

August 24, 2023

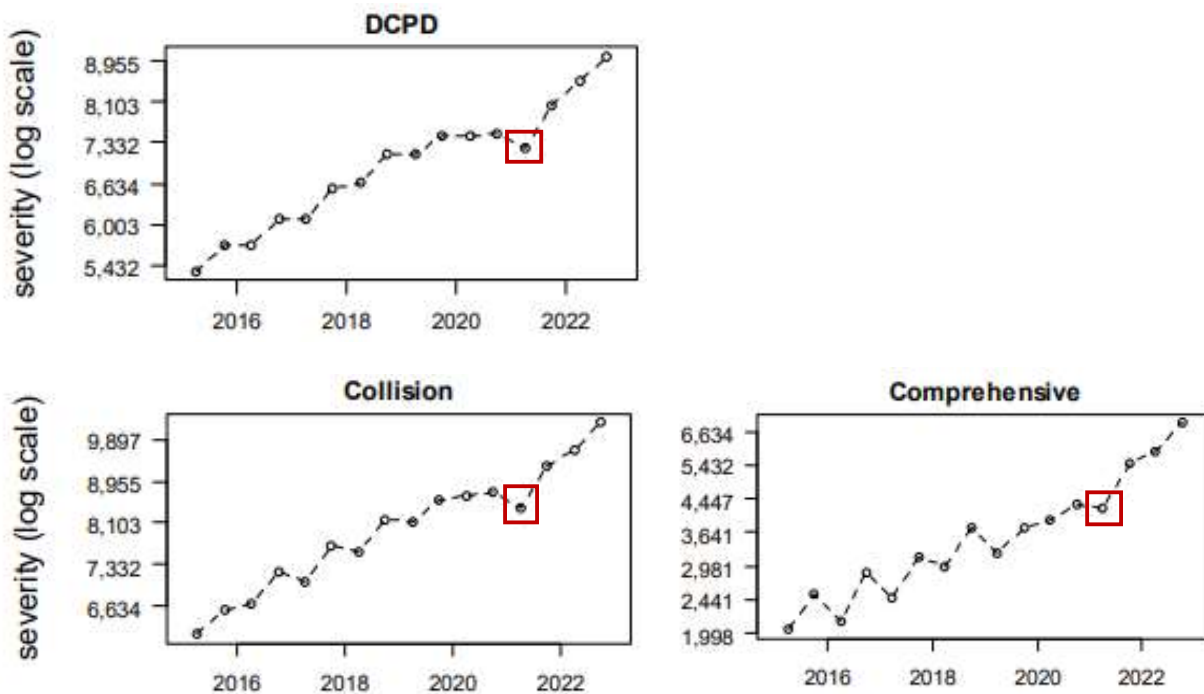
Financial Services Regulatory Authority of Ontario (FSRA)  
Auto Insurance Sector  
25 Sheppard Avenue West, Suite 100  
Toronto, ON M2N 6S6

**Subject: 2023-009 - Consultation on Draft Ontario Private Passenger Vehicles Annual Review**

We at the Co-operators General Insurance Company (CGIC) appreciate FSRA allowing the industry to provide feedback on the Draft Ontario Private Passenger Vehicles Annual Review before it is officially published. In the sections that follow, we provide feedback on topics from Oliver Wyman's report that we have deemed important.

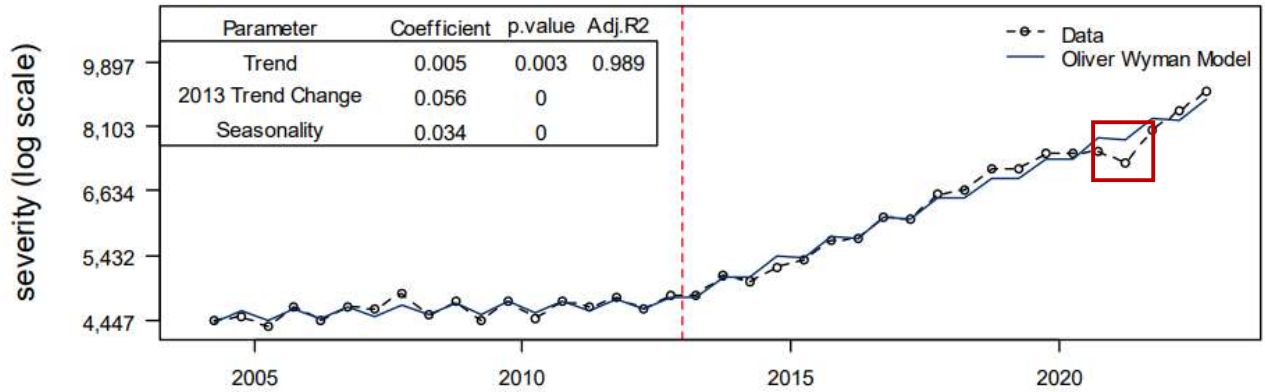
**Severity Trends**

It was noted that the severity patterns for physical damage coverages, particularly DCPD and Collision, displayed a similar flattening around 2020 with a decrease in 2021. From Figure 12:

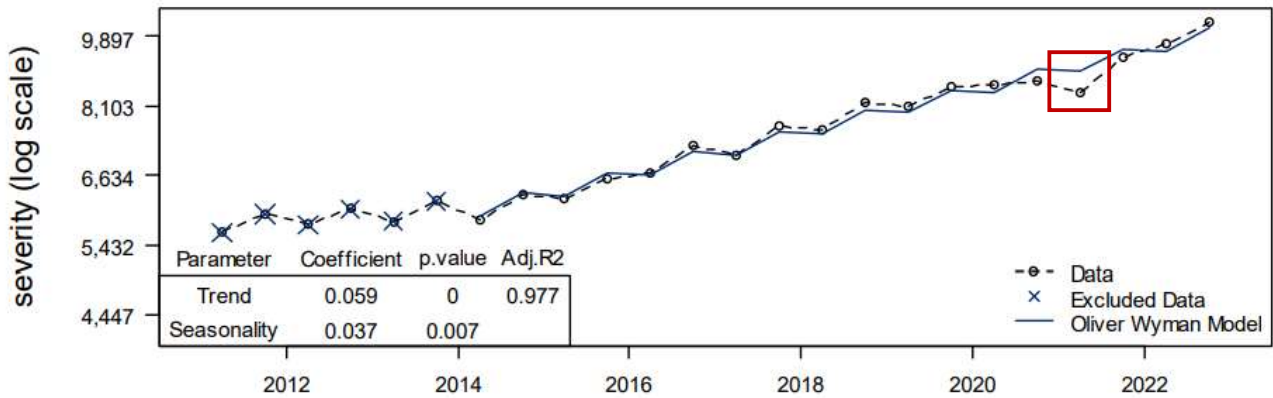


We also noticed that the Severity trends had trouble fitting this period.

DCPD

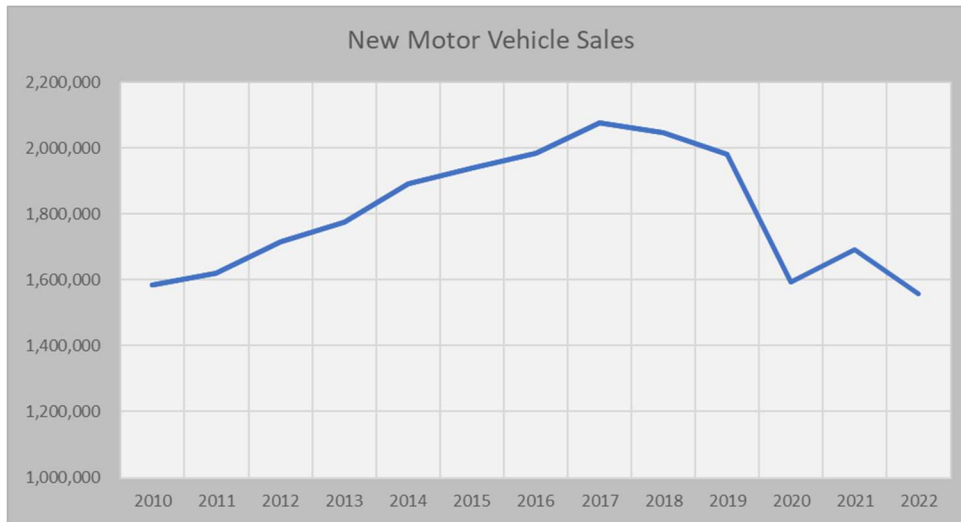


Collision



This is acknowledged in Appendix G “we recognize these selected models...overpredict the 2020-2 through 2021-2 observations”. Two alternative models are tested and the conclusions are that the first ‘does not improve the model fit’ and that the second ‘improves performance but is likely overly complex and may overfit the data’. We would like to offer a possible explanation for this ‘dip’ as that understanding could influence the model selection.

With the pandemic causing global shutdowns and the supply chain issues that followed, there was a significant drop in new vehicle sales starting in 2020. Below are the new motor vehicle sales in Canada between 2010 and 2022<sup>1</sup>:



With fewer new vehicle sales this means that the average vehicle age has increased and a higher vehicle age is associated with a *decrease* in severity. This means that since 2020 there are two offsetting factors influencing the severity:

- Inflation of vehicle parts, labour and new vehicles (increasing severity)
- Average vehicle age increasing (decreasing severity)

In other words, part of the severity trend is being ‘masked’ by the mix of business shift of fewer new vehicles on the roads. We feel that having a consistent severity trend from 2015 and later (as we see for Collision and DCPD), while visually fitting 2022 data well, is *understating the severity* of more recent years by not considering this.

The conclusion of Appendix G is that ‘we believe a parsimonious model is more appropriate to avoid overfitting in this case’. We feel that given the explanation for the observed severity patterns in 2020 and 2021 and it’s hidden impact in 2022, we would encourage consideration of a model that incorporates the effect of the decline in motor vehicle sales. This would be similar to the third model in Appendix G but instead of a scalar in 2021-2, include a vehicle age adjustment (similar to mobility for COVID) and possibly have a different trend selection for 2020 and later.

If you have any questions or require clarification with respect to this written submission, please do not hesitate to contact me at [Stephen\\_Brumley@cooperators.ca](mailto:Stephen_Brumley@cooperators.ca).

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<sup>1</sup> Statistics Canada. [Table 20-10-0001-01 New motor vehicle sales](#)