



IBC · BAC
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August 25, 2023

Glen Padassery
Executive Vice President, Policy & Chief Consumer Officer,
A/EVP Auto/Insurance Products
Financial Services Regulatory Authority of Ontario
Auto Insurance Sector
25 Sheppard Avenue West, Suite 100
Toronto, ON M2N 6S6

Re: Preliminary Ontario Private Passenger Vehicles Annual Review Consultation

Dear Mr. Padassery,

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 consultation report (OW Report). The commentary contained in this letter reflects the views of insurers operating in Ontario's private passenger vehicle (PPV) insurance market.

Data from the OW report highlight that in 2022, the return of Ontarians to the roads led to an expected increase in total claims costs. These increases were exacerbated by an especially rapid rise in theft claims, which have increased nearly four-fold in the last four years. The combination of these two factors contributed to the average premium paid in Ontario being roughly rate-adequate based on OW's estimated 2.2% underwriting profit margin, only slightly below the 5% target permitted by FSRA.

The reversion of profitability to historically modest levels suggests that on average, insurers may need to adjust rates going forward in response to current claims trends. It is important to recognize that while the trend factors presented in the OW Report may turn out to be an accurate reflection of the industry as a whole, it is critical for the functioning of a healthy insurance market that FSRA work with insurers that may see different claims experience and accordingly, may need higher or lower rate adjustments than the industry overall.

Our additional commentary on the OW Report are outlined below.

Theft Claims

According to data from Equite Association, the anti-fraud insurance industry association, Theft claims have skyrocketed in Ontario over the last few years. Between 2018 and 2022, Ontario theft claims increased from \$165 million to \$706 million, amounting to an average annual growth rate of 44%. These increases, which have been especially pronounced in the GTA, meant that in 2022, theft claims amounted to approximately \$125 of the average Ontario driver's auto insurance premium.

Theft claims form a substantial portion of total comprehensive claims in Ontario. While OW's selected comprehensive trend factor of +10.4% is indeed higher than the +7.1% selected in last year's report, it is

considerably below the average claims increase in recent years. Vehicle theft claims are based on many more external factors than other sub-coverages. This makes theft claims especially difficult for insurers to predict and price for. The insurance industry continues to do its part to mitigate vehicle theft. For example:

- IBC publishes theft awareness resources on its website and runs an annual campaign on auto theft prevention, while Equite publishes a Top 10 Stolen Vehicle List to increase public awareness;
- Many insurers have taken advantage of new rules around incentives to offer some consumers with high-risk vehicles discounts for installing anti-theft devices; and
- Equite Association and IBC have developed several recommendations for what governments can do to mitigate vehicle theft, such as tightening up provincial vehicle registrations, ensuring up-to-date vehicle security standards, and providing more resources for coordinated inter-agency enforcement. IBC has already had fruitful discussions with senior staff across the Ontario government on these recommendations.

Despite these efforts, there will continue to be many factors beyond insurers' control. Some insurers may see comprehensive claims trends in line with the +10.4% selected by OW. Though if recent theft claims trends continue, other insurers may see much greater increases, which would increase pressure on premiums.

Injury Claims Pressures

According to the OW Report, both bodily injury and accident claims are projected to decrease over the next year, continuing a trend in place since the 2016 reforms. However, there are signs within OW's figures that injury claims pressure may be building.

Accident Benefits

OW's selected accident benefits trend factor of -0.1% implies that these claims will be flat in nominal terms, or decrease in inflation-adjusted terms. This selection implies a deterioration compared to the -1.0% that OW selected 6 months earlier. This difference of nearly 1 percentage point compounded each year since 2016 could have a sizable impact on claims expectations going forward.

This deterioration is not unexpected. Disputed claims presented to the province's License Appeal Tribunal (LAT) have grown considerably in recent years. During Q1, 2023, there was a backlog of nearly 14,000 cases, with approximately 3,700 added to the queue. While the LAT has begun decreasing the total backlog, there continue to be a considerable number of referrals submitted to the LAT each quarter. Given the long-tail nature of accident benefits claims, the outcome of these cases could drastically change projected ultimate accident benefits claims costs.

Bodily Injury

Similar to accident benefits, OW selected a deteriorating trend factor during this exercise. While still projected to decline year-over-year, the selected bodily injury trend factor of -3.4% is 0.6% higher than the -4.2% selected six months ago.

IBC recommends that FSRA continue to recognize that insurer experience with these long-tail coverages will differ depending on their business models. This should involve permitting actuarially justified rate changes in order to foster healthy market competition that promotes innovation and consumer choice.

'New Normal' Claim Frequency

The OW Report highlighted the second half of 2022 as potentially a 'new normal' regarding post-pandemic claim frequency. We believe that it is too early to make this call. Insurers have noted that 2023 claim frequency is trending above the same time period in 2022. Last year, total claims costs per vehicle were only below pre-pandemic levels because of the drop in frequency; severity has generally continued to increase. Therefore, a minor increase in frequency could have an outsized impact on actual ultimate loss costs.

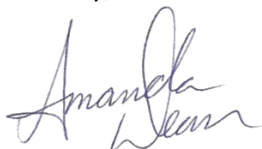
Economic Uncertainty

While much of the impact of COVID-19 on driving habits has abated, there remains considerable uncertainty in the broader economic outlook. For example:

- The forthcoming 'recession' that has been projected for over a year has yet to develop. Canadian consumer spending has remained robust, and recent economic data from both Canada and the US highlight that economic growth has yet to meaningfully slow down. If the Canadian economy remains strong, this historically translates into more vehicles on the road, which tends to lead to an increase in collisions and claims;
- While inflation is lower than it was 12 months ago, it remains above the Bank of Canada's target. Critically for auto insurers, vehicle repair cost inflation typically trends above the general inflation rate. This means that while the steep year-over-year increases in vehicle repair costs have lowered, inflation is likely to remain a going concern for at least the next year; and
- In 2022, there were more than 1 million new arrivals to Canada, with over 40% choosing to live in Ontario. While an increase in population does not automatically translate into higher trend factors, the vast majority of these individuals likely do not have driving experience applicable to Canada. Until they obtain several years of Canadian driving experience, data suggests that they are likely to have higher-than-average loss experience. This could lead to higher trend factors being realized than those projected.

Thank you for the opportunity to participate in FSRA's Ontario Private Passenger Vehicle Annual Review. If you would like to discuss any of these comments in greater detail please don't hesitate to reach out.

Sincerely,



Amanda Dean
Interim Vice President, Ontario