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August 19, 2022

Mr. Tim Bzowey
Executive Vice President, Auto/insurance Products
Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, ON
M2N 6S6

Subject: Ontario Private Passenger Vehicles Annual Review

Dear Mr. Bzowey,

On behalf of Desjardins General Insurance Group (DGIG), I am pleased to respond to your request for comment on the proposed Auto Insurance Benchmark Loss Trend Rates for Private Passenger Automobile Major Rate Filings.

DGIG is a subsidiary of Desjardins Group, the leading financial cooperative group in Canada with over 7 million members and clients. We are a leading insurer of personal use vehicles in Ontario and the 2nd largest Property & Casualty insurer in Canada.

Desjardins believes that FSRA should permit insurers to select cost trend rates in their rate applications that are justified based on the unique experiences and future needs of their clients. This approach supports the financial stability required to maintain consumer confidence in the industry as well as generating increased consumer choice and competition.

As members of the Insurance Bureau of Canada (IBC) we have also contributed to their submission and are in support of their observations and recommendations.

We wish in our submission to focus our commentary on Section 1.3 “Relevant Comments” of Oliver Wyman’s report.

Heightened Uncertainty: Covid 19 and Inflation

We agree with the report’s statement that “Covid-19 pandemic affected the loss costs for 2020 and 2021, mainly driven by a decline in the claims frequency rate. As return to a “new” normal in 2022 unfolds, there is uncertainty as to the lasting impacts of the pandemic with respect to future claim frequency rates.”

We continue to monitor changes to our client’s driving patterns through Ajusto, our usage-based insurance offer, along with other data sources to track trends of the broader driving population. We believe that it will take several years post-Covid for driving patterns to solidify to determine what, if any, related long-term impacts there will be on auto insurance claim frequency and severity. For the time being, we support Oliver Wyman's assumption of a return to pre-pandemic frequency levels for rate applications.

The past couple of years also produced extraordinary and non-reoccurring events such as the pandemic driving restrictions and a relative lack of severe weather events in Ontario. We concur with Oliver Wyman's view that insurer profit levels will reduce.

According to Statistics Canada general inflation has risen to its highest point since 1983. It would be reasonable to assume that inflation will not simply be contained within the physical damage coverages.

Resulting increases to salaries and to the inputs of products and services will put upward pressure on the ultimate claim costs of all coverages. As interest rates rise, we could also expect to see an increase in cost pressure from pre-judgement interest rates applied to BI and AB settlement awards.

We would therefore propose that inflation adjustments proposed for vehicle repair coverages be extended to bodily injury and accident benefit coverages.

Further Clarification on Selection of Trends

We would like to have a better understanding of certain selections that are made for some of the trends. There appears to be occasional inconsistencies in the selection approach without sufficient explanation for the choices made.

For example, for Property Damage loss trends, Oliver Wyman opted for the direct loss cost model because of a better R-squared (R^2) result, which explains to what extent the variance of one variable explains the variance of the second variable. In doing so, it ignores the acceleration in severity that is observed by Oliver Wyman, which produces a lower cost trend compared to the implied frequency/severity model.

However, for Direct Compensation Property Damage and Collision coverages, even though the loss cost model produced a better R^2 result, Oliver Wyman opted for the implied frequency/severity model which produces a lower overall cost trend compared to the loss cost model.

For Accident Benefits Total Medical & Rehabilitation including Attendant Care, some data points were excluded from the pre-reform frequency trend selection. The rationale provided for the exclusions is that they were "unusually high points." This choice creates an estimated reform impact that is more significant. Possibly the excluded points are not unusually high, which would then produce different post-reform results.

For the severity trend, a parallelogram method was used to apply the reform factors. This assumes a uniform distribution throughout the year, and leads to a lower R^2 result, which led to a final selection based on the loss cost model, and ultimately a lower overall trend.

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Similarly, for Accident Benefits Total Disability Income, some data points were excluded from the pre-reform trend selection, which leads to a more significant post-reform impact and lower future trends.

We recommend that either further rationale be provided for the varying selection methods chosen or that consistent methods be used throughout the exercise, which may then generate higher forecasted loss trend rates.

Future Trend Rates & OW Proposed CPI Inflation Model

We recommend that insurers be permitted in their rate filings to offer and justify their own cost loadings for inflation. It may be instructive however, for Oliver Wyman, in addition to the report's current loss cost trends, to also produce future loss cost trends that include an inflationary loading based on the method that they have suggested.

Thank you for the opportunity to provide our commentary.

Sincerely,

Anson Wong
Manager, Ontario Ratemaking
Desjardins General Insurance Group