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July 27, 2020

FSRA
Auto Insurance Sector
5160 Yonge Street
16th Floor
Toronto, Ontario
M2N 6L9

Re: Consultation 2020-006

Dear Sir or Madam;

Thank you for the opportunity to comment on FSRA's Preliminary Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors reflecting loss experience up to December 31, 2019 produced by Oliver Wyman.

We have reviewed Oliver Wyman's report. We believe that the selected trends are reasonable, with the exception of the Bodily Injury and Comprehensive coverages.

Impact of Reforms

Although the industry data demonstrates that the loss costs improved in the recent years due to reforms, we believe the loss costs will not continue to decrease in the future, and will require another review when more data becomes available. As demonstrated by past experience¹, reforms lower loss costs for a short period, followed by a period of stability, and then followed by a rebound. Oliver Wyman's prediction of a continuing decrease is contrary to past experience and Oliver Wyman provides no justification for this.

The selected future trend is largely based on three years of data, and since it is the most recent three years of data, it is highly volatile. The volatility is evident by comparing the difference in trend selections in the first benchmark report published in May 2020 and this report. The difference in trend selections is mainly driven by the inclusion of one extra half year of data, namely 2019 HY2. The difference in trend between the two reports is significant for Bodily Injury and Accident Benefits whereas the difference in trend for other short tailed lines is minimal.

¹ An example of this can be found in the Oliver Wyman report on page 34. For "Accident Benefits Total Medical and Rehabilitation including Attendant Care" coverage, after the 2010 reform, there is a short period of stability before the loss costs are on the rise again.

Comparison of Oliver Wyman's Published Future Trends

Future Trend Comparison			
Coverage	OW Published trends May 2020	OW Published trends June 2020	Absolute Difference (June - May)
BI	-8.3%	-7.5%	0.8%
PD	4.0%	4.2%	0.2%
DC	9.2%	9.2%	0.0%
AB	-1.6%	0.0%	1.6%
COL	9.1%	9.1%	0.0%
CMP	6.1%	6.4%	0.3%

The maturation period for Bodily Injury and Accident Benefits is vital to consider in making these trend selection. This is called out in the Oliver Wyman report². This demonstrates that it is completely inappropriate to base a future trend selection for a long tailed line on three years of recent data, in particular when these three years fall immediately after a reform. Aviva recommends that a new future trend selection should be made using an appropriate methodology.

Bodily Injury

The use of reform parameters and its application implies that the reform effects will continue into the future indefinitely. This is not a suitable approach because reforms will lower loss costs for a short period, then stabilize until new trends increase the loss costs again. GISA selected claim count development factors are inappropriate for the determination of loss trends. The GISA 2019 Ontario Actual Loss Ratio Exhibit indicates that several major insurers changed reserving and reporting practices in recent years and this has led to issues with TPL-BI data, which in turn resulted in concerns around its usability. Despite this, Oliver Wyman states that FSRA believes that the GISA final selected development factors have “fully accounted for all known reporting issues”. No explanation is provided of the adjustments that FSRA applied to the GISA data. It is also surprising that FSRA has been able to successfully apply suitable adjustments to this data to make it usable given GISA’s clear position on how uncertain it is. Insurers should be provided with more information about these adjustments. The overall trend selection is highly sensitive to the claim count development factors, especially in immature years, and thus, based

² Response to industry comment number 3 on page 64 of the first publication of the Benchmark Trend report.

on the reasoning above, the application of the GISA claim count development factors for Bodily Injury are artificially deflating the ultimate Bodily Injury claim counts.

Comprehensive

The selection for severity trend and ultimately loss costs trend is driven by the decision to use 2012-1 as the starting point for the frequency selection. Oliver Wyman comments that frequency is volatile with a slight decreasing trend since 2010. They also comment that they select frequency and severity models to balance credibility of and responsiveness to the more recent trend patterns, and then fit 8 years. Fitting a trend over 8 years for a short tail coverage will capture recent trend patterns as well as historical patterns.

Oliver Wyman observes that the frequency and implied loss cost models have a somewhat lower adjusted r2 value, which could have been avoided by selecting directly from the loss cost models which have significantly better fits.

Fits for the loss cost models³ show that the selection of 8 years has one of the lowest R2 values starting in 2011. The R2 for trend fits starting in 2014.1 and 2014.2 are 0.91 and 0.92, and show trends of 9.9%, 10.8%. If the intent is to balance credibility and responsiveness, either of these selections would be a more sound selection than 6.4% with an R2 of 0.757 for the loss cost trend.

In conclusion, Aviva does not agree with the preliminary Bodily Injury and Comprehensive loss cost trends recommended by Oliver Wyman. Aviva recommends that the Bodily Injury and Comprehensive loss cost trends be reconsidered before setting them as benchmarks for future filings.

We would be pleased to discuss our submission.

Yours very truly,

Aviva Canada Inc.

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³ Details taken from page 221 of the Oliver Wyman report