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Tim Bzowey
Executive Vice President, Auto/Insurance Products
Financial Services Regulatory Authority of Ontario
Auto Insurance Sector
5160 Yonge Street, 16th Floor
Toronto, Ontario
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Dear Mr. Bzowey,

Re: Preliminary Ontario Private Passenger Vehicles Annual Review Consultation

Insurance Bureau of Canada (IBC) and its member property and casualty insurers welcome the opportunity to comment on the Financial Services Regulatory Authority of Ontario's (FSRA) *Preliminary Ontario Private Passenger Vehicles Annual Review* (Annual Review) consultation. The commentary contained in this letter reflects the views of insurers operating in Ontario's private passenger vehicle (PPV) insurance market.

Supporting a Sustainable Auto Insurance Market for Ontario Drivers

The realities of the last two years have presented Ontario's PPV insurers with several challenges. As stated by Oliver Wyman, not only did the COVID-19 pandemic result in heightened uncertainty around projected ultimate estimates for the 2020 and 2021 accident years, but "*the uncertainty surrounding inflation, adds uncertainty around selecting an appropriate future trend rate*".

IBC appreciates FSRA's openness to new and emerging trends that impact the auto insurance market in the province by allowing insurers to prioritize trend rates based on their individual experiences. This gives individual insurers the flexibility to select trend rates that are actuarially justifiable for their differing claims histories and future expectations. Consumers benefit when there is a wide variety of insurers competing for their business. Permitting insurers to change rates, where actuarially justified, is a critical component of this.

Oliver Wyman Future Loss Cost Trend Rates Selections

IBC recognizes that the data used by Oliver Wyman to project these future loss cost trend rates is based on industry claims experience up to the end of 2021. However, despite record inflation, Oliver Wyman has selected future loss cost trend rates that are indeed *lower* than last year's selections.

Oliver Wyman acknowledges that these trend rates do not account for inflation in stating that "*the future trend rates for property damage, DCPD, collision, comprehensive, specified perils and all perils, are to be* *modified to account for changes in economic conditions."* IBC supports this view given the significant pressures facing Ontario's auto insurance system. At the same time, we believe that recent developments will lead to higher-than-expected trend factors for both accident benefits and bodily injury coverages as well.

- According to Statistics Canada, between July 2021 and July 2022, the average hourly wage in Ontario across all occupations increased by 4.9%[1]. Wages for health care workers increased even faster. Wages for non-nursing professional occupations, which would include services offered by physical therapy and assessment professionals, increased by 11.7%. These increases will have direct cost impacts on both accident benefits and bodily injury claims, as wages are the core component of both sub-coverages.

- There is a notable increase in the number of applications to the Licence Appeal Tribunal (LAT) for dispute resolution services that has created an ever growing backlog in resolutions. At the onset of the COVID-19 pandemic, the number of new applications per quarter to the LAT for dispute resolutions services was approximately 3,600. In Q2 of 2021, this number increased by 11%, to almost 4,000 new cases per quarter. Over the same period, the number of backlogged cases at the LAT increased significantly, from a substantial 9,446 to 16,204 cases. This represents a 72% increase in less than two years, and thus is a strong indicator for higher claims costs for accident benefits.

For these reasons, it is critical that FSRA be open to injury claims trends that are higher than those projected by Oliver Wyman.

Impact of COVID-19 Pandemic

The COVID-19 pandemic's temporary – and now historical – impact on consumer driving habits had a significant impact on loss costs. As noted by Oliver Wyman, the COVID-19 pandemic impacted 2020 and 2021 loss costs and that "there is uncertainty as to the lasting impacts of the pandemic with respect to future claim frequency rates."

Acording to the latest data from Environics Analytics, a data services provider, consumer driving habits now exceed pre-pandemic levels. A return to pre-pandemic driving habits is likely to result in rising claims costs following 2020 and 2021's anomalous industry experience, which Oliver Wyman states is "exceptional due to the COVID-19 pandemic."

In addition to the impact of the COVID-19 pandemic, four-decade-high inflation is contributing to increasing claims costs, which is creating additional pressures on premiums.

Inflationary Pressures on Vehicle Repair Costs

Over the past 6 to 12 months, Canada's insurers have seen sizable increases in the cost of vehicle repairs and replacement, due to the supply chain and inflation challenges occurring throughout the economy. In the year to June 2022, Statistics Canada reported that the all-item Consumer Price Index increased by 8.1%. Recent increases in spending on auto-related parts and vehicle repairs suggest that vehicle-damage related costs are even higher than this 8.1% figure:

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[1] CANSIM table 14-10-0306-01

- According to Statistics Canada, in the 12 months to January, 2022[2], spending on vehicles and automotive parts increased by over 15%;
- Global supply chain disruptions have contributed to steep increases in the price of used vehicles. According to an April 2022 article in the Globe and Mail, the average used vehicle list price in the Canadian Black Book increased by 47% over the preceding year. This increases the actual cash value of vehicles on the road as well as for the roughly one-quarter of vehicles that are considered a total loss following a collision. It is also contributing to a significant increase in vehicle theft; and
- A shortage of parts is leading to longer cycle times to repair vehicles. This is leading to both higher vehicle repair costs as well as insurers paying more than anticipated due to consumers needing vehicle rentals longer while their vehicles are being repaired.

Due to these cost pressures, vehicle damage-related coverages will certainly increase at a faster pace than currently projected. In stating that its physical damage trend factors "may not be an accurate indication of future trend rates," Oliver Wyman acknowledges that its trend rates do not adequately account for the rise in inflation associated with vehicle parts, maintenance, and repair costs.

To address this, Oliver Wyman suggests that insurers should consider the *vehicle maintenance and repair costs* CPI data in Ontario at the time of the rate application preparation. We support greater insurer ability to use real-time data in rate applications, but also strongly recommend that Oliver Wyman's recommendation extend to other Statistics Canada data elements related to vehicle damage, including:

- The value of new and used vehicles, which are directly related to the actual cash value for the one-quarter of vehicles that are considered total loss after a collision;
- Vehicle parts, accessories and supply costs;
- Private passenger vehicle lease costs; and
- Rental of passenger vehicle costs.

As industry continues to navigate these uncertain times, we emphasize the importance for FSRA to allow actuarially justified rate changes to proceed to reflect emerging cost pressures brought on by inflation and global supply chain disruptions that are not reflected in Oliver Wyman's projections.

Profit Levels

Oliver Wyman indicated that the reduction in claims costs as a result of the COVID-19 pandemic led to profit levels that are not representative of true industry experience outside of a global pandemic. It stated the standard actuarial view that rate setting is a *"…prospective analysis of future costs without carry-forward of past profits (or losses)*" and that for this reason, "*the recent unprecedented profit levels during 2020 and 2021 is not a consideration in selecting loss trend rates for this report.*"

IBC agrees with Oliver Wyman's assessment. 2020 and 2021 results were an anomaly due to the COVID-19 pandemic and should not be reflected in future target levels for 2022 and thereafter.

[2] CANSIM table 20-10-0008-03

Conclusion

There are significant cost pressures facing Ontario's auto insurance system. Record inflation and the unknown long-term impact of the COVID-19 pandemic on claims costs have created an environment of uncertainty for Ontario's PPV insurers. IBC recommends that FSRA continue to work with industry to permit actuarially justified rate changes in order to foster healthy market competition that promotes innovation and consumer choice.

Yours sincerely,

Kim Donaldson
Vice President, Ontario