

July 27, 2020

Tim Bzowey  
Executive Vice President  
Auto/Insurance Products  
Financial Services Regulatory Authority of Ontario

Dear Mr. Bzowey,

**Re. Public Consultation for FSRA's Loss Trend Benchmarks**

Thank you for the opportunity to provide feedback on the "Preliminary Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors". We have reviewed Oliver Wyman's report and have identified a few areas of concern we wish to raise to your attention.

Applicability of benchmarks to individual insurers

While industry benchmark trends can be useful as reference points, their applicability to individual insurers' experience will vary widely especially for coverages where there can be a broad range of actuarially reasonable trend selections. In instances where the loss trend assumption has a potentially large impact on the evaluation of rate level adequacy, additional caution is required to understand the potential volatility and uncertainty in the data. In addition, an individual insurer's mix of business may cause it to reasonably expect different trends than those selected by Oliver Wyman. Recognizing individual company differences and acknowledging that there is a range of reasonableness around trend estimates would be in alignment with FSRA's objective to serve the public through dynamic, principles-based and outcomes-focused regulation.

The preliminary Bodily Injury future trend selection of -7.5% is of particular concern both in terms of direction and magnitude. Assuming such a significant decrease in loss costs introduces unnecessary vulnerability to the projection of future losses. It is certainly plausible that the actual outcome turns out to be very different and that future losses do not decrease at the assumed benchmark rate. In this case, applying the preliminary trends will have severely understated losses and hindered companies' ability to achieve or maintain rate adequacy. The preliminary trend selection of -7.5% is simply not a prudent assumption to use as a baseline to evaluate and regulate companies' rate adequacy. We strongly recommend selecting a more moderate trend assumption for Bodily Injury to recognize the underlying volatility and the large impact of this coverage on overall results.

## Wide range of possible estimates for Bodily Injury and Accident Benefits

Actuarial analyses such as loss trend selections inherently involve a range of reasonable estimates due to potential uncertainty and differences in methodology and considerations. As stated in the Actuarial Standards Board Standards of Practice, Section 1620 Assumptions on the topic of Acceptable Range:

*“.16 There is a reasonable range of assumptions that may be selected by an actuary for particular work and that might produce materially different results. Sometimes, it is desirable that actuaries produce results within a relatively narrow range, in which case the practice-specific standards may prescribe certain methods and/or assumptions to achieve that purpose.”*

<https://www.cia-ica.ca/docs/default-source/standards/sc120120e.pdf>

The range would be even wider for long-tailed lines such as BI & AB due to uncertainties in the projection of ultimate losses for recent years. The uncertainty is further exacerbated by the still-developing impact of the 2016 reform as well as the numerous data issues mentioned in the GISA Incurred Loss Development Factor Report (AUTO0002-ON).

The accuracy of the BI & AB loss development factors is especially important since both BI & AB future trend selections are solely based on data from 2016 and onwards. On p. 8 of the GISA report, it was mentioned that several major writers have either changed claims practice or reported data issues, all affecting Bodily Injury. GISA also stated that “the selection of loss development factors, for Bodily Injury in particular, at the early ages of development is subject to even greater uncertainty than usual.” (p. 9). In addition, the LDFs selected for Age 54/48 and after are entirely based on the pre-2016 historical experience (p. 60), with the underlying assumption that the 2016 reform would not affect the development pattern. However, the assumption may not hold as there have already been differences in the earlier development ages. Specifically, the last two diagonals are showing larger development than earlier averages for ages 18/12 and 24/18. The reliance of Oliver Wyman on the GISA LDFs without reserving some judgement for possible unfavourable development is not prudent in our opinion. Compared to the prior analysis, BI ultimates have generally increased in recent years by as much as 3% as shown in the appendix in Oliver Wyman’s report (p. 94). The BI trend selection has also increased from -8.2% to -7.5% with just 6 months of additional data. We believe the over reliance on the estimated ultimates for immature accident years does not sufficiently recognize the uncertainty and volatility in the data and introduces material risk of understating future losses.

## Recent increases in Comprehensive losses

There has been a steep increase in Comprehensive severity that is not being reflected in the preliminary trend selection of 6.4%. As shown on p. 221 of the Oliver Wyman report, severity fits are significantly higher for the more recent time periods. Oliver Wyman has opted to use the 2012-2019 period despite the R-squared value being lower than those from the more recent periods. For a short-tail coverage such as Comprehensive, we recommend using the more recent data which suggests a higher trend and has a better fit. Our internal data also shows an increase in severity, driven by increased theft claims. We recommend increasing the benchmark trend for this coverage to better reflect the observed experience in recent years.

Thank you in advance for your consideration of our comments on the preliminary report.

Best regards,

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