

Residents' Reference Panel on Automotive Insurance in Ontario 2022

Report of the Rate Regulation Session
February 12 , 2022

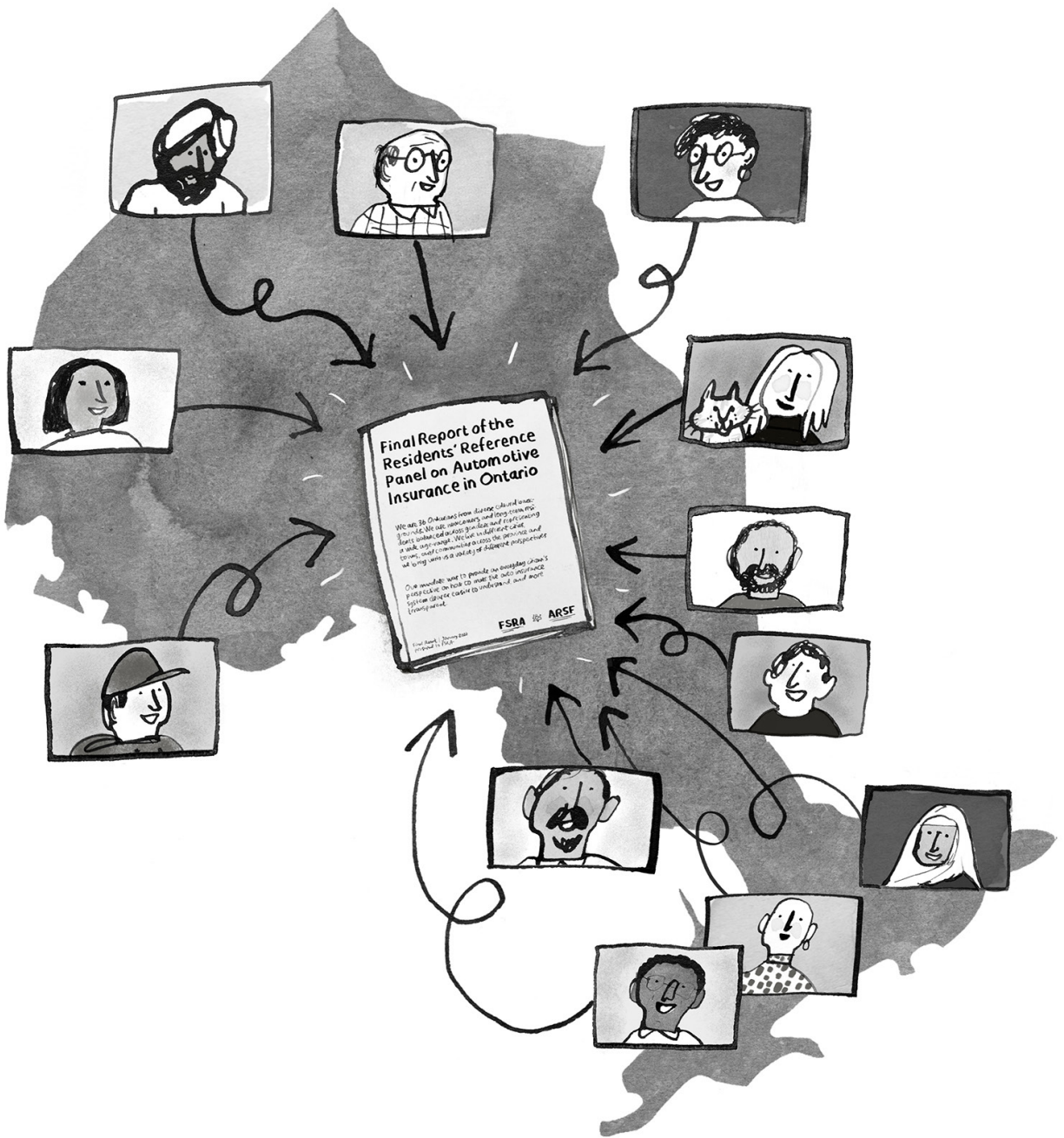
FSRA
Financial Services Regulatory
Authority of Ontario



ARSF
Autorité ontarienne de réglementation
des services financiers

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1. About 2022 RRPAIO

Spurred by the success and learnings that emerged from the 2020 panel process, FSRA convened its second Residents' Reference Panel on Automotive Insurance in Ontario (RRPAIO) to provide ongoing advice. The 2022 Panel met three times in February and March of 2022.

A deliberative process such as a Reference Panel is intended to provide a broadly representative group of residents with an opportunity to become better informed and to actively participate in public policy processes. Reference Panels strengthen democratic practice by increasing the public's confidence in public institutions and policy outcomes. The 2020 panel demonstrated to FSRA and the auto insurance industry that ordinary people are willing to volunteer their time to learn about technical and complex issues the industry grapples with on a regular basis. Furthermore, the panel showed that with guided support, a representative group of Ontarians have an aptitude for principles-based conversations that establish shared understanding and common ground to inform public policy.

More than ten million Ontarians drive cars and are covered by some form of auto insurance. Auto insurance is legally required for anyone who drives in Ontario and is delivered by private companies. Ontario's drivers pay some of the highest premiums in Canada, and consumer research tells us that many drivers are frustrated by the costs, as well as confused by the options and the process of navigating the system. Furthermore, many Ontarians just renew their policies passively without shopping around for different rates and options.

The 2022 Panel was tasked with learning about the auto insurance industry and deliberating on specific policy topics identified by FSRA. The 2022 winter sessions focused on rate regulation and data & analytics; a day of topic-specific learning and conversation was developed to support each area. Members of the panel worked with each other to provide input and advice to FSRA that would broadly reflect the interests of Ontarians.

The first reference panel, 2020 RRPAIO, was mandated to provide a citizen's perspective on how to make Ontario's auto insurance system clearer, easier to understand, and more transparent.

The panel spent 26 hours over October and November 2020 learning and deliberating about how FSRA could improve auto insurance regulation to enhance consumer choice and experience.

At the end of its work, RRPAIO 2020 wrote a final report detailing 15 recommendations across 6 themes.

1.1 Who was convened

The 2022 Panel brought together 30 individuals from across the province who were broadly representative of Ontario's demography.

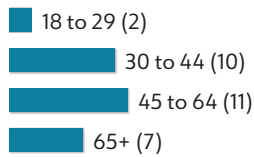
Panelists were recruited through a Civic Lottery process, and a special invitation was mailed to all those who volunteered for or participated in the 2020 process. Seven of these thirty volunteers were returning members from the 2020 Panel, and they brought enthusiasm for the process as well as familiarity with some of the issues. Panelists were not auto insurance experts, but represented a diversity of perspectives and encounters with the industry. Care was taken to avoid conflict of interest — elected officials, government employees working on auto insurance policy, and employees of insurance companies that work with auto insurance were not permitted to volunteer on the Panel. A summary of the recruitment process and Civic Lottery, and biographies of all panelists can be found in the Report Appendices, a stand-alone companion document to the meeting reports.

Who was in the room:

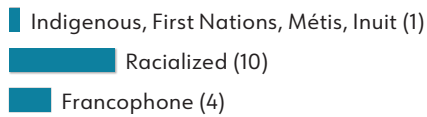
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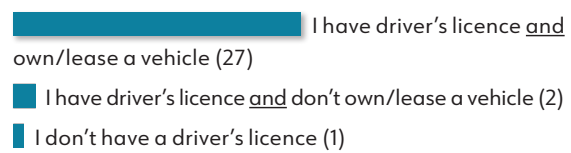
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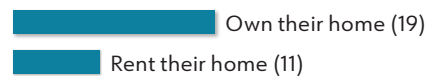
Indigenous, Racialized, and Francophone Representation:



License and Vehicle Status:



Housing Tenure:



1.2 What they were asked to do

The residents were convened for three sessions in February and March 2022. Each took place over a Saturday using Zoom, an online video conferencing platform. The first session on February 5 was a general orientation to the auto insurance industry so that the panelists would have a shared understanding of the industry and key issues that affect it. The subsequent sessions were day-long dives into specific policy areas identified by FSRA.

- February 12: Rate Regulation with a focus on cross-subsidization, a by-product of efforts to classify all insured individuals into groups with others that have a similar, but not identical, risk profile.
- March 5: Data & Analytics with a focus on data sharing practices to facilitate oversight and enforcement in the auto insurance system.

A stand-alone meeting report, this report, for each policy area was drafted and circulated to panelists for input on its content. Each report contains:

- A summary of the Orientation Session, followed by the results of that day's deliberation.
- A summary of the day's learning and activities is followed by the results of the Panel's deliberation.
- Report Appendices: a companion document with the panelists' biographies, a description of the Civic Lottery, and guest speaker biographies.

FSRA will share the reports with its staff, Board, and other relevant stakeholders, including their Technical and Consumer Advisory Committees. FSRA will also make the reports publicly available through its website.

2. Learning: Orientation

February 5, 2022

2022 RRPAIO kicked off at 9 a.m. on Saturday, February 5, with an Orientation Session. The day featured three presentations by FSRA, two discussions with guest speakers, and two breakout activities. Profiles of guest presenters can be found in Report Appendices.

Panel members were welcomed by Judy Pfeifer, FSRA's Chief Public Affairs Officer. She spoke about FSRA's commitment to representing the public interest and having consumer input inform their regulatory decisions. Judy also presented some highlights from the 2020 panel, explaining how its final recommendations have informed conversations with key stakeholders on a number of files. She shared that the decision to convene a second panel was a direct result of the success of the 2020 Panel coupled with FSRA's own commitment to include consumers in the policymaking process.

Panel co-chairs Chris Ellis and Jasmin Kay then presented an overview of the panel's mandate and program. Following this, members went into breakout groups for a round of introductions.

Stephanie Windsor, Senior Advisor of Corporate Communications at FSRA, spoke next. She presented the auto insurance consumer's journey, describing the three main points of interaction between the consumer and the insurance ecosystem: purchasing a policy, maintaining and renewing insurance, and making a claim. Stephanie also presented findings from consumer research that described the preferences, challenges, and priorities expressed by Ontario consumers.

Next, panelists heard from two guest speakers: Rhona DesRoches (Chair, FAIR Association) and Ellen Roseman (Journalist and Consumer Rights Advocate). Rhona and Ellen each spoke about consumers' struggle to understand how the auto insurance industry works. Low levels of consumer financial literacy and a lack of oversight of the data collected by insurance companies were raised as systemic challenges.

The Panel continued its learning after lunch with a presentation from Tim Bzowey, FSRA's Executive Vice President, Auto/Insurance Products. Tim introduced panelists to the auto insurance product and described Ontario's auto insurance system. He pointed out that all product features (e.g. benefits) carry a cost. When costs are changed then there are implications for the benefits that can be offered. He urged the panel to consider the trade-offs between costs and benefits.

Tim's presentation was followed by a panel of three guest speakers, each representing different industry groups or associations: Geoff Beechey (CEO, Canadian Association of Direct Relationship Insurers), Trevor Foster (Director, Insurance Bureau of Canada), and Tim Goff (Director, Registered Insurance Brokers of Ontario). They discussed how the nature of the high-conflict claims process and the incidence of fraud contribute to high prices, but also explained how Ontario's auto insurance system is able to provide better

service than Quebec's lower-cost system. Concerns about usage based insurance, data, and privacy were raised by panelists in the Q&A.

Panelists were then asked to work in small breakout groups. Each group was tasked with **identifying three challenges that Ontarians experience with auto insurance**. A summary of consumer issues surfaced in the small groups is described in section 2.1.

Following the issues discussion, panelists were introduced to the Guiding Principles developed by the 2020 Panel. The Principles are meant to offer direction-setting guidance to FSRA and others in the auto insurance ecosystem. Panelists were asked to return to their small groups to consider if these remained the right principles to guide decision making. The panel was asked to use the learning and the issues that had surfaced over the course of the day as prompts for any substantive **amendments to the 2020 Principles**. The revised principles are described in section 2.2.

The Chairs thanked the panelists for their work and adjourned the session at 4 p.m.

2.1 Deliberation: Consumer Issues

Panelists, working in five small groups, identified the following issues affecting auto insurance consumers in Ontario.

Auto insurance product is unclear

- Ontarians don't understand what their policies cover and what is excluded. The implications of their purchasing choices are not clear at the time of purchase, often resulting in a poor experience and unanticipated financial considerations during the claims process.
- The language and documents used by the industry are very complicated. As a mandatory product, auto insurance needs to be comprehensible to all Ontarians regardless of their education or English language proficiency. Auto insurance documents and products should use plain language so that everyone understands their rights and responsibilities.
- Price increases are not explained to consumers, which makes the process seem arbitrary and unfair, leading to low consumer confidence and trust.
- Ontarians want to understand the claims process and how different product options impact their claims experience.

Data collection policies and processes are unclear

- Ontarians do not fully understand how their data is being used by the industry.
- Ontarians feel that they do not have any control over how their data is being shared within the industry and beyond its borders.

Price and product variability across the auto insurance system creates confusion

- Product options are too diverse across insurers, and cost also varies significantly. This makes it difficult for consumers to compare options when shopping around.
- Prices charged by service providers (e.g., tow companies, car repair shops, lawyers, physiotherapists) vary. Pricing should be more standardized to help control how the collective pot of insurance money is used.

Insurance costs are too high

- This is a challenge for all consumers and especially burdensome for certain groups, like younger drivers.
- Ontarians don't understand where their premiums go or why the cost of their insurance is so high. This leads to assumptions that company profits are exorbitant and that rate increases are unfair.

"When rates do go up, consumers also want to know a detailed breakdown for why the rates went up ... especially if nothing on the customer's end has actually changed." – Panelist

Customer service levels are not satisfactory

- Front-line staff often do not have the information or skills needed to help consumers troubleshoot real-world problems concerning their auto insurance policy.
- Consumers often have to navigate through multiple layers of customer service, which is frustrating and time consuming.
- A shift to digital-everything would be a barrier for some Ontarians: those who have limited digital literacy and those who do not have reliable access to technology or the internet.

Auto insurance system is difficult to navigate

- Ontarians do not know who to turn to if they have a problem or complaint with their insurer.
- Contesting a claim is not easy or straightforward.
- Ontario needs an auto insurance Ombudsperson.

Financial literacy among consumers is low

- Ontarians struggle to make the "right" decisions because they don't always understand how their choices and behaviour impact the price of their product, their experience with the product, or their coverage eligibility.

2.2 Deliberation: Guiding Principles

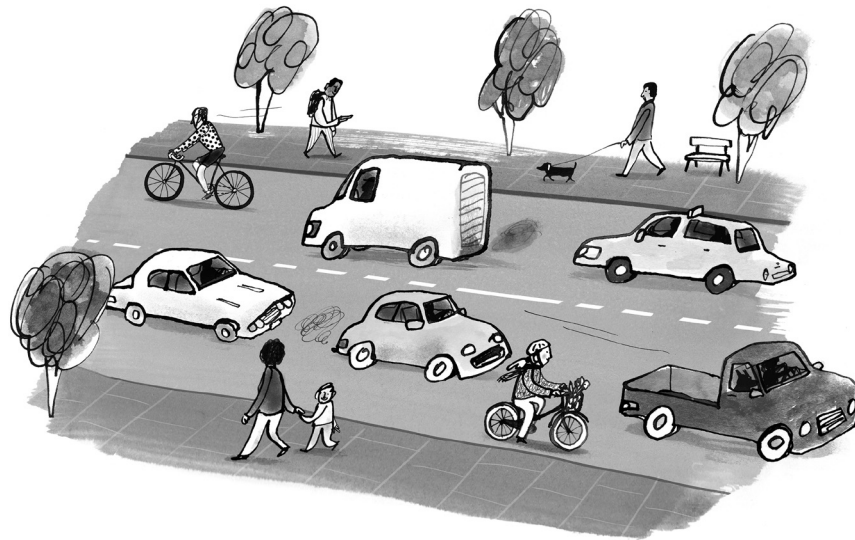
The 2022 Panel felt the Principles developed through the 2020 process were still relevant. As a result, they made no substantive changes to the original Principles but they did add two new ones. The 2022 Panel wanted to ensure that:

- Data collection and sharing practices would protect consumer privacy and interests.
- The auto insurance system would be future-proofed so that it can adapt to emerging technological and social changes, as well as those not yet on the horizon.

The Guiding Principles for auto insurance regulation and operations, refreshed by RRPAIO 2022, are:

1. **Consumer-centred and care-focused.** The auto insurance system should put consumers first and work to design transparent policies and processes that ensure that all consumers, regardless of their circumstances, have positive experiences that meet their expectations, from purchasing to claiming. Claims should be resolved quickly and fairly. If injured, people should be able to reliably access the care they need.

2. **Providing value for money.** The auto insurance system should be efficient and should constantly strive to implement innovations that support cost-effective options. New approaches and options should be encouraged, especially when they reduce costs and provide consumers with greater choice.
3. **Priced fairly for consumers.** The cost of auto insurance premiums must be accessible and affordable and mainly determined by a person's driving behaviour.
4. **Easy to understand.** All communication about auto insurance, from purchasing to claiming, must be written in clear, plain, accurate, and accessible language. Consumers must be able to understand what they are purchasing and access the best information to make informed decisions. Communication, where relevant, should be standardized so that consumers can easily understand the differences between providers.
5. **Trustworthy.** All participants in the system must behave responsibly and reliably, and be held accountable when they do not. This will help form the foundation of an ethical auto insurance system in Ontario.
6. **Preserving consumer data, privacy, and security.** The auto insurance system should protect consumers' best interests regarding the collection, management, accuracy, and protection of consumer data. Consumers should have reasonable control over their own data and have the power to ensure it is accurate. The provider must provide clear notice about how personal data is or will be used.
7. **Future proofed.** The auto insurance system should be prepared for social and technological transformations, as well as unexpected market shifts. Strategies to meet these changes should reflect the above principles.



3. Learning: Rate Regulation

February 12, 2022

Rate Regulation was the first policy topic taken up by the 2022 Panel. The session included three presentations from FSRA staff and three small group activities. FSRA was seeking consumer input on considerations related to their new three-year Auto Insurance Rate and Underwriting Reform Strategy. The strategy aims to make FSRA's oversight more dynamic, flexible, and transparent by enabling a consumer focus on rates and underwriting practices, promoting market health, and fostering informed decision-making. The panel session was designed to gather consumer input on auto insurance shopping experiences, fairness in rate setting, and transparency.

Bruce Green, Director of Rates Operations at FSRA, delivered the first presentation. Bruce introduced key definitions and basic concepts that underpin auto insurance rates, and how they are set and approved. He shared three factors that determine rates: forecasted claim costs, expenses, and profit, and described how this varies from insurer to insurer. Bruce explained that rate increases do not affect all drivers equally and premium pricing varies based on individual risk factors (e.g., age, driving record, type of vehicle, location). Bruce asked panelists for input on making rate setting and underwriting practices fairer and identifying the kind of information that would help improve the consumer shopping experience.

Following a lively Q&A with Bruce, panelists were split into five groups for a virtual **auto insurance shopping activity**. Results from this activity are summarized in section 3.1.

After the morning break, Bruce delivered a presentation on cross-subsidization. He explained that cross-subsidization happens in almost all lines of insurance where efforts are made to classify all insureds into groups with others that have "similar" (but not identical) risks. This can result in a higher price for some consumer groups to artificially lower the price for other groups, particularly when product affordability is important, such as Ontario's mandatory auto insurance. Cross-subsidization is a characteristic of most types of insurance: Medicare — Canada's health insurance plan is a classic example. Residents pay taxes that fund health insurance for all Canadians and permanent residents to ensure that every person can get the care they need.

In auto insurance, cross-subsidization is a function of classifying drivers into groups of similar risk and then determining a price for that group. It is intended to keep insurance accessible and affordable to all drivers, but it can add to the burden of rising premiums with some consumers paying more than their individual risk profile warrants. As an example, drivers that are claims-free might be carrying some of the costs generated by drivers that make claims. Bruce explained that Ontario's auto insurance system is a closed loop whereby the sum total of all the premium payments must be sufficient to cover the cost of the system (claims, operating and profit). While some degree of cross-subsidization will always exist in a closed system, FSRA is looking at how the system could be made more fair and is seeking input on what fair means to consumers.

After the lunch break, the Panel broke out into five small groups to consider how, within the **context of cross-subsidization, pricing can be made more fair from a regulatory perspective without**

compromising its benefits to the groups that need it (e.g., newcomers, young drivers). Results from this discussion are summarized in section 3.2.

The final presentation of the day was delivered by Stephanie Windsor, Senior Advisor of Corporate Communications at FSRA. Stephanie spoke about FSRA's work with their stakeholder advisory committees, technical advisory committees, and consumer advisory panels. She introduced the Technical Advisory Committee (TAC) for Transforming Auto Insurance Rate Regulation, spoke about its mandate and outlined some of the work it had recently completed.

Panelists were again sent into five small groups to **review and comment on the work of the Rate Regulation TAC**. Results from this discussion are summarized in section 3.3.

The session adjourned at 4 p.m. with thanks from the Chairs.

3.1 Experiential Learning: Shopping for Insurance

Each group was given two different hypothetical consumer profiles to use and a different auto insurance website to shop on. In plenary, each group shared the quote their profile generated, and what they liked and didn't like about the experience.

The activity highlighted that the shopping experience was inconsistent across providers — some groups had a good experience, whereas others did not. One group was unable to secure a quote at all. The user friendliness, the number of steps required to get a quote, and the information provided varied from provider to provider.

"The application was a little bit hard to get around ... we couldn't go back and fix something."—Panelist

Panelists also found no explanation was given for how their quote was calculated. Driver profiles that were similar except for one risk factor yielded very different quotes, to the consternation of some panelists.

Panelists also found it difficult to decipher what the offered policy would cover. They felt this would make it difficult to compare quotes from different providers, undermining a key motivation to shop around.

"The summary page was the most challenging for me to understand [with all] the terms listed there ... I don't know what I will be covered for."—Panelist

One group wondered how to differentiate between a minor and major conviction because this information was not readily available on the application, despite its inclusion as a question.

Generally, this virtual shopping experience did not leave participants confident in their understanding of "how to shop" for insurance or motivated to shop around in real life.

3.2 Deliberation: Fairness in Rate Setting

Each breakout group was assigned a list of driver pairings (e.g., GTA vs. non-GTA, young vs. old drivers) that illustrated, in a notional, simplified way, the degree to which one group subsidizes the other. Not all breakout groups worked on every pairing but each pairing was considered by at least two groups. Each breakout group was asked to re-weight their pairings (or not, they had the option to maintain the existing degree of cross-subsidization) to reflect what they collectively thought a "fairer" balance could be. In plenary, groups shared their pairings and the rationale behind their chosen balance.

Overall, panelists expressed an interest in finding “socially fair” balances between groups of consumers, even if it meant perpetuating higher costs for some consumers. It is worth noting, however, that many panelists would have liked more information and more time to have this values-based conversation.

“Fairness is different for different people. It’s hard [to reach consensus] ... when everyone thinks differently.”—Panelist

- There was general agreement that fairness related to driving history would be better defined by a rewards-based approach — good drivers should be rewarded for their good driving and bad drivers should be accountable for the costs of their bad driving. This suggests that Ontarians think good drivers subsidizing the cost of bad drivers should end.
- There was general agreement that fairness related to driving experience would be better defined by a graduated approach — drivers should pay less as they graduate through well-defined, standardized, and publicly accepted levels or tiers of driving experience. In addition, panelists thought that there should be ways for consumers to attain more experience beyond the basic young drivers’ program. This suggests that Ontarians believe experienced drivers should not subsidize the insurance of less experienced drivers but that age is not an adequate proxy for experience.
- There was general agreement that fairness related to geography, both GTA and Non-GTA and Urban and Non-Urban, should be reconsidered. That Ontarians, regardless of where they live, should share the cost of insurance. This suggests that Ontarians think where one lives should not be a strong factor in setting insurance rates.
- There was some agreement that fairness and income were linked; lower-income drivers should not pay more than their fair share of insurance or should even pay less. This was something that could be carefully investigated in the future. Some groups suggested the cost of the vehicle might be a way to determine what one’s fair share of insurance should be: luxury car drivers should put more into the insurance pool. This suggests that Ontarians think it is fair to consider how income factors into how rates are determined.
- The most contentious topic related to fairness was the difference between usage-based insurance (UBI) and traditional insurance. Generally, panelists indicated that fairness related to UBI and traditional insurance would be better defined by a uniform approach, with no pricing distinction between them. Some groups felt strongly that any pricing advantage for UBI users put unfair pressure on consumers who valued their right to privacy to give up those rights. This suggests that Ontarians value choice and are wary of how pricing discounts can be used to compromise privacy rights.

3.3 Deliberation: Industry Perspectives

For this activity, FSRA’s public affairs staff collated written submissions from industry advisors on the Transforming Auto Insurance Rate Regulation TAC. FSRA staff ensured that material was de-identified and anonymous. The Panel was asked to “peer review” submissions pertaining to industry’s understanding of what consumers want. The material focused on issues related to transparency, and each group was asked to review and highlight gaps or misalignment between industry and consumer perspectives. The small groups were also asked to identify ways FSRA and the industry could improve transparency for consumers.

The panelists felt that current approaches to providing consumers with information are ineffective at empowering people to shop, compare, and make good decisions that fit their needs. They suggested:

- Creating comparators (e.g., to understand how they compare to other drivers like themselves or on average in terms of rates) would help consumers understand their position within the rates system and across companies
- Greater standardization across typical transactions would make the process of interacting with insurers better for the consumer. Examples of standardization as mentioned directly and indirectly by panelists include:
 - *A standard set of terms in plain language with explanations to help consumers navigate their interactions with insurers;*
 - *A standard “baseline” quote that can be used to compare rates across different insurance providers;*
 - *A standard set of questions in a standard format during the quoting process so consumers know what to expect and have the information ready;*
 - *A way to save and apply consumer information between insurers to make the shopping process more efficient; and*
 - *A “report” or explanation of a quote or renewal, with standardized content or format to facilitate comparisons between insurance providers. The report should detail pricing and other considerations.*
- The panelists indicated they wanted FSRA to set the standards for the sector. They felt FSRA’s role should be to ensure the auto insurance industry was interacting with and treating consumers fairly.
- They also felt that while FSRA could provide some education tools, the responsibility for consumer education and literacy lies, primarily, with the industry itself.

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