TD Insurance

August 07th, 2023

Financial Services Regulatory Authority of Ontario (FSRA)
25 Sheppard Avenue West, Suite 100
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Subject: Ontario PPA Annual Review based on Industry Data as of December 31, 2022

TD Insurance (TDI) welcome the opportunity to comment on Oliver Wyman's annual review report based on Ontario PPA data as of December 31, 2022 which includes a comprehensive analysis of trend rates, as well as detailed information regarding the underlying data, methodologies, and assumptions used. An important part of the actuarial work is to predict what the future will look like based on the current available data. The estimation of the most probable scenarios can differ from one actuary to another based on actuarial judgement and/or access to different type of data. Allowing insurers to comment on Oliver Wyman's work ensures multiple actuarial experts' opinions are considered which will result in a stronger final estimation.

New Normal Frequency Level

TD Insurance would like to comment on Oliver Wyman's prediction of 2022-2 being the "new normal" after the Covid pandemic. TD Insurance agrees that in 2022-2 most of the companies had already opened their offices for their employees to work together at the same place. However, TDI notes that, at that time, a lot of employers faced some resistance from their employees to return more frequently to the office as they were used to the working from home benefits on their work-life balance. In 2023, to increase their premises occupancy and with the argument of better productivity, some major companies, including the city of Toronto and RBC, mandated their employees to return to the office at least 2-3 times a week.[1] This continuous shift in workplace arrangements should have an additional impact on where the new normal environment after the Covid lands. This assumption is further supported by the frequency graphs included in Oliver Wyman's report, where we are still seeing a steeper increase in frequency than usual trends which might be an indication that the situation has not stabilized yet.

[1] https://www.theglobeandmail.com/business/article-rbc-employees-hybrid-office-work/

Example with Bodily Injury and Collision:

Figure 23: Collision - Fitted Frequency, Severity and Loss Cost

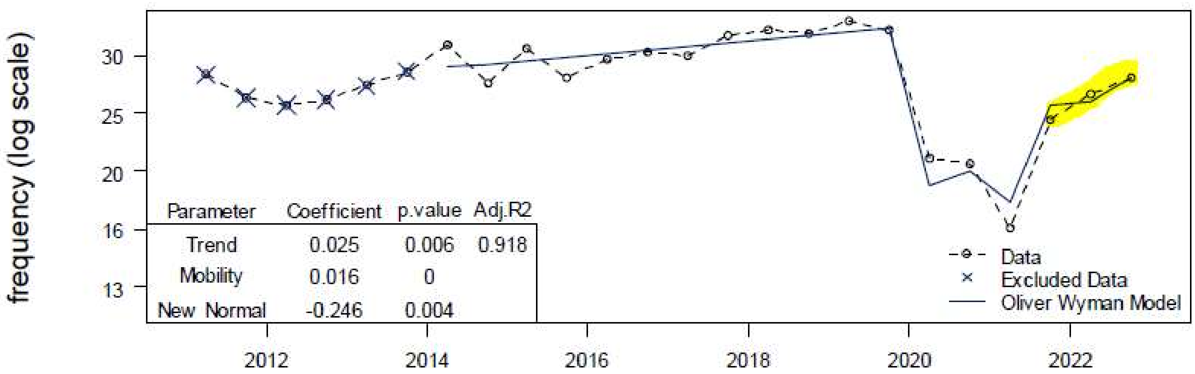
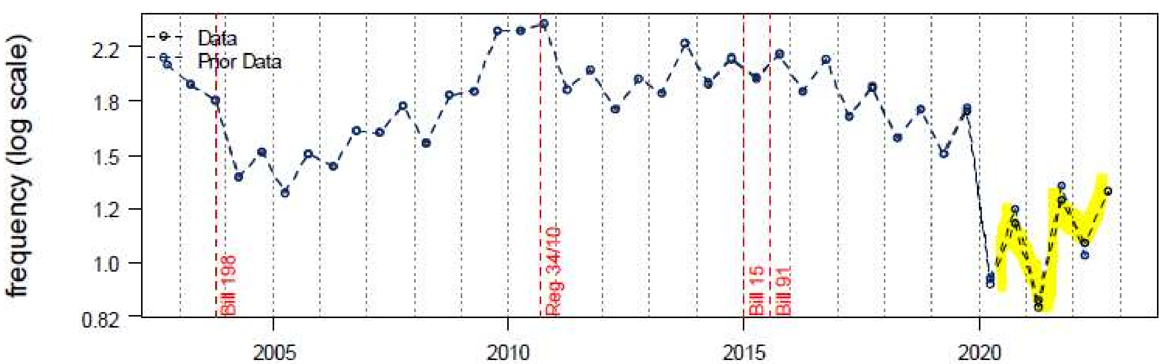


Figure 14: Observed Bodily Injury Loss Cost Experience



Regarding the "New Normal" adjustment proposed by Oliver Wyman in Appendix H, while TDI believes the proposed methodology is reasonable in the case that 2022-2 is the new normal, insurers should be cautious using this methodology as it relies on only 1 datapoint for the new normal and it can therefore be subject to volatility.

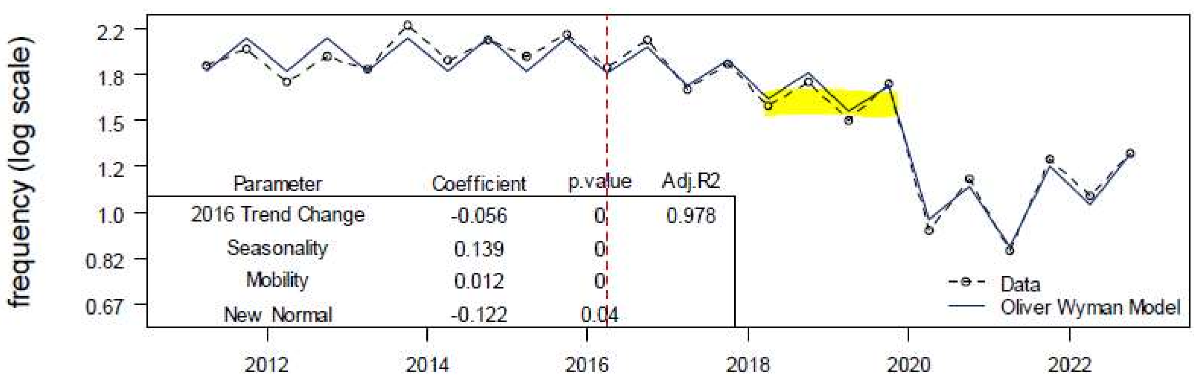
The resulting factor is also dependent on other factors like the type of customers a specific insurer has. For example, an insurer can see a bigger decrease in frequency if its customers are concentrated in urban areas which are more prone to have a new post pandemic hybrid workplace model (more office workplaces) while customers from rural areas might see a smaller effects on driving habits.

Loss Trend Selection

Bodily Injury

TDI believes that the selected frequency trend (-0.056) is too low considering the relatively flat frequency pattern between 2018-1 & 2019-2. While TDI acknowledges that there has been a decrease in the industry's Bodily Injury frequency after the 2016 reform up until 2018-1, the reason for that decrease is currently unknown as stated in Oliver Wyman's report on page 45. Since there is no reason that justifies the decrease, it is hard to comment on the possible duration. Knowing the most recent trends are impacted by Covid and knowing that the frequency has been relatively stable in the 2 years before the pandemic, TDI would suggest a flat future trend.

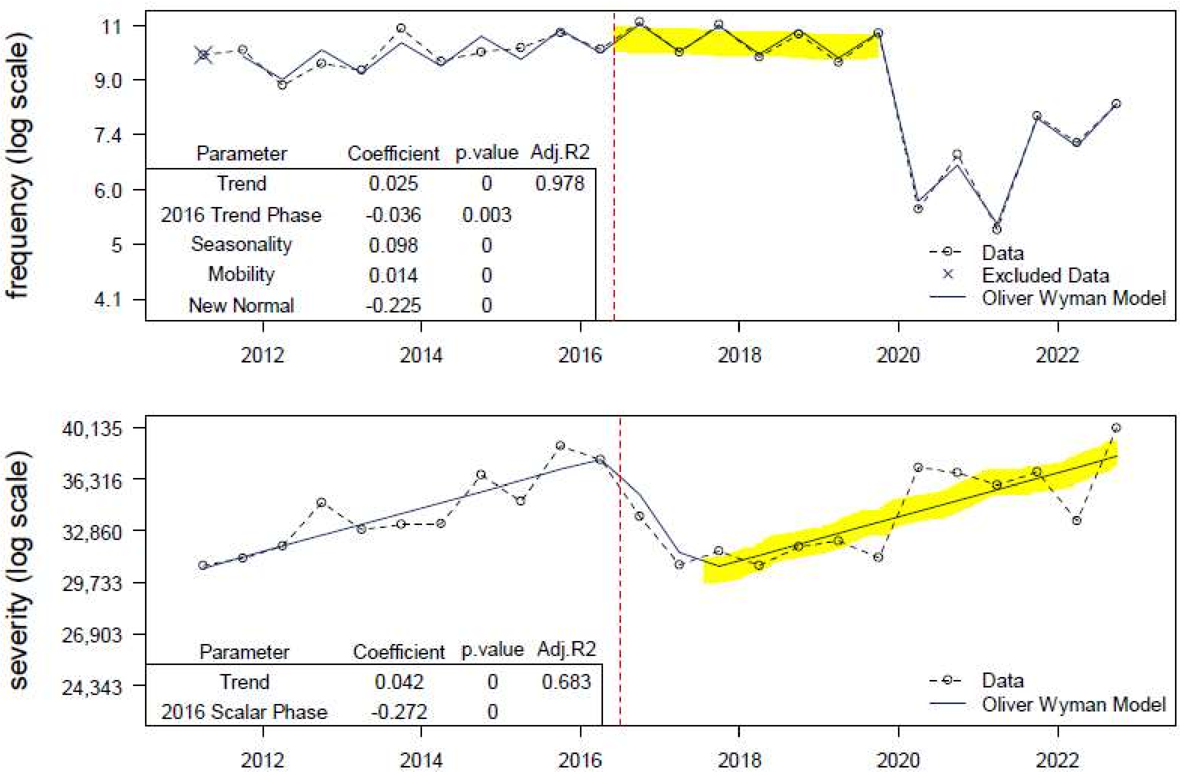
Figure 15: Bodily Injury - Fitted Frequency, Severity and Loss Cost



Accident Benefits

For Accident Benefits, as stated in Oliver Wyman's report page 56: The severity has risen in 2020 and in 2022 while the frequency has been stable/decreasing before the pandemic. With those trends in mind, the close to 0% future trend in Accident Benefits is hard to understand. TDI believes that the trends implied by Oliver Wyman's selected frequency and severity models are more reasonable (+7.0% up to June 1, 2016 and +3.2% thereafter).

Figure 21: Accident Benefits Total - Fitted Frequency, Severity and Loss Cost

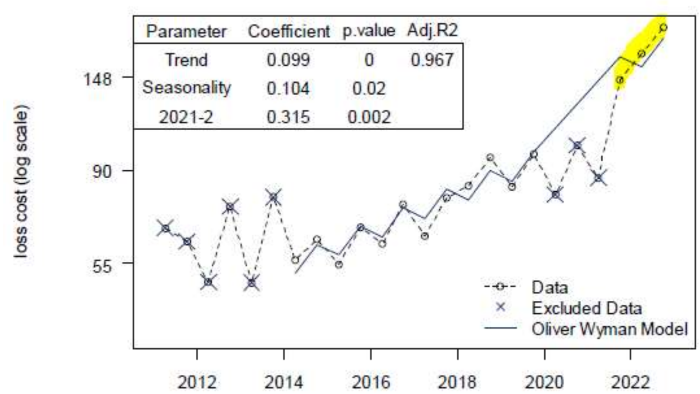


<u>Comprehensive</u>

The industry has experienced a significant increase in theft after the pandemic and this increase is continuing in 2023.[2] The current selection of 10.4% is close to the 2020 level when the pandemic had just started, which TDI believes to be too low. TDI agrees with the need to have a scalar in 2021-2 to consider the important shift in trend, however, it believes a trend change should also be applied considering the increase after the 2021-2 scalar is steeper than the increase in trends before the pandemic.

[2] https://www.canadianunderwriter.ca/insurance/pc-industry-reacts-to-ontarios-crackdown-on-auto-theft-1004233558/

Figure 28: Comprehensive Total - Fitted Loss Cost



Considering all the movements in theft losses and in other comprehensive losses, the applicability of the industry comprehensive trends might decrease. As theft losses are seeing bigger increases in urban areas, insurers with more important urban exposures might see a larger increase in their comprehensive losses. Hence, it will be important for insurers to determine their comprehensive trends using their own data.

Inflation

TD Insurance agrees with Oliver Wyman that, when selecting the future trend rate, an insurer should consider if inflation is stabilizing, falling or rising, and modify/adjust the past trend rates for the prospective period. Projections on inflation are uncertain and might change significantly as new data arises.

For example, in the Monetary Policy Report of the Bank of Canada as of June 2023[3], the outlook for inflation has been revised up from the January report. Consumer price index (CPI) inflation is forecasted to be higher by as much as 0.4 percentage points in the first half of 2024. As well, inflation is now expected to return to 2% in the middle of 2025, two quarters later than projected in January and April. The upward revision to the inflation outlook is due to more persistent excess demand, higher-than-expected house prices and higher-than-expected prices for tradable goods. Therefore, with this new information in hand, TDI believes that the selected adjustments for inflation in Oliver Wyman's report are likely understating the reality of 2023 so far.

In conclusion, TD Insurance would like to thank FSRA for giving us the opportunity to comment Oliver Wyman's draft report. We hope FSRA finds our comments helpful in the finalization of its benchmarks.

Regards,

Lydia Roy, FICA, FCAS I AVP Tarification & Profitabilité AG I **TD Assurance**

AVP GI Pricing & Profitability I **TD Insurance**

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[3] https://www.bankofcanada.ca/wp-content/uploads/2023/07/mpr-2023-07-12.pdf