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

Dear Mr. Padassery,

Re: 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 2024 Financial Services Regulatory Authority of Ontario's (FSRA) report, Draft Ontario Private Passenger Vehicles Annual Review (OW Report). Our commentary in this written response reflects the views of insurers operating in the Ontario's private passenger vehicle (PPV) insurance market.

Trend Factor Range

For this year's report, Oliver Wyman included a range of acceptable trend factors for each coverage instead of a single average trend factor. We support this change. Previously, the selection of a single number by coverage for the entire industry would, by definition, mean that approximately half of insurers would face trend factors above this range.

Our assumption is that FSRA expects the upper bound of the range for a given coverage to capture the majority of insurer rate filings. At the same time, some insurers may face trend factors above this range based on the unique nature of their customer base. It is important that FSRA equally consider filings above the upper bound based on their reasonableness, rather than treating the upper bound as a cap.

Comprehensive Trend Factor

For this year's report, Oliver Wyman selected an average COMP trend factor of +13.6%, with an upper bound of +17.5%. This is a recognition of the rapid increase in theft claims costs in recent years. Recent theft increases mean that over the last few accident years, year-over-year COMP loss cost increases have been substantially above this level. Even an upper bound of 17.5% implies a substantial deceleration in theft claims over those seen in recent years. It is critical that FSRA permit a wide range of projected COMP trend factors, even if they are above this upper bound.

Deteriorating Prior-Year Injury Claims Environment

In its written response to the 2023 Annual Review, IBC noted an emerging deterioration in the development of past accident year injury claims. Last year, we highlighted that Oliver Wyman's selected bodily injury and accident past trend factors were +0.6% and +1.0% higher than they had been only months before.

Based on Oliver Wyman's most recent data, this deterioration has accelerated. The table below shows select past trend factors for bodily injury and accident benefits coverages from the 2023 and 2024 Annual Reviews.

Selected Loss Trend Factors Post-2016

	2023 Annual Review	2024 Annual Review	Change
Bodily Injury	-4.2%	-1.9%	**+2.3%**
Accident Benefits	-1.0%	+0.6%	**+1.6%**

IBC with data from FSRA Annual Review reports

Oliver Wyman's selected bodily injury and accident benefits trend factors are 2.3 percentage points and 1.6 percentage points higher than those selected 12 months ago. Over 9 relevant accident years since 2016, this suggests that bodily injury and accident benefits loss costs may be approximately 20% and 14% higher, respectively, than initially projected.

We recognize that ratemaking is a prospective exercise, not a retrospective exercise. While insurers do not account for past losses when setting future rates, there is likely to be increased uncertainty around the future injury claims environment in Ontario. It is critical that FSRA continue to recognize that there are a wide range of acceptable actuarial assumptions when insurers are setting future rates.

Economic Outlook

The OW Report references that if a recession were to occur, consumers could decide to 'do less', which would lead to a reduction in vehicle usage and, by association, a reduction in claims costs. While a recession may influence lower claims costs, there are likely to be negative knock-on effects that the Report does not mention. Around the world, including in Canada, fraudulent activity is known to increase during periods of economic uncertainty. This, historically speaking, is likely to lead to higher claims costs. It is critical that FSRA continue to be aware of the potential for increased fraudulent activity if Ontario enters a recession.

'New Normal' Claim Frequency

Like last year, Oliver Wyman asserts that H2 2022 may be the beginning of a 'new normal' for claim frequency, one which is lower than pre-pandemic levels. We believe that this conclusion is premature. While claim frequency remains lower, there has been a trend – accelerating in recent months - towards a greater in-office presence for many employees that used to work in a predominantly virtual environment. Recent high-profile examples include:

- This month, the federal government mandated that all civil servants increase the weekly number of in-office days from two days to three days. Approximately half of all public servants that are employed by the federal government work in the Ottawa area, with many additional employees in the Toronto area. This change could have a sizable impact on claims frequency in cities with a high number of federal employees; and

- Many life insurers have similarly increased the number of days that employees are expected to be physically in the office from 2 days to 3 days.

It is unclear whether claim frequency will ever return to pre-pandemic levels. However, there is evidence that the factors which contributed to lower claim frequency – namely, hybrid working arrangements – have not yet stabilized. Accordingly, while some insurers may indeed see H2 2022 as a 'new normal', others may continue to see increasing claim frequency.

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,

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AD/jw