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September 6, 2024

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

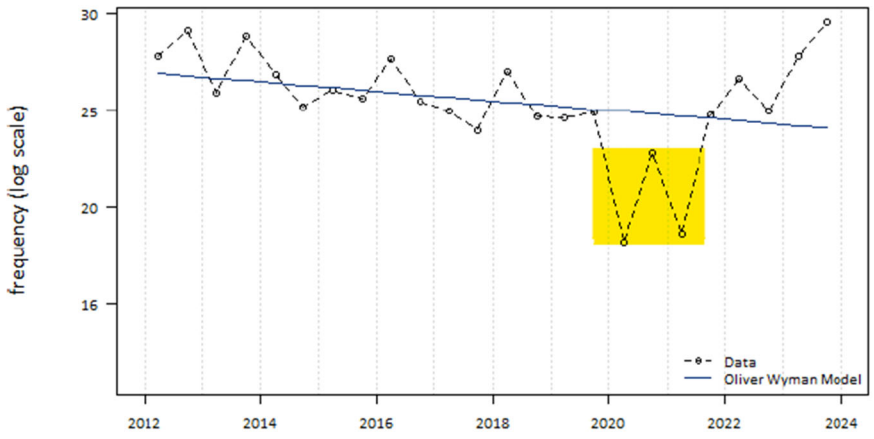
Subject: 2024-009 - Consultation on Draft Ontario Private Passenger Vehicles Annual Review

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.

COVID Adjustment – Comprehensive All Other

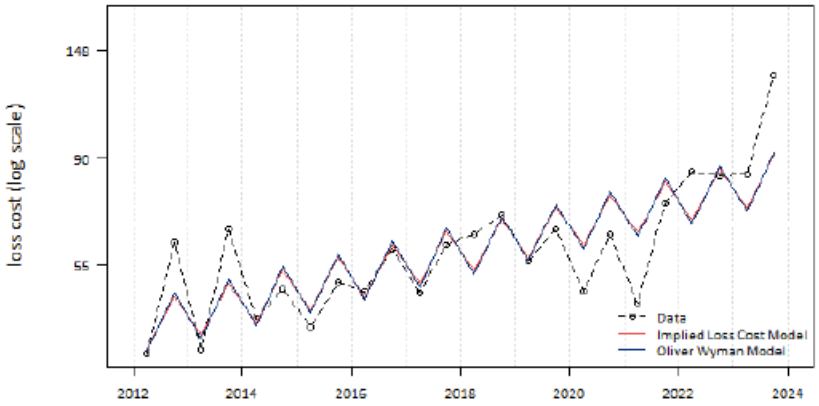
We disagree with the decision to exclude Comprehensive from the analysis of pandemic frequency impacts. Oliver Wyman justifies this decision in footnote 126 on page 90: "We exclude comprehensive from this analysis as we do not expect the frequency level to differ from pre-pandemic levels as it is not a 'moving' coverage". However, the argument that Comprehensive is not a "moving" coverage is not fully accurate.

The non-theft comprehensive coverage is still a heterogenous portfolio of diverse peril types, many of which are "moving" perils, while others surely are not. For example, it is recognized that perils such as theft, vandalism, windstorm or hail are not "moving" perils. However, it is reasonable to conclude that an animal collision claim is very unlikely if the vehicle is not being driven. The same could also be argued of most glass claims. These "moving" perils are a material share of the non-theft Comprehensive coverage, and so it should not be surprising that the industry saw a very clear negative frequency impact during pandemic periods that mirrors that seen on other coverages. We feel that pandemic adjustment factors are appropriate for Comprehensive All Other.



Trend Selection – Comprehensive All Other

It is unclear why the selected Comprehensive All Other model was chosen as there are alternative models that seem to perform better. Visually, we can see that the Loss Cost model does not predict the experience from the last four years very well.



Parameter	Coefficient	p.value	Adj.R2
Trend	0.059	0	0.673
Seasonality	0.242	0.002	
Trend Rate	+6.1%		

There are a couple reasons for this. First, as described above, we observe a similar drop in frequency during the pandemic that we observe in other coverages suggesting that mobility could be a meaningful variable.

Second, as part of the July 2016 reform, the industry implemented a change in standard deductible levels from $300 to $500. This had an expected downward impact on Comprehensive All Other frequency that is not considered in the presented loss trend analysis. If the negative frequency impact of the shifting deductible mix is not controlled for, then the estimated loss trend may implicitly extrapolate the effect of this one-time shift in coverage-level into the future, and be prone to underpredicting future CMP Other frequency. This risk is magnified by the recent inflationary environment, which can be expected to gradually undo the loss elimination achieved by the 2016 change in standard deductibles. In other words, trending without treatment for the shifting deductible mix may extrapolate a temporary negative effect into the future; one that is economically expected to reverse – not continue – over time due to inflation. The quality of fit of the proposed regression model may appear to suffer from these deficiencies, like it does from the omission of pandemic effects.

We would recommend selecting a Loss Cost scenario that considers a more recent history and takes into account mobility. For instance, the following model from Appendix E Page 101 could be considered a reasonable alternative:

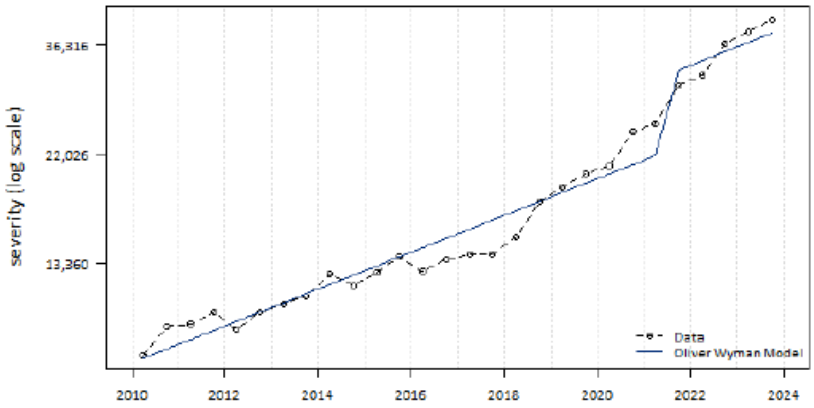
- Parameters: time, seasonality, mobility
- Start Date: 2017.1
- Adjusted R^2: 0.779
- Implied Trend Rate: +11.09%

Note: This is the only scenario for Comprehensive All Other that considers mobility. The p-value for Seasonality in the scenario above is 0.121 so it may be valuable to test additional scenarios such as Time and Mobility. Likewise, Frequency should be tested with the same model.

Trend Selection – Comprehensive Theft - Severity

The selected trend for Comprehensive Theft Severity includes an inflation scalar adjustment at 2021-2 which coincides with high general inflation. With that said, the inflation scalar adjustment does not fit recent data well, partly because 2010 is being used as a starting point.

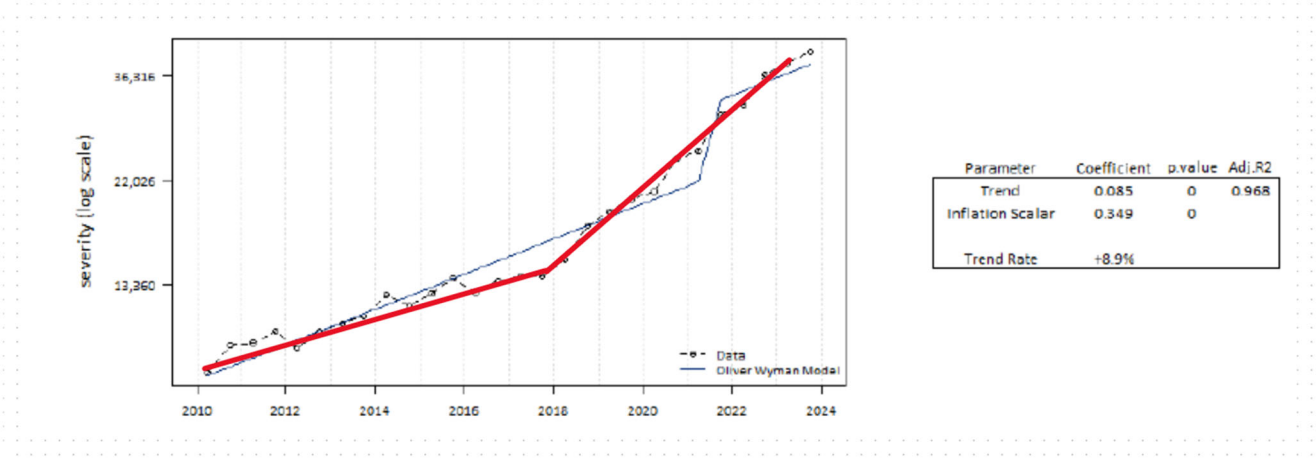
Comprehensive Theft – Severity



Parameter	Coefficient	p.value	Adj.R2
Trend	0.085	0	0.968
Inflation Scalar	0.349	0	
Trend Rate	+8.9%		

There are two general trend distinct patterns, a flatter positive trend from 2010 to 2017 followed by a consistent higher severity trend from 2018, highlighted below.

Comprehensive Theft – Severity

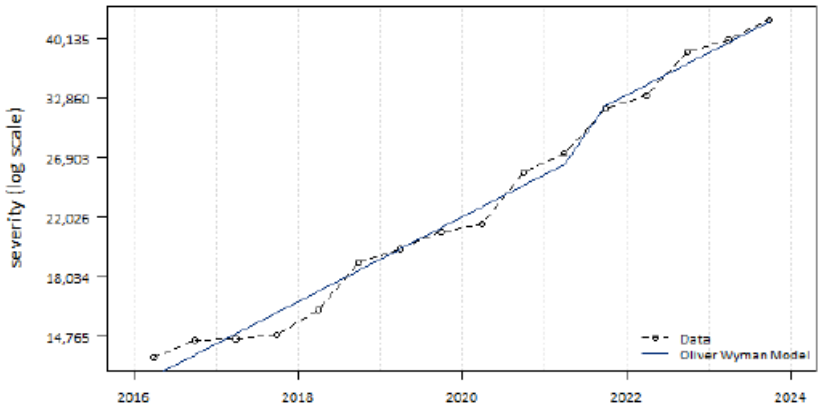


Parameter	Coefficient	p.value	Adj.R2
Trend	0.085	0	0.968
Inflation Scalar	0.349	0	
Trend Rate	+8.9%		

For Severity, we recommend the consideration of a scenario that starts at 2018-01-01 or includes a trend shift at 2018-01-01 (or a similar period). There is a scenario that includes a trend shift at 2016-01-01 (Appendix E Page 91), however, it includes a Mobility adjustment which isn't relevant for Severity. There is also not a scenario that considers Time only.

Notably, the Total Theft Severity selection also includes a scalar shift, but it better fits the data because it uses a more recent trend period, starting in 2016.

Total Theft



Parameter	Coefficient	p.value	Adj.R2
Trend	0.143	0	0.987
Inflation Scalar	0.128	0.008	
Trend Rate	+15.3%		

There is a comparable Severity scenario for Comprehensive Theft worth considering in Appendix E Page 92:

- Parameters: time, scalar level change (2021-07-01)
- Start Date: 2017.2
- Adjusted R^2: 0.993
- Implied Trend Rate: +18.37%

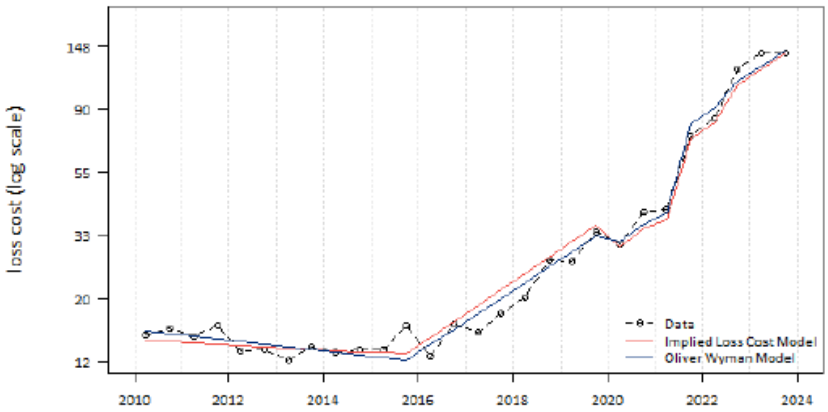
Note: The p-value for the scalar shift is 0.07 so having a scenario that is Time only could be worth considering.

Trend Selection – Comprehensive Theft – Loss Cost

We also note the differences in the Loss Cost models selected for the Comprehensive Theft and Total Theft. For instance, we find the inclusion of Mobility interesting for Comprehensive Theft in light of the reasoning to exclude Comprehensive from Section 9. We would recommend selecting a model similar to that chosen for Total Theft which uses a more recent history and only includes a scalar shift. For example, take the following scenario from Appendix E Page 92:

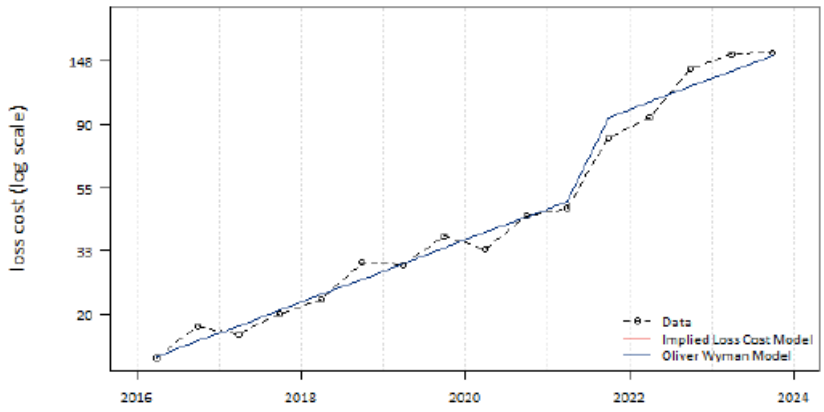
- Parameters: time, scalar level change (2021-07-01)
- Start Date: 2016.1
- Adjusted R^2: 0.983
- Implied Trend Rate: +28.16%

Comprehensive Theft



Parameter	Coefficient	p.value	Adj.R2
Trend	-0.041	0.007	0.984
2016 Trend Change	0.286	0	
Inflation Scalar	0.492	0	
Mobility	0.004	0.043	
Trend Rate (Period 1)	-4.1%		
Trend Rate (Period 2)	+27.8%		

Total Theft

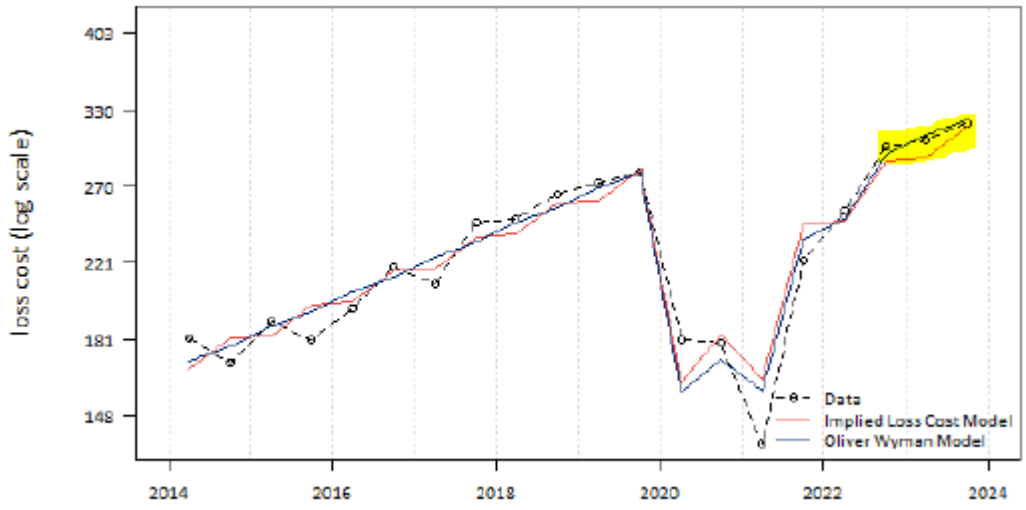


Parameter	Coefficient	p.value	Adj.R2
Trend	0.246	0	0.983
Inflation Scalar	0.537	0	
Trend Rate	+27.9%		

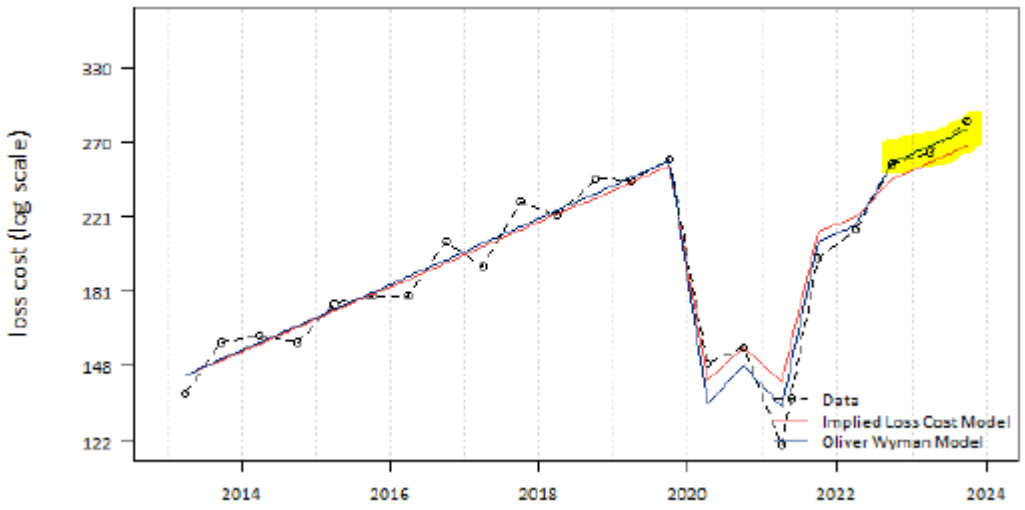
Trend Selection – Collision and Direct Compensation Property Damage

In both coverages the selected trends are from the implied Loss Cost model (ie combined Frequency x Severity model) rather than the direct Loss Cost model even though the latter has a better fit. In both coverages the severity model is not able to capture fully the "new normal" phase loss cost level, causing the final implied loss cost model to fall short in the recent 6 quarters (highlighted below). Given the similar nature for the two coverages (both physical damage and collision related), their ultimate values should be relatively reliable. We would recommend the selection of the model fit to loss costs directly.

Collision



DCPD



Once again, we appreciate the opportunity to participate in this review. 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.

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