

Approach



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Loss Trend Benchmarks for Private Passenger Automobile Major Rate Filings

Purpose and Scope

This Approach Guidance specifies the benchmarks for loss trend rates and reform factors (referred to as “Benchmarks” for the remainder of this Guidance) that FSRA will use when reviewing Private Passenger Automobile (“PPA”) insurance rate Major Filings. It supplements the Financial Services Commission of Ontario (“FSCO”) Major Filing Guideline, which was transferred from FSCO to FSRA following FSRA’s assumption of regulatory authority effective June 8th 2019.

This Guidance also supersedes the introductory paragraph and items 1 and 2 of Exhibit 2 of the FSCO Technical Notes for Automobile Insurance Rate and Risk Classification Filings (the “Technical Notes”) that accompany the FSCO Major Filing Guideline.

In addition to specifying the Benchmarks, this Guidance describes how FSRA uses benchmarks in its review of auto insurance rate filings.

Rationale and Background

Ratemaking Legal Framework

Section 3 of the *Automobile Insurance Rate Stabilization Act, 2003* (the “AIRSA”) requires all insurers writing non-fleet automobile insurance on the Ontario Automobile Policy (“OAP 1”) or Ontario Driver’s Policy (“OPF 2”), to have their rates and risk classification system approved or authorized by FSRA.¹ FSRA is required to refuse an application for approval of rates if, amongst other factors, the proposed risk classification system or the proposed rates are not “just and reasonable”; the Benchmarks are used to assist FSRA in making this determination.

Section 3 of the AIRSA also provides that an application (referred to as a “filing”) for approval of rates and risk classification systems shall be in a form approved by FSRA and shall be filed together with such information, material and evidence as FSRA specifies. Details of the applicable forms are outlined in the Major Filing Guideline and its associated Technical Notes, which this Guidance is intended to supplement.

FSRA Mandate

In supervising and regulating the insurance sector, FSRA is required to administer and enforce the statutes and their respective regulations in a manner that will carry out FSRA’s objects,² in particular:

- To contribute to public confidence in the insurance sector
- To monitor and evaluate developments and trends in the insurance sector

¹ Pursuant to Section 3(2) of the *Automobile Insurance Rate Stabilization Act, 2003*, an application for approval of a risk classification system or rates shall be in a form approved by the Chief Executive Officer and shall be filed together with such information, material and evidence as the Chief Executive Officer may specify. However, for the purposes of this Approach Guidance, the reference will be to FSRA.

² See *Financial Services Regulatory Authority of Ontario Act, 2016*, s.3

- To promote transparency and disclosure of information by the insurance sector
- To promote high standards of business conduct
- To protect the rights and interests of insurance consumers
- To foster a strong, sustainable, competitive and innovative insurance sector

FSRA's Approach as outlined in this Guidance is in furtherance of FSRA's statutory objects and its duties under AIRSA.

Principles

In addition to FSRA's statutory obligations, FSRA's [Rate Regulation Principles](#) ("RRP") are foundational to its approach to auto insurance rate regulation. In deciding to provide an updated Approach on the Benchmarks, which are a critical part of auto insurance rate regulation, FSRA was guided by the principles of *Transparency & Disclosure* and *Simplicity* under the RRP.

Benchmarks

Derivation Process

FSRA retained Oliver Wyman (the "Consultant") to independently derive the loss trends and reform factors, the results of which were used by FSRA in setting the Benchmarks for rate filing reviews. The Consultant's report, which outlines the complete derivation, can be accessed in Appendix 1.

The Consultant's analysis reflects feedback that FSRA received through a public consultation process. Further details on this consultation can be found in FSRA's [consultation summary](#), and a summary of the comments received and the Consultant's response to them is found in section 8 of the Consultant's report.

The Benchmarks analysis is based on Ontario insurance industry Private Passenger Automobile ("PPA") loss experience reported to the General Insurance Statistical Agency ("GISA") as of **June 30, 2019**.

Use of Benchmarks

The majority of premium (or "rate") an insurer collects pays for losses that its customers will incur in the future. To estimate these future losses, the insurer relies on a variety of assumptions.

FSRA regulates Ontario automobile insurance rates and uses the Benchmarks to evaluate if an insurer's assumptions are appropriate when the insurer seeks approval for changes to its rates. For example, where an insurer is seeking to change its rates based on cost increases in excess of the Benchmarks, the onus is on the insurer to show that its proposed change is just and reasonable. As such, the Benchmarks form a cornerstone of FSRA's approach to reviewing PPA rate filings.

Selected Benchmarks for Loss Trend Rates and Reform Factors

The Benchmarks, as outlined below, apply to rate filings submitted on or after **May 15, 2020**.

Coverage	Loss Trend Rate		Cut-off	Reform Factor
	Past	Future		
Bodily Injury	1.1%	-8.3%	1-Apr-16	1.000
Property Damage	4.0%	4.0%	1-Apr-19	1.000
Direct Compensation – Property Damage	0.5%	9.2%	1-Jan-13	1.000
Accident Benefits - Med/Rehab/AC	7.7%	-1.6%	1-Jun-16	0.795
Accident Benefits - Disability Income	6.4%	-1.4%	1-Jun-16	0.864
Accident Benefits - Funeral and Death	0.0%	0.0%	1-Jun-16	1.000
Accident Benefits - Total	7.4%	-1.6%	1-Jun-16	0.811
Uninsured Automobile	-4.3%	-4.3%	1-Apr-19	1.000
Collision	9.1%	9.1%	1-Apr-19	1.000
Comprehensive	6.1%	6.1%	1-Apr-19	1.000
Specified Perils	6.1%	6.1%	1-Apr-19	1.000
All Perils	9.2%	9.2%	1-Apr-19	1.000
OPCF 44	1.1%	1.1%	1-Apr-19	1.000

Commentary

FSRA acknowledges the new Benchmarks are markedly different from FSRA’s previous benchmarks, which were assumed from FSCO, for certain coverages, particularly for the Bodily Injury (“BI”) and Accident Benefits (“AB”) coverages under OAP 1 or OPF 2, for which a comparison can be found in Appendix 2. These changes are primarily driven by additional claims experience post the 2015/16 auto reforms (the “Reforms”), providing a better understanding of Reform impacts. This also includes development on claims from older accident years, which mostly impacts future trends for BI and AB coverages.

An additional factor underlying changes in Benchmarks pertains to the use of actuarial judgment. In the prior benchmark analysis, a negative BI future trend had been observed – however, given

the limited availability of post-Reform claims experience, actuarial judgment was exercised and a zero percent (0%) future loss trend rate was selected as a conservative measure. For this iteration, applying an actuarial judgment to override the loss trend analysis results was determined inappropriate in light of additional post-Reform claims experience, as supported by the Consultant's opinion.

FSRA is also aware of more recent industry data (2019-H2) which provides further support for the new loss trend in the Benchmarks but did not factor into this analysis. Furthermore, while the impact of the current pandemic is not present in the Benchmarks, insurers should also consider its impact on what may be "just and reasonable" rates.

Effective Date and Future Review

This Approach became effective on **May 15, 2020**. The next benchmark development process will begin in summer 2020 and will involve further public consultation.

About this Guidance

This Guidance is an Approach. Approach Guidance describes FSRA's internal principles, processes and practices for supervisory action and application of Chief Executive Officer discretion. Approach Guidance may refer to compliance obligations but does not in and of itself create a compliance obligation. Visit [FSRA's Guidance Framework](#) to learn more.

Appendices and References

Appendix 1 – Benchmark Reports

The table below lists all benchmarking reports produced since this Approach Guidance was launched.

Benchmark Effective Period	GISA Data Evaluation Date	Supporting Report
May 15, 2020	June 30, 2019	Oliver Wyman Report: “Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors”

Appendix 2 – Comparison to Previous Benchmarks

This appendix focuses on the change in future loss trend rates effected by the Guidance. Future loss trend rates reflect the expected annual rates of change for claims costs. On an overall basis (“All Coverage Combined”), the Benchmark future loss trend rate has decreased from 5.2% to 2.4%, which indicates that industry-wide estimates of future loss cost rates are expected to decrease on average. The table below illustrates this change as well as the changes in the underlying major coverages which drive the total change.

Coverage	Future Loss Trend Rate	
	Previous Benchmark	New Benchmark
Bodily Injury	0.0%	-8.3%
Accident Benefits	5.3%	-1.6%
Direct Compensation - Property Damage	8.5%	9.2%
Collision	7.2%	9.1%
Comprehensive	5.3%	6.1%
All Coverages Combined*	5.2%	2.4%

**Note: All Coverages Combined is a weighted sum of the component coverage based on each coverage’s share of losses*

The reduction is driven by reduced future loss trends for Bodily Injury and Accident Benefits coverages offset by an increased future loss trend for physical damage. For more detailed information on the change in Benchmarks, please refer to the Commentary section of this Guidance.

References

[FSRA's Summary of Consultation on Loss Trend Benchmarks for Passenger Automobile Major Rate Filings](#): Consistent with its commitment to transparency in rate regulation and guidance development, FSRA conducted a public consultation on a preliminary benchmarks report prior to issuing this Approach Guidance. The summary of consultation page outlines the feedback gathered and how it was considered in the final benchmarks report.