

## BENCHMARK ASSUMPTIONS FOR PRIVATE PASSENGER AUTOMOBILE INSURANCE FILINGS FOR REFERENCE PURPOSES

The following benchmark assumptions are being provided to assist insurers. Please note that this information is updated annually so ensure you have the most current benchmark assumptions.

The assumptions are:

### 1. Loss Trend

Prospective loss trends should reflect the expected changes in loss costs in the future period. Subject to the remarks below, the following ranges of prospective loss trends are generally considered to be reasonable by FSCO, based on IBC AIX private passenger insurance data as of June 30, 2002 and a review of recent filings. FSCO also considers whether the overall loss trend for all coverages combined lies within a reasonable range.

| Coverage                              | Prospective Loss Trend Ranges<br>(June 30, 2002) |
|---------------------------------------|--|
| Third Party Liability - Bodily Injury | 6.8%-7.6%  |
| Direct Compensation Property Damage   | 2.5%-4.1%  |
| Accident Benefits                     | 8.2%-12.2%                                       |
| Collision                             | 3.4%-4.0%  |
| Comprehensive                         | 0.4%-1.2%  |

It should be noted that the above loss trend ranges are provided for reference only. Companies are expected to support the selected loss trend factors with their own analysis.

### 2. Return on Equity

The return on equity underlying the indicated rate level should reflect the current economic environment as well as the company's leverage ratio. A 12% after-tax return on equity was established in the 1996 *Technical Notes* by FSCO as a reasonable target for most companies. Since then, interest rates have declined substantially. As a result, the return on equity assumption is under review by FSCO. The ROE assumption will be reviewed to determine appropriate methodology, level and usage.

### 3. Expense Provision

FSCO is unlikely to approve any filing that will pass through to consumers an expense provision that is significantly higher than the industry average. In 2001, the industry average expense, excluding loss adjustment expense, is 25.6% of earned premiums for the automobile insurance line in Ontario. FSCO reviews and considers the average expense loadings by the type of distribution channel.

### 4. Ontario Corporate Tax Rates

**The projected Ontario corporate tax rates** for 2003 and 2004 are 36.6% and 33.1%, respectively.