

November 14, 2024

Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, ON
M2N 6S6

Re: ***Proposed Guidance – Automobile Insurance Rating and Underwriting Supervision
(ID: AU0142INT)***

To Whom It May Concern:

Thank you for the opportunity to provide comments on this proposed guidance.

We are responding on behalf of the members of the Ontario Mutuals Insurance Association.

Our Association represents provincially chartered farm mutual insurers from across the province. Our trading areas are primarily in rural Ontario. All our mutuals are 100% participating mutuals; there is no share capital and ownership of the mutual rests with the policyholders.

Each of our mutuals is over one hundred years old with the first of our mutuals being established in the 1850s. We have a long history of providing affordable insurance and ensuring availability to policyholders through both hard and soft market cycles.

Our primary products are farm insurance, home insurance, auto insurance, and small business insurance.

As member-based insurers, we fully support FSRA's statutory objectives and commitment to providing principles that when adopted will result in fair consumer outcomes. With automobile insurance being a mandatory product, we believe this approach is in keeping with the best interests of both policyholders and insurers.

One of the challenges for policyholders, insurers, regulators, and all stakeholders to the Ontario automobile insurance environment is the difficulty in balancing a complex product with transparency and accessibility for consumers. We believe this environmental factor has contributed to the public concerns over the cost of automobile insurance.

While we recognize that many of the best consumer outcomes might be reached with a simpler product, the reality is that Ontario's automobile product has developed over a long period of time to its current state and will remain that way for the foreseeable future.

In providing feedback on the guidance, one of the unique elements of the Ontario mutual system is the small enterprise size of each of its members. Despite this small size, the Ontario mutuals have become significant markets, particularly in rural Ontario. With Ontario mutuals there has been a core commitment to being responsive and transparent with policyholders in rating and providing automobile insurance.

Given flat organizational structures, high policyholder retention, and direct involvement by policyholders in governance our working frameworks have tended towards simplicity and conventional approaches to automobile underwriting and pricing. With increasing complexity in analytics and predictive elements of pricing, we face challenges from a proportionality and scale standpoint in looking to document some of the frameworks envisioned in the guidance. With that being said, each of our mutuals does aspire adopting practices that have proven benefit for the consumer, while maintaining stability and core profitability.

A competitive automobile market is highly positively influenced by the presence of smaller insurers. We appreciate FSRA's often stated commitment to considering an insurer's size and complexity in determining if outcomes are being met. We believe this will be a particular challenge in terms of smaller insurers meeting accreditation requirements, however we strongly urge and look forward to FSRA's continued efforts in applying proportionality and working with insurers of all sizes to create an understanding how the theory of proportionality can be applied effectively within frameworks.

As a general comment we note that some items in the accreditation process are framed in the negative such as "the absence of unfair bias," "the absence of proxies" etc. We can foresee a situation where it may be difficult within the accreditation process to prove an absence, but we believe that this might best be clarified through the actual accreditation process itself and an open approach to assessing how "absence" might be demonstrated.

The guidance also references accessible products and coverages, and this appears to speak to balancing pricing accuracy with consumer accessibility and suitability. We believe we understand the intention of this, but this may become a discussion point given developing changes in making some coverages optional and balancing that against both the distributors' and underwriters' ability to balance affordability with ensuring that adequate protection is in place.

The proposed guidance, as well as previously issued FSRA guidance, references three lines of defense for rating and underwriting. In reference to our earlier point on proportionality, "three lines of defence" is a specific area where we will need a common understanding of how this can be achieved in smaller organizations with fewer levels of hierarchy.

We continue to urge FSRA to continue to provide clear examples of the intersection between principles-based regulation and rules-based regulation. FSRA has consistently championed principles-based regulation while, by necessity, often still being in a position where rules are required and must be embedded into principles. A highly rules-based product area such as automobile insurance can benefit from both principles and rules but understanding how these will be balanced in practice continues to be instructive. We believe that FSRA's informational and educational sessions could help increase understanding, especially where specific examples are provided. Some of FSRA's thematic review reports have been good examples for this.

We anticipate that in the early days working through an accreditation process and meeting accreditation standards will be a learning experience for all involved. We also believe that it may be daunting for smaller insurers to undertake an accreditation process, but this may be less so as the accreditation process establishes a track record.

In FSRA's approach there is a specific indication that "FSRA's data collection in support of proactive supervision will aim to reduce duplication including by using data available from existing sources and will consider an insurer's size and complexity in determining data collection frequency." We strongly support this statement. Data collection, analysis, and reporting has become increasingly costly for insurers, and we believe that reducing duplication is critical to reducing the overall cost of insurance to the consumer.

As a final point we anticipate that while it will take significant resources at the insurer level to move through the accreditation process it will also be a heavy draw on FSRA resources. We urge FSRA to continue to balance resource allocation and cost management. Non-accredited insurers should still expect a high service-level and responsiveness from FSRA in approving rate filing applications. For those insurers who file rates less frequently, the timeliness of the approval process is critical to maintaining cost efficiency and providing good consumer outcomes.

We appreciate the opportunity to provide a comment on this proposed guidance.

Yours truly,

A handwritten signature in blue ink that reads "John L. Taylor". The signature is written in a cursive, flowing style.

John L. Taylor BBA, FCIP, FCLA, CHRL
President