



Response to Oliver Wyman's
Preliminary Ontario Selected PPV Loss Trend Rates & Reform Factors
Draft as of June 22, 2020

Intact Financial Corporation
July 24, 2020

Intact Financial Corporation
Response to Oliver Wyman’s Preliminary ON PPV Trend Selections
July 2020

After reviewing Oliver Wyman’s report entitled *Preliminary Ontario Selected Private Passenger Vehicles Loss Trend Rates and Reform Factors* and analyzing the same industry data internally, we found that our trends were generally consistent with the findings of this report, with the exception of the future trend selection for bodily injury.

Bodily Injury

Both frequency and severity models selected by Oliver Wyman appear to be a reasonable fit to the industry data observed as of December 2019. We also noted that the 2015 and 2016 reforms impact on severity were not statistically discernable.

However, Oliver Wyman proposed a -8.5% future frequency trend for accident half-years (AHY) beyond 2019-2. The resulting future loss cost trend of -7.5% is slightly higher than the previous trend proposed in Oliver Wyman’s report dated February 2020.

After our review of the report, we disagree with their selection for the following reasons:

- Sign of flattening when including most recent accident year data
- Transition period from previous reforms is roughly 2 years long
- Collision frequency sees positive frequency trend since AY 2012

Early Sign of Slowing Down

Industry has been seeing a frequency improvement since AHY 2016-1. Based on our regression model on Industry data, we agreed with Oliver Wyman’s selection of -8.5% frequency trend for AYs between 2016 and 2019. We believe this selection is reasonable as it recognized the observed trend given by the data even though we do not have a good understanding of the causality of the negative trend at this moment.

However, Oliver Wyman’s selection of -8.5% for AYs beyond the last data point (future) suggests that the frequency will perpetually improve for unknown reasons, with which we do not agree.

When looking at year over year changes, there are evidences that the improvement is slowing down in 2019. The full year frequency improvement observed in 2019 is just slightly more than half of the previous 2 years. Also, the improvement during the second half of 2019 is half of the improvement observed during the first half of the year. Thus, there is no reason to believe that the frequency will continue to improvement at the same rate as the past.

	First Half	Second Half	Full Year	YoY Change		
				First Half	Second Half	Full Year
2011	0.191%	0.205%	0.198%			
2012	0.177%	0.198%	0.188%	-6.9%	-3.0%	-4.9%
2013	0.187%	0.226%	0.207%	5.5%	13.8%	9.9%
2014	0.193%	0.213%	0.203%	3.4%	-5.8%	-1.7%
2015	0.197%	0.214%	0.206%	1.8%	0.6%	1.2%
2016	0.187%	0.210%	0.199%	-5.0%	-1.9%	-3.3%
2017	0.169%	0.185%	0.177%	-9.9%	-11.7%	-10.8%
2018	0.150%	0.164%	0.157%	-11.1%	-11.5%	-11.3%
2019	0.138%	0.157%	0.148%	-7.9%	-4.1%	-5.9%

The timing of the negative trend is coincided with the introduction of Bills 15/91 and there are no explicit changes from these bills that can definitively explain the observed change in frequency trend to a steep declining pattern. In addition, we lack industry claim details and thus it is not possible for us to investigate this further. That being said, we believe it is still important for us to understand the causality of the negative trend, not for selecting the past trend, but to provide insight for the future trend selection.

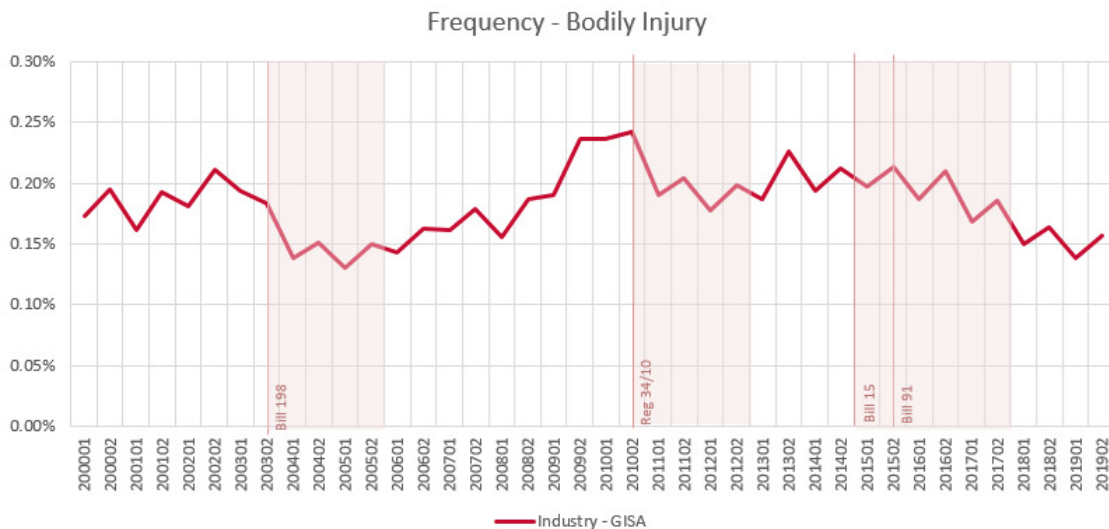
Intact Financial Corporation
Response to Oliver Wyman’s Preliminary ON PPV Trend Selections
July 2020

Since we do not know the exact cause of the negative trend, we should be prudent with the future trend selection. As there is early sign of flattening in frequency trend suggested by the latest data point, it is in our opinion that assuming future frequency will continuously improve at the same steep negative rate is not reasonable.

2-Year Transition Period

There are four reforms within the 20-year timeframe from 2000-1 to 2019-2 presented in the report: Bill 198 (2003), Reg 34/10 (2010), Bill 15 (2015) and Bill 91 (2015/2016).

Looking at the past reforms, with impacts that are now fully realized (namely Bill 198 and Reg 34/10), we could see that the transition period for both reforms was roughly 2 years before frequency started to pick up again. As of December 2019, it has been 4.5 years since the introduction of the last reform (Bill 91). Therefore, we do not expect the frequency will further decrease at the same rate going forward. The improvement observed in recent years will eventually phase out in near future.



Positive Collision Frequency Trend

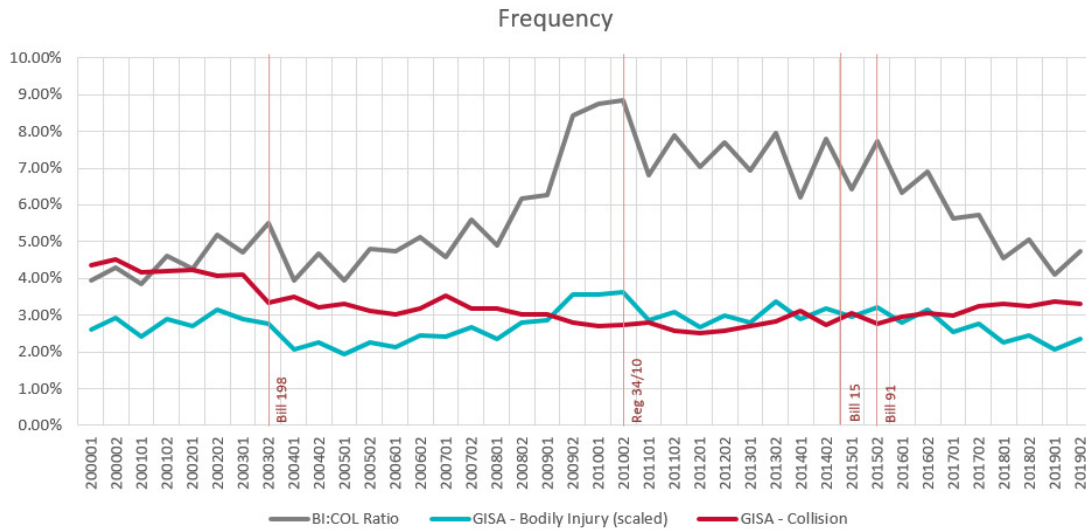
It is known to the Industry that there’s a causal link between a bodily injury claim and a collision claim in a no-fault system. Under a stable environment, more collision claims will lead to more bodily injury claims and thus collision frequency sometimes may be used to act as proxy for identifying expected future frequency trend for bodily injury.

In the last 20 years, there are only 2 time periods where the bodily injury and collision frequency diverged: (1) after Bill 198 (between AYs 2004 and 2010) and (2) after 2015/2016 reform. Bill 198 restricted and reduced accident benefits available to serious but non-catastrophic injuries. Such change to SABS ultimately led to more claims being pursued under bodily injury and hence the increase in frequency, which diverged from collision frequency.

Although bodily injury and collision frequency could trend differently due to external factors, we believe that there are upper and lower bounds when looking at the ratio of frequency between the 2 coverages. As of 2019, bodily injury to collision frequency ratio is close to reaching its lowest point within the 20-year timeframe and we do not expect this ratio to go further below the lower bound. Last time we were at the same level was in 2004 when Bill 198 was first introduced.

Intact Financial Corporation
Response to Oliver Wyman’s Preliminary ON PPV Trend Selections
July 2020

Given we do not know the exact reason for the negative bodily injury trend observed after 2015/2016 reform and the fact that the ratio of bodily injury to collision frequency is approaching its lowest point as collision claims continuously increasing at an average of 3.5% since the reform, we should be cautious with the future trend selection.



Conclusion

Given the reasons above, we found that Oliver Wyman’s proposed future frequency trend of -8.5% to be unreasonable. We are not convinced the frequency will perpetually improve at such a steep negative rate. We should be prudent with the future trend selection as we do not know the cause of the negative trend and there are signs in data to suggest the negative frequency trend will eventually phase out in near future.

Accident Benefits

The loss cost models selected by Oliver Wyman appear to be a reasonable fit to the industry data observed as of December 2019. Based on the available data, we agree with Oliver Wyman selected trend of 7.1% up to May 31, 2016, and 0% after June 1, 2016.

However, considering the limited understanding of frequency decrease observed after June 1st, 2016, as well as the volatility of fitted trend over recent accident years, we do feel the importance to closely monitor current and future trend as recent accident years develop. Based on our analysis, our view is that it is likely the loss cost trend will pick up as new data emerge, and it is crucial to reflect it in a timely manner in the industry benchmark. The general concerns of ours are:

- There is an increase in the trend when including the most recent accident half year
- Transition period from previous reforms was at most 2 years long
- Both direct compensation and collision see positive future frequency trend

Increase in the trend

As agreed by Oliver Wyman in their responses to industry comments, recent accident year data might be considered influential, and as data matures over time, the estimate of the trend rate may change.

Based on modeled results provided in Appendix E, we noticed that for Medical, which accounts for around 80% of total accident benefits, there is an increase in the fitted trend when more recent accident half year data was included. Comparing trends based on data ending 2019-1 to trends based on data ending 2019-2, with the same model parameters, we can see that by including 2019-2 into the model, fitted trend for accident years up to May

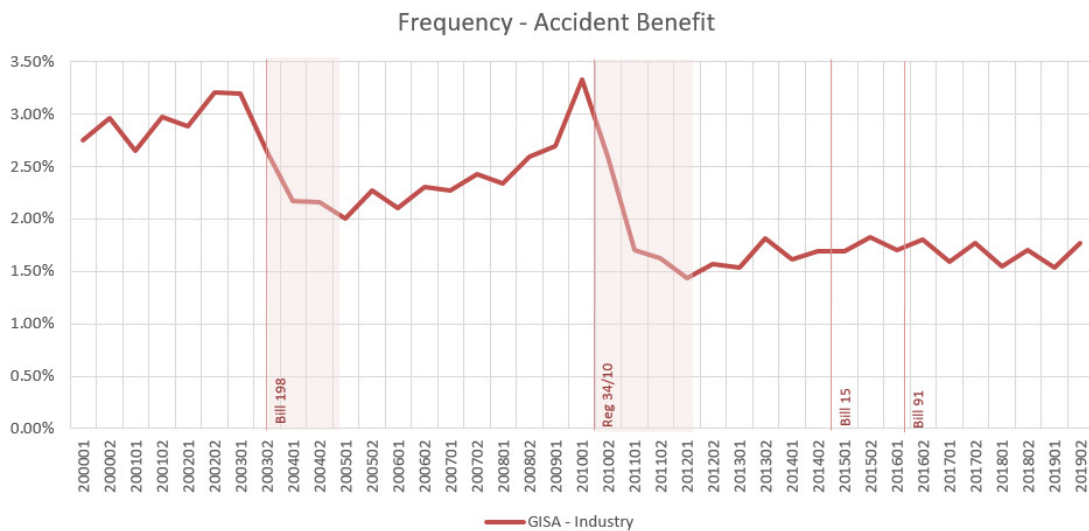
Intact Financial Corporation
Response to Oliver Wyman’s Preliminary ON PPV Trend Selections
July 2020

31st, 2016 increased from 8.44% to 8.5%, and fitted trend for accident years after June 1st, 2016 increased from - 0.78% to 0.51%, which is almost 1% increase. Modeled trends based on data ending 2019-1 with the same parameters were not provided in the Appendix for Medical plus Rehab & Attendant Care. We replicated the selected model for Medical plus Rehab & Attendant Care loss cost using GISA data and observed that by including 2019-2 into the model, fitted trend for accident years after June 1st, 2016 increased more than 1%.

Above change in trend with only half more year of data not only suggests the sensitivity of fitted trend over recent development but also indicates a potential in the tendency of trend increase in the future. It can also be proven by the update in Oliver Wyman’s proposed accident benefits trend for accident years after June 1st, 2016 from -1.6% to 0% in less than half a year.

2-Year Transition Period

Experience from previous reforms suggests that the indirect frequency impact that we have witnessed is most likely to be exhausted, and the trend will plateau a few years after the reform. Looking at past reforms for which the impacts are shown in the graph below, the transition periods (before frequency started to pick up again) for Bill 198 and Reg 34/10 were 1.5 years and 2 years respectively. As of December 2019, it has been 3.5 years after the effective date of Bill 91. Therefore, we expect the decrease to phase out in the near future.



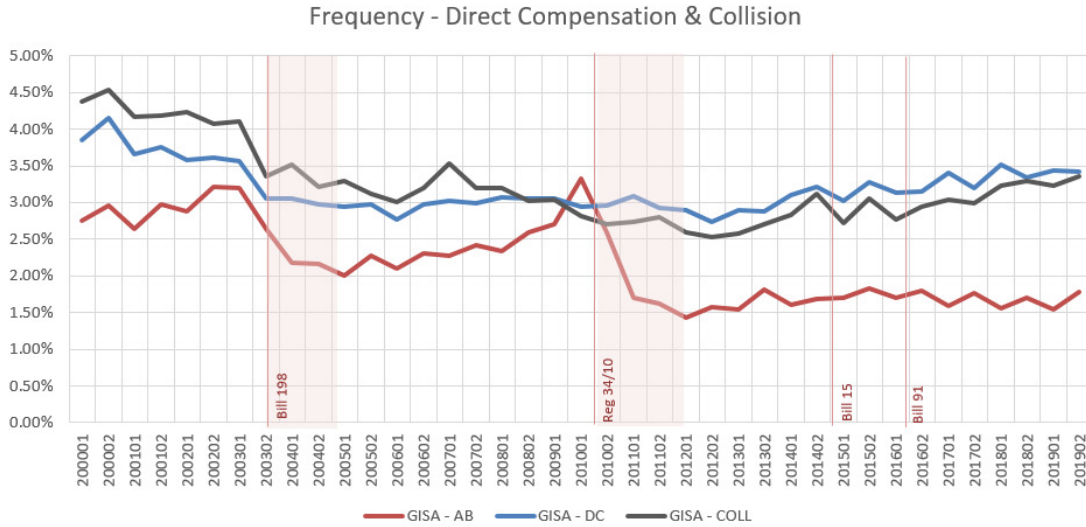
Positive Direct Compensation & Collision Frequency

With the no-fault system, a direct compensation or collision claim can lead to an accident benefits claim, which represents a causation link between the frequency of accident benefits and collision/DCPD.

From 2004 to 2010 accident benefits frequency showed a different trend from collision (or DCPD), and we believe the sharp decrease for accident benefits in 2004 is due to Bill 198 which restricted and reduced the accident benefits available to serious but non-catastrophic cases. After the decrease, starting accident year 2005, frequency of accident benefits started to rise and the gap between accident benefits and collision/DCPD frequencies gradually decreased over time. Similar case for accident year 2010 when SABS was amended with reduced benefits. After the drop in accident benefits frequency due to reform, gap between frequencies of accident benefits and collision/DCPD remained stable until Bill 91 in 2016. With these in mind, although we see moderate divergence in trends between the coverages after Bill 91, we do not think the disagreement will continue into the future and the gap between accident benefits and collision/DCPD frequencies will keep largening.

Intact Financial Corporation
Response to Oliver Wyman’s Preliminary ON PPV Trend Selections
July 2020

Within Oliver Wyman’s report, selected future frequency trend for DCPD is 2.5%, selected future frequency trend for collision is 3.0% and underlying future frequency trend for accident benefits based on selected loss cost trend is -3.0%. If these selected future trends continue, the gap between accident benefits frequency and collision/DCPD frequency will increase continuously which defies the causation link between the coverages.



Conclusion

Given the reasons above, although we agree with the current selection of trends based on available data, we think it is important to continuously monitor emergence of new trend and keep the possibility of increase in future trend in mind.