

- Practical and reasonably priced for the consumer
- Consumers are offered more than one anti-theft/recovery option to choose from
- After-market solutions must be broadly available in the market, such that the consumer does not experience challenges obtaining them
- Solutions should not impact vehicle manufacturer warranties; insurers should obtain verification from manufacturers to provide assurances to their customers
- Surcharges tied to non-adoption of anti-theft/recovery solutions should not be excessive such that they create accessibility issues for consumers
- Surcharges should be removed or reduced as soon as possible if an approved anti-theft solution is installed.

Insurers should review their high-risk lists at a reasonable frequency to keep up with trends. Vehicles that are no longer being targeted should be removed. High risk lists should take into consideration the potential for varied risk levels by geographic region.

Insurers' proposed practices should not result in reduced accessibility of theft coverage to consumers. In addition, FSRA expects communications affecting policyholder rights to be clear and timely, to help consumers make informed decisions.

FSRA has noted an increase in inquiries about theft-related surcharges and significant premium increases through its contact center. Insurers are responsible for managing the customer experience and providing adequate and transparent information to customers, including adequately responding to consumer questions and complaints. That includes preparing agents, call center staff, underwriting teams, and distributors to fully address customer questions stemming from surcharges or premium increases for high-risk vehicles, and/or new or changing requirements for anti-theft devices.

Use of capping

Capping is a common industry practice that contributes to rate stability for consumers. When capping is used to shield consumers from significant rate increases, it benefits consumers (positive capping). However, when capping is used to limit downward rate changes on renewals (negative capping), it can result in unfair consumer outcomes. For example, it may result in an individual consumer's renewal premium being higher than the rate available to them as a new customer.

FSRA encourages the use of positive capping for the following purposes:

- Significant changes to rating and risk classification systems
- Legal entity consolidation within the same insurer group due to a merger or acquisition, or business simplification
- Scaled capping tied to magnitude of premium change will also be allowed

Conversely, these capping practices will not be permitted:

- Scaled or variable capping tied to specific underwriting characteristics or rating variables, such as territory, vehicle make/model, or years licensed

- Capping of broker/distributor portfolio transfers due to cancellation of another insurer contract, or purchase of another insurer's portfolio via a broker/distributor relationship

- Lower bound capping (negative capping)

Renewal premiums should not be higher than new business premiums for an individual consumer. Some broadly applied exceptions exist and are supported by FSRA including, for example, enrolment or activation discounts on telematics offers.

Insurers that need to file for changes in their capping practices to reflect this Guidance should do so as soon as practicable before January 1, 2026. Corresponding rules and manuals should also be submitted to FSRA for approval at the same time. Please consult with your relationship manager if you need further clarification.

Please note that FSRA's expectation regarding premium capping applies to all categories of vehicles.

Rating by gender

In 2017, Ontario driver's licenses were updated to include expanded gender identities, including Gender X. FSRA expects insurers to reflect these changes in their auto insurance rating and risk classification systems across all vehicle categories.

For insurers that have not yet accounted for these changes in their rating and risk classification practices, FSRA asks that insurers do so as soon as practicable before January 1, 2026. These changes should also be reflected in insurers' digital customer journeys.

In addition, all insurers are reminded to check with distributors, including brokers, to ensure that their digital and contact center quoting tools and processes fully align with FSRA approved rates, risk classifications and rating rules of the insurer. Insurers are asked to do so before January 1, 2026. Insurers should review their policies and practices respecting Gender X to avoid rating misclassification.

If verification of gender is requested by the insurer, such as verification of gender on a driver's license, the insurer is expected to design processes that respect the consumer and do not create undue inconvenience for them.

FSRA expects that insurers will put the interests of consumers first when determining their approach to rating by gender.

Insurers reporting to the General Insurance Statistical Agency will need to include the updated gender options in their prospective automobile statistical plan transactions by January 1, 2026.

The use of credit information in auto pricing

Pursuant to sections 5 and 16 of O. Reg. 664 and section 9(1) of the FSRA Unfair or Deceptive Acts or Practices (UDAP) Rule, insurers are prohibited from using credit information under the UDAP Rule or from using credit history or credit rating as factors under O. Reg. 664.

Insurers should take note of the following three points for the purpose of clarification and promoting fair consumer outcomes:

- These prohibitions extend beyond agenda to insurance rating. They cover:

    a. For credit information, any matter relating to quotations, applications, issuance of contracts or renewals of contracts for automobile insurance, and

    b. For credit rating and credit history, any decision to issue, renew or terminate any contract of automobile insurance (or to provide or continue any coverage or endorsement) or any use as an element of a risk classification system for automobile insurance.

Credit information either at an individual level or at an aggregated/average level cannot be used or considered as a factor in automobile insurance rating and underwriting, including models for territory definition and territory rating.

- The definition of credit information is not limited to a person's credit score. It includes information about a person's creditworthiness, including a person's credit score, credit-based insurance score, credit rating and information about or derived in whole or in part from such person's occupation, previous places of residence, number of dependants, educational or professional qualifications, current or previous places of employment, estimated income, outstanding debt obligations, past debt payment history, cost of living obligations and assets. Credit history and credit rating, as prohibited factors, also include any internal and external data and data elements that directly or indirectly approximates factors that are an estimate of, a surrogate for or analogous to these prohibited factors.

- Under s. 9(2) of the UDAP Rule, use of a person's credit information in connection with automobile insurance is prohibited unless authorized by a FSRA approved form or in accordance with the person's consent obtained in accordance with applicable privacy laws.

Before filing with FSRA, insurers conduct appropriate due diligence, including legal and risk experts when necessary to ensure compliance with all applicable legislation, regulation, and rules, including those related to credit information, credit rating, and credit history.

Investment return on cash flow assumption

As each insurer has their 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 states that revenue from all sources of funds, rather than investment income revenue generated from risk-free assets only, should 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. 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.

Target underwriting profit provision

FSRA sets the target underwriting profit provision benchmark at 5.0% of the premium and considers such benchmark to be reasonable for use in the development of actuarially indicated rates.

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.

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.

Effective date and future review

This Approach became effective on November 19, 2024. The next Benchmarks development process began in Fall 2024.

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
November 19, 2024	December 31, 2023	Current Guidance	"2023-H2 Consultation Summary"	**Oliver Wyman Report:** "Ontario Private Passenger Vehicles Annual Review"
March 22, 2024	June 30, 2023	"2023-H1 Guidance"	N/A	**Oliver Wyman Report:** "Ontario Private Passenger Vehicles Mid-Year Review"
December 12, 2023	December 31, 2022	"2022-H2 Guidance"	"2022-H2 Consultation Summary"	**Oliver Wyman Report:** "Ontario Private Passenger Vehicles Annual Review" **Pinnacle Report:** "Territory Guidance – Principles-Based Framework"

March 8, 2023	June 30, 2022	"2022-H1 Guidance"	N/A	**Oliver Wyman Report:** "Ontario Private Passenger Vehicles Mid-Year Review"
December 20, 2022	December 31, 2021	"2021-H2 Guidance"	"2021-H2 Consultation Summary"	**Oliver Wyman Report:** "Ontario Private Passenger Vehicles Annual Review" **Pinnacle Report:** "Territory Rating Review 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 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, 2023, and the new Benchmark as of December 31, 2023.

On an All Coverages Combined basis, the future loss trend rate for the new Benchmark ranges from 3.8% to 7.4%, compared to the previous Benchmark range from 5.1 to 8.3%. The table below compares the change in future loss trend rates for major coverages.

	Future loss trend rate	
Coverage	**Previous benchmark**	**New benchmark**
Bodily Injury	-2.8%	-2.7% to -1.1%
Accident Benefits	1.0%	-1.7% to 3.0%
Direct Compensation - Property Damage	8.0% to 13.6%	7.8% to 10.4%
Collision	9.0% to 14.6%	7.2% to 11.2%
Comprehensive	11.2% to 16.8%	9.9% to 17.5%
All Coverages Combined	**5.1% to 8.3%**	**3.8% to 7.4%**

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 performs 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, 2023-2 Valuation of Ultimates Report, Ontario Private Passenger (excluding farming vehicles).

Appendix 4 – Mid-year update based on industry data as of June 30, 2024

This appendix will be updated based on 2024-H1 industry data as it becomes available.

References

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. Please find the Consultation Summary here: FSRA's summary of consultation on Ontario private passenger automobile annual review based on industry data as of December 31, 2023.