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

Dear Mr. Padassery,

Re: Request for comment - Auto Insurance Annual Review

On behalf of Desjardins General Insurance Group (DGIG), I am pleased to respond to your request for comment on the proposed Auto Insurance Annual Review for Private Passenger Vehicles.

Desjardins General Insurance Group (DGIG) is a subsidiary of Desjardins Group, the leading cooperative financial institution in Canada with over 7.5 million members & clients. DGIG is Canada's third largest property and casualty insurance provider, with over $6 billion in premium volume and over 4.4 million policies in force.

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 this submission to bring our emphasis to several key considerations.

General Comments

Under the specific objectives of the Annual review, it states that the review includes "*The determination of loss trend rates and the cost impact of recent reforms that FSRA will use as benchmarks in its review of private passenger vehicle rate applications." (Section. 1)* In our opinion it can be valuable to conduct an industry loss trend benchmarking exercise to assess the change in average claims inflation over time and to understand the drivers of change. However, industry cost benchmarks are not valuable or appropriate for evaluating *individual insurer rate change applications.* The differences in client profiles, pricing and claims business practices, and a variety of other factors can lead to unique and legitimate cost needs.

Actuaries who have years of close working experience with the underwriting company and with access to internal subject matter experts should be relied upon to evaluate an insurer's cost needs. This is especially important in cases where changes in data or insurer's practices makes it difficult to use past trends for the future. To protect the interest of consumers, the FSRA's review of the insurer's estimates should be focused upon the reasonableness of the assumptions used, instead of trying to recreate the specific rate change need. We should acknowledge the power of consumers making choices in a competitive marketplace as the best and ultimate regulator of auto insurance rates.

New Normal

We would like to caution FSRA in the assumption of a new normal starting in 2022-2. The premise of which is centered around hybrid work modes and the effects of monetary policy on future vehicle usage.

There are several factors and economic indicators that could dampen the assumed effects outlined in the annual review:

1. According to the Occupancy Index by the Strategic Regional Research Alliance, in office presence continues to grow consistently month over month throughout 2023 and is already double the supposed "new normal" of 2022-2.
2. Unemployment rates have dropped back at or below 2019 levels, buffering the effects of a potential recession.
3. Ontario was the most popular destination for new permanent residents last year and welcomed 184,725 new comers that year. That was 42.3 per cent of the total number of new permanent residents to Canada in 2022, with 2023 seeing an additional growth of 22.7% in the first two months compared to 2022.

Furthermore, as emphasized by Oliver Wyman, "When estimating [the impact of the New Normal], consideration should be given to the most recent experience available at the time of filing. For example, monthly claims frequency data…". As of July 2023, we observe the gap in frequency for physical damages between 2023 and 2019 is half of what it was in December 2022. Should this momentum continue for the remainder of 2023, frequency rates will be back to 2019 levels by the end of year.

It is also important to note that there is a geographical component to accident frequency. Accidents are not uniformly spread throughout the province, or even within a city or municipality. Analyzing mobility trends at the industry level with that level of granularity is not available, but it plays an important role in understanding Oliver Wyman's assumption of hybrid work and its future effect in reducing the frequency of losses. For example, certain communities may have a larger proportion of retail or manufacturing workers who would not benefit from hybrid work modes, while another may have a larger proportion of workers in the finance industry who would.

One should also note that there is a trade-off between accident frequency and severity. Under the assumption of traffic patterns changing under a new normal, we can expect the average speed to increase due to reduced congestion. In turn, this means that accidents will occur at higher average speeds, resulting in more vehicle damage and posing the potential for increased rates of bodily injury.

Lastly, it is important to consider the type of business targeted by the individual insurer. For example, an insurer targeting group business may have a larger proportion of clients working in sectors that benefit from hybrid work options when compared to mass market competitors.

Inflation

As of July 2023, the annual inflation in vehicle parts (+6.4%) remains nearly twice as high as the general inflation rate (+3.3%), and inflation among repair services (+5%) continues to climb month over month due in part to the rise in labour rates and vehicle rentals. In past discussions, we have raised our concern that inflation in the health care system would lag physical damages. Indeed, we see a sharp acceleration in the province of Ontario as of July 2023 with annual inflation reaching +5.1% vs +2.3% in July 2022. Following Oliver Wyman's consideration of inflationary forces on physical damages, we would recommend that a similar consideration be given to Accident Benefits.

Loss Trend Comments

Reporting

In Alberta, Oliver Wyman has adopted a commendable methodology for their loss trend analysis. They provide a range of estimates, accompanied by p-values and R-squared statistics, presented in two-way tables across various time ranges. This approach not only offers a transparent view into their reasoning and selections but also equips the industry with the necessary insights to position their feedback and considerations effectively.

DGIG believes it would be beneficial for FSRA and Oliver Wyman to consider implementing a similar approach in future benchmark analyses. This would promote:

- Consistency in positioning loss trend selections when factoring in similar macroeconomic considerations across markets.
- Promote the sharing of best practices within Oliver Wyman, ensuring that the most effective and transparent methods are utilized across regions.
- Facilitate industry engagement through enhanced consistency across markets.
- Promote efficiencies among the CCIR as best practices related to industry benchmarking are shared.

Loss Development

Oliver Wyman uses the E&Y loss and claim development factors sourced from their analysis of GISA. These factors are based on the incurred development method or the Bornhuetter-Ferguson method for less mature, long-tailed lines of business. While these methods might be suitable for industry-wide analysis, they may not account for specific variations between companies who may be undergoing process changes in reserve setting. We'd like to emphasize to FSRA the crucial role of actuarial expertise in accurately capturing changes in claims processes at the company level. For long-tailed lines, this can lead to significant deviations from loss trend industry benchmarks. As FSRA transitions to a principles-based approach to regulation, recognizing and valuing this expertise in future rate filings is essential.

Comprehensive:

Theft: We are pleased to see a recognition that Comp loss trends are increasing, however, as FSRA is already aware, automobile theft is soaring right now, with little signs of slowdown. Our own data suggests that as of June 2023, the total theft losses are already at 75% of the total for last year. This suggests that the true Comp Theft trend may be much higher. We urge FSRA to recognize insurers' own internal and more recent (i.e. 2023) COMP data when assessing rate changes related to COMP.

Bodily Injury (BI)

Frequency: The industry frequency trend seems negative between 2016-2020, whereas we see upward or flat patterns in CHA/CDI over the same period. Oliver Wyman's report observes the declining ultimate frequency and resulting loss cost for Bodily Injury (BI) since 2015/2016 and mentions that it is plausible that this is due to Bill 15 that included a change to the Dispute Resolution system (DRS) that ended access to courts for Accident Benefits (AB) disputes and that may be leading to fewer BI claims as there may be less legal representation. In our own experience at DGIG, we don't find this to be the case. We find that most applicants at the License Appeal Tribunal (LAT) are represented.

We believe that some of the decline in frequency may largely be linked to a slowdown in claims reporting and may require more time to conclude the impacts given the long tail nature of BI. Additionally, the slowdown in claims reporting has been further exacerbated during Covid due to court closures and the extension of limitation periods. Even with the additional year since the last report we likely still don't know the full impacts. Given the number of years since Bill 15/91, and the impact of BI on overall loss cost/premium estimates, we suggest understanding the frequency better and adjusting accordingly before making a final selection for future trend on BI. Given the limited data period and the high degree of uncertainty, we recommend a 0% trend rate.

Loss Cost Trend: BI coverage is a significant proportion of loss cost and premiums for Private Passenger Vehicles (PPV) in Ontario. The estimate for past and future trends therefore is important as it can have a significant and material impact on the rate needs and ultimate rate adequacy of an insurer. The overall industry negative trend is driven by a declining claims frequency, which the report notes cannot be definitively explained by Bills 15/91. The report also notes that the DRS change may have contributed to the observed decline, but the cause of the decline is ultimately unknown.

We caution that the selected loss trend for BI may be too optimistic.

Thank you for the opportunity to provide our commentary.

Sincerely,

Neal Holland

Neal Holland

Vice President, Automobile Business Solutions