

July 27, 2020

Mr. Tim Bzowey
Executive Vice President, Auto/insurance Products
Financial Services Regulatory Authority (FSRA)
5160 Yonge Street, 16th Floor
Toronto, Ontario
M2N 6L9

Re: Request for comment - Auto Insurance Benchmark Loss Trend Rates and Reform Impact

Dear Mr. Bzowey:

On behalf of Desjardins General Insurance Group (DGIG), I am pleased to respond to your request for comment on the proposed Auto Insurance Benchmark Loss Trend Rates for Private Passenger Automobile Major Rate Filings.

DGIG is one of the top 3 property and casualty insurers by market share in the country and the personal use auto insurance leader in Ontario. We benefit from the talents of more than 3,000 employees in Ontario who serve the needs of over 2 million clients in communities across the province.

We have also reviewed and contributed to Insurance Bureau of Canada's submission that includes a peer review by Dr. Ron Miller and we support their observations.

General Comments

We would like to congratulate FSRA on their new approach of transparency when setting benchmarks. It's in line with promoting the rate regulation principles of Transparency and Simplicity that FSRA had created.

In our opinion it is valuable to conduct an industry loss trend benchmarking exercise for auto to assess the change in average claims inflation over time. However, industry cost benchmarks are not valuable or appropriate for evaluating individual insurer rate change applications. The differences in client profiles, pricing and claims business practices, and a variety of other factors can lead to unique and legitimate cost needs.

Actuaries who have years of close working experience with the underwriting company and with access to internal subject matter experts should be relied upon to evaluate an insurer's cost needs. This is especially important in cases where changes in data or insurer's practices makes it difficult to use past trends for the future. We should acknowledge the power of consumers making choices in a competitive marketplace as the best and ultimate regulator of auto insurance rates.

Review of LDF Assumptions for Bodily Injury and Accident Benefits

We would like to stress the importance of the review of assumptions that form the basis of trend analysis especially loss development factors. In Oliver Wyman's report Section 8, Industry Comments, Comment

2 it is stated that “FSRA requested Oliver Wyman to perform loss trend analysis using the loss amount and claim amount development factors for bodily injury and accident benefits as presented by GISA”. In our opinion a review is only comprehensive and complete if the underlying assumptions are also reviewed. Therefore we encourage that Oliver Wyman review the loss development assumptions for BI and AB based on GISA data and publish the details of the review in the report. This is the approach that Oliver Wyman was asked to take by the Alberta Insurance Rate Board for their comparable annual cost benchmarking process.

Dr. Ron Miller’s Trend Analysis

IBC retained Dr. Ron Miller to conduct a parallel Ontario rate trend analysis based on GISA data available up to December 31, 2019. The comparison of Dr. Ron Miller’s and Oliver Wyman’s future trend selections as shown in the IBC response is in the table below:

Oliver Wyman and Dr. Miller Future Trend Rates

	Oliver Wyman	Dr. Miller	Dr. Miller Difference
Accident Benefits	0.0%	+0.07%	+0.07 p.p
Bodily Injury	-7.5%	-4.5%	+3.0 p/p
DCPD	+9.2%	+8.53%	-0.67 p/p
Collision	+9.1%	+12.38%	+3.28 p/p
Comprehensive	+6.4%	+20.22%	+13.82 p/p
Total Coverages	+3.59%	+5.46%	+1.87 p/p

IBC with data from Oliver Wyman, Dr. Ron Miller

Dr. Ron Miller’s analysis shows a much higher all coverages combined trend than Oliver Wyman’s. Dr. Ron Miller in his report also correctly points out with sufficient historical evidence that multiple consecutive years of stable and declining costs is rare in Ontario. Given that there is a reasonable range of value around a future trend point estimate and that consecutive years of stable and declining trends are rare we think it is important to change trends cautiously especially for long-tailed coverages like BI and AB. This will help customers ultimately as it reduces rate volatility.

Bodily Injury (BI)

The report observes the declining ultimate frequency and resulting loss cost for Bodily Injury (BI) since 2015/2016 and mentions that it is plausible that this is due to Bill 15 that included a change to the Dispute Resolution system (DRS) that ended access to courts for Accident Benefits (AB) disputes and that may be leading to fewer BI claims as there may be less legal representation. In our own experience at DGIG, we don’t find this to be the case. We find that most applicants at the License Appeal Tribunal (LAT) are represented.

BI coverage is a significant proportion of loss cost and premiums for Private Passenger Vehicles (PPV) in Ontario. The estimate for past and future trends therefore is important as it can have a significant and material impact on the rate needs and ultimate rate adequacy of an insurer. FSCO benchmark trends work from March 2019 had estimated the future BI trend at + 2.30% as compared to – 7.5% in the current review performed. Although the BI trend has reduced from -8.3% to -7.5% in our opinion it is still too optimistic. This negative trend is driven by a declining claims frequency. The report mentions that

understanding of causality is not required to measure trend rates, and it's considered that this steep decline may be related to the DRS change. We question this conclusion for 2 reasons:

1. BI is a long-tailed coverage where claims are reported over a longer period of time. Considering the nature of BI, relying on 4 years of data to select future trends that may have a significant impact on rate adequacy assessments may not be appropriate.
2. Without understanding the reason for the declining frequency and relying on age-to-age development factors that may not reflect any changes in the reporting pattern of claims, the ultimate frequency estimates relied on for the trend analysis may not be appropriate.
3. The 2019 GISA Actual Loss Ratio Report specifically mentions that due to several changes the selection of loss development factors, for Bodily Injury in particular, at early ages of development is subject to even greater uncertainty than usual.

As we look at our own claims experience, we have the following highlights to share that further point towards caution when selecting BI trends

- **BI Threshold** - There may be some decline in frequency that may be attributable to the 'threshold' position in the industry. In Ontario, the threshold is largely settled law, which we believe reduces the number of marginal cases being presented in the hope that the risk of a case exceeding threshold will lead to settlement. Insurers are less likely to offer economic settlements in this environment, which should dissuade the presentation of such claims. We also note a trend of slow production of material from plaintiff representatives as we try to assess and resolve BI cases, which will offset some of the expected decline in frequency. Based on this, we are unable to conclude whether the 'threshold' position is reducing the frequency with a non-material impact or delaying the reporting of BI claims.
- **Reporting lag time** - Over the last 5 years, we have seen a significant increase of over 40% in lag time between the accident date and opening of BI claims. From our experience, we saw the lag increase from 130 days in 2014 to about 185 days in 2018. This is worrisome and points to delayed claims rather than reduced claims
- **Change to Rules of Civil Procedure** - Launch of simplified procedure rule 76 of the Rules of Civil Procedure. There is some perceived risk that many BI claims may be held back due to the changes in procedure. Given the nature of BI, it's too early to conclude its impact. So far, we have only heard it rumoured that claims were being held back until the rules were put in place but haven't seen a high volume of actions filed under the new process till now.

There is some indication that the decline in frequency may largely be linked to a slowdown in claims reporting and we may need more time to conclude the impacts given the long tail nature of BI. Additionally, given the number of years since Bill 15/91, and the impact of BI on overall loss cost/premium estimates, we suggest understanding the frequency better and adjusting accordingly before making a final selection for future trend on BI. **Given the limited data period and the high degree of uncertainty, it may be more prudent at this time to select a trend rate in the range between the 2019 trend prediction of +2.3% and 0.0%.**

Accident Benefits (AB)

The combining of Kinds of Losses for Accident Benefits Medical and Rehabilitation including Attendant Care seems appropriate to us. There is limited data for post Bill 15 and Bill 91 years when considering the long development patterns of the Accident Benefit coverage and its overall impact on premium adequacy calculations.

We suggest caution when selecting the future trends from June 1, 2016 onwards. We share some of our thoughts for consideration when selecting the future trend:

- **License Appeal Tribunal (LAT) performance** – While case volumes remain lower than in the former FSCO Dispute Resolution System (DRS), LAT volumes have been increasing over recent years. One of the benefits of the LAT system has been shorter decision cycle times, so it's important to monitor those as the volumes increase
- **Recent decisions with respect to 'Discoverability'** – There have been recent decisions of the LAT and Court of Appeal (Tomec v Economical) upholding that the SABS limitation is not a 'hard' two-year limitation. This brings uncertainty to the ultimate claim costs, given the possibility of new entitlements arising some time after an initial denial that past claim count (frequency) development factors may not have reflected.
- **Catastrophic (CAT) Claims** – Since 2016 reforms, there have been limited cases moving to the hearing stage of the LAT on the new definition of catastrophic impairment. While CAT claims are a small proportion of overall claims, their financial impact is significant. Cases are now getting to the hearing stage and that should provide some guidance for the future.

The analysis performed seems reasonable to us. Given the above considerations, there may be an opportunity to understand the considerations better and reflect them in the final selection of the future trend.


Physical Damage coverages

Dr. Ron Miller projects a higher future trend than OW for following coverages: 12.4% vs. 9.4% for Collision and 20.22% vs. 6.2% for Comprehensive. We would like to note that these coverages contribute to a significantly higher all coverages combined trend of 5.5% vs. 3.5%. New collision avoidance technology and increasing driver distraction is putting an upward pressure on severity and frequency physical damage trends. As a result loss trends for the physical damage continue to increase which we urge FSRA to reflect in each subsequent update.

We also recommend that the comprehensive trend analysis be split into theft and non-theft to properly account for dramatic increase in thefts in Ontario.

Thank you for the opportunity to provide our commentary.

Sincerely,



Raza Masood
Director, Ontario Auto Ratemaking
Desjardins General Insurance Group