

Approach



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***NOTICE:** Benchmarks based on June 30th, 2020 data have been added to this guidance in appendix 4. These benchmarks supersede the Benchmarks based on December 31st, 2019 data.*

Loss Trend Benchmarks for Private Passenger Automobile Major Rate Filings based on Industry Data as of December 31st, 2019

Purpose and scope

This Approach Guidance specifies the benchmarks for loss trend rates and reform factors¹ (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.

¹ **Loss trend rates:** Measures annual rates of change for past and future claims costs (examples of drivers: advancements in safety technology, changes in medical costs, vehicle repair costs and labour costs, and accident frequency).

Reform factors: Reform factors are used to restate historical losses to reflect the current level of claims costs taking into account changes in benefit levels as a result of government reforms in 2015 and 2016.

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.² 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.

² 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.

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,³ in particular:

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

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

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 through the links found 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 on Loss Trend Benchmarks for Private Passenger Automobile Major Rate Filings based on Industry Data as of December 31st, 2019](#), 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 December 31, 2019. FSRA’s Actuarial Services unit conducts a thorough review of GISA data to ensure its validity and works closely with GISA’s consulting actuary to ensure the resulting projections are reasonable – for more information on this process, please refer to [Appendix 3](#). As per Actuarial Standards of Practice regarding use of another actuary’s work, the Consultant also reviews the reasonableness of GISA’s Loss Development Factors (LDFs) before its use in the loss trend analysis.

Use of Benchmarks

The Benchmarks form a cornerstone of FSRA’s approach to reviewing PPA rate filings.

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.

Where an insurer has credible internal loss experience and it can demonstrate that its derivation and application of reform factors and loss trends is both appropriate and sound then FSRA does allow insurers to deviate from Benchmarks, whether lower or higher. The role of Benchmarks is particularly important in the case that an insurer’s internal loss experience is not credible enough to determine company-specific reform factors and/or loss trends. If, after reviewing a rate filing, FSRA determines that this is the case and that the insurer’s estimates are not appropriate, then FSRA will use the Benchmarks to assist in proposing alternative assumptions to use in rate filings.

Selected Benchmarks for loss trend rates and reform factors

The Benchmarks, as outlined below, apply to rate filings submitted on or after **September 23, 2020**.

Coverage	Loss Trend Rate		Cut-off	Reform Factor
	Past	Future		
Bodily Injury	1.1%	-7.5%	1-Apr-16	1.000
Property Damage	4.2%	4.2%	1-Oct-19	1.000
Direct Compensation – Property Damage	0.5%	9.2%	1-Jan-13	1.000
Accident Benefits - Med/Rehab/AC	7.6%	0.2%	1-Jun-16	0.778
Accident Benefits - Disability Income	5.8%	-0.4%	1-Jun-16	0.869
Accident Benefits - Funeral and Death	0.0%	0.0%	1-Jun-16	1.000
Accident Benefits - Total	7.1%	0.0%	1-Jun-16	0.800
Uninsured Automobile	-7.0%	-7.0%	1-Oct-19	1.000
Collision	9.1%	9.1%	1-Oct-19	1.000
Comprehensive	10.6%	10.6%	1-Oct-19	1.000
Specified Perils	10.6%	10.6%	1-Oct-19	1.000
All Perils	8.9%	8.9%	1-Oct-19	1.000
OPCF 44	1.1%	1.1%	1-Oct-19	1.000

Commentary

FSRA has undertaken a thorough review of the Consultant's analysis on loss trends and reform factors and believes that the Consultant's analysis is prudent and reflective of recent developments and current conditions. Furthermore, the Consultant's analysis has been developed in accordance with accepted actuarial practices. Therefore, FSRA will be adopting the analysis results as FSRA Benchmarks for the purpose of rate filing reviews.

[Appendix 2](#) provides a comparison of the new benchmarks over those previously released. Loss trends for the five major coverages either remained level or increased. The loss trend for Comprehensive coverage increased significantly due to modelling changes made by the Consultant.

Analysis underlying the Benchmarks is based on pre-COVID-19 data, i.e. the loss trend rate Benchmarks are based on driving patterns and claims activities before COVID-19. Temporary adjustments may be necessary for rate applications with near-term effective dates to reflect reduced driving and claims activities as a result of COVID-19.

Effective date and future review

This Approach became effective on **September 23, 2020**. The next benchmark development process will begin in fall 2020.

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 – associated documents

The table below provides a quick reference to all guidances, consultation summaries, and benchmarking reports produced since this Approach Guidance was launched.

Benchmark Effective Period	GISA Data Evaluation Date	Guidance	Consultation Summary	Supporting Report
December 21, 2020	June 30, 2020	Current guidance	N/A	Oliver Wyman Report: “Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors”
September 23, 2020	December 30, 2019	Current guidance	“2019-H2 Consultation Summary”	Oliver Wyman Report: “Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors”
May 15, 2020	June 30, 2019	“2019-H1 Guidance”	“2019-H1 Consultation Summary”	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 increased from 2.4% to 3.4%. While it implies a slight increase in future loss costs from the prior iteration, loss costs are still expected to moderate from the prior year, where the future loss trend rate was 5.2%. 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	-8.3%	-7.5%
Accident Benefits	-1.6%	0.0%
Direct Compensation - Property Damage	9.2%	9.2%
Collision	9.1%	9.1%
Comprehensive	6.1%	10.6%
All coverages combined*	2.4%	3.4%

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

The increase is driven by increased future loss trends for the Bodily Injury, Accident Benefits, and Comprehensive coverages. For more detailed information on the change in Benchmarks, please refer to the Commentary section of this Guidance.

Appendix 3 – FSRA’s process for reviewing and approving of GISA Automobile Statistical Plan PPA Factors Report and Ultimate Loss Projections

This appendix explains how FSRA ensures that the ultimate loss and claim count projections used by the Consultant in its analysis are fit for use.

In addition to reviewing industry aggregate loss development data for each coverage, FSRA’s Actuarial Services reviews every insurer’s loss development data, twice a year, to identify any data reporting issues, changes in claims handling and case reserving practices. FSRA’s Actuarial Services works with GISA’s consulting actuary closely in order to understand each insurer’s data issues, assessing the extent of each insurer’s data issues by adding, removing, adjusting each insurer’s data one at a time to understand the impact. GISA’s final Loss Development Factors have accounted for adjustments made to those reporting issues, such that the impact of any distortions are immaterial at the aggregate industry level.

References

[FSRA's Summary of Consultation on Loss Trend Benchmarks for Private Passenger Automobile Major Rate Filings based on Industry Data as of December 31st, 2019](#): 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.

Appendix 4 – mid-year benchmarks based on industry data as of June 30th, 2020

This appendix specifies the loss trend and reform factor benchmarks based on the industry private passenger vehicle data as of June 30th, 2020. The Consultant’s report underlying these benchmarks can be found in Appendix 1.

Mid-year benchmarks are now provided as an update and supersede the benchmarks based on data as of December 31, 2019.

Benchmarks for Loss Trend Rates and Reform Factors

Coverage	Loss Trend Rate		Cut-off	Reform Factor
	Past	Future		
Bodily Injury	1.0%	-8.0%	1-Apr-16	1.000
Property Damage	4.3%	4.3%	1-Apr-20	1.000
Direct Compensation – Property Damage	0.5%	9.2%	1-Jan-13	1.000
Accident Benefits - Med/Rehab/AC	7.4%	-2.1%	1-Jun-16	0.790
Accident Benefits - Disability Income	6.3%	-1.9%	1-Jun-16	0.885
Accident Benefits - Funeral and Death	0.0%	0.0%	1-Jun-16	1.000
Accident Benefits - Total	7.1%	-2.1%	1-Jun-16	0.812
Uninsured Automobile	-6.4%	-6.4%	1-Apr-20	1.000
Collision	9.7%	9.7%	1-Apr-20	1.000
Comprehensive	11.6%	11.6%	1-Apr-20	1.000
Specified Perils	11.6%	11.6%	1-Apr-20	1.000
All Perils	9.1%	9.1%	1-Apr-20	1.000
OPCF 44	1.0%	1.0%	1-Apr-20	1.000