



15 November 2024

Stephen Power, Interim CEO
Financial Services Regulatory Authority of Ontario (FSRA)
25 Sheppard Avenue West, Suite 100
Toronto, ON, M2N 6S6

Via: <https://www.fsrao.ca/engagement-and-consultations/consultation-proposed-automobile-insurance-rating-and-underwriting-supervision-guidance>

Dear Mr. Power,

**Re: 24-10 FSRA Proposed Guidance:
Automobile Insurance Rating and Underwriting Supervision Guidance**

Introduction

The Canadian Association of Direct Relationship Insurers (CADRI) is the voice of insurance enterprises that offer automobile, home, and commercial insurance directly to Canadians. We advocate for flexible and evolving regulatory and legislative frameworks governing automobile, property, and commercial insurance to enable product and service innovation so that Canadians can easily choose insurance that serves their needs through the delivery channels of their choice.

CADRI's members include Allstate, Aviva, belairdirect, Co-operators, Desjardins Insurance, RBC Insurance, Sonnet Insurance, and TD Insurance.

CADRI appreciates the opportunity to review and comment on *FSRA Proposed Guidance: Automobile Insurance Rating and Underwriting Supervision Guidance*.

Our comments focus on FSRA's proposals in Chapter 1 – *Fair Consumer Outcomes* and Chapter 3 – *Accreditation*. We would have liked to see Chapter 4 – *Underwriting* form part of the package and look forward to reviewing that at the right time.

CADRI members support the creation of an accreditation process. We must, however, note that a company seeking accreditation will make significant investments in aligning its internal processes with those set out by the regulator. We believe there should be real benefits flowing from the work of getting accredited. This should include:

- streamlined rate review processes enabling accredited companies to reflect risks more effectively in the marketplace and provide public benefits with up-to-date rates for auto insurance, and that
- only significant variations in business practices should lead to an insurer's accreditation being reviewed.

On behalf of our members, we argue it is time to eliminate the prohibition on using credit scores as a rating factor.

In addition, we posit that prescriptions on profitability have no role in a principle-based regulatory environment, nor the accreditation process.

Chapter 1: Fair Consumer Outcomes

CADRI understands that FSRA's responsibilities outlined in 1.1 and 1.2 are set out in legislation, regulations, and rules. Some of which are more easily modified than others.

CADRI appreciates that the regulator does not dictate a rigid, one-size-fits-all approach to measuring fairness as a component of the Guidance. That said, some of the fairness principles cited may have a natural tension. For instance, fair pricing and underwriting can be interpreted to compete with a complete absence of bias. As FSRA would have heard at its online seminar in October, CADRI members are interested in more transparency from the regulator about its expectations around fair outcomes.

Earlier this fall, CADRI staff attended a panel on *Evolving and Established Rating Factors*, moderated by FSRA's Head of Auto Insurance Supervision, at the 2024 National Insurance Conference of Canada. The panel highlighted three complementary approaches to fairness. We encourage FSRA to continue to participate in and hold educational sessions and have informal conversations with its licensees so that they will have a greater sense of confidence in the regulator's expectations.

1.3.1 Prohibited Outcomes under the Unfair or Deceptive Acts or Practices Rule (UDAP Rule)

FSRA notes that using credit information is currently prohibited as a rating variable in auto insurance. Consumers are, however, able to consent to the use of their credit information when negotiating property and casualty insurance in the province and have been for decades. Other provinces, including New Brunswick, have moved ahead and allowed credit score to be among the many variables employed in the calculation of a driver's insurance.

Most Ontarians have good credit histories and could benefit from a discount on their premiums. Credit history is something people can control and those who responsibly manage their finances will benefit from better insurance premiums. Even those that may be perceived to be at a disadvantage can quickly achieve a steady credit record. Credit bureau TransUnion showed that newcomers to Canada achieve reasonable credit levels within three years of arriving.¹

Moreover, most citizens have a fairly good idea where they stand. These days it's easy to check one's credit history as it's often available free of charge online or from an individual's financial institution.

From the insurer's perspective, how an individual manages their finances is more predictive of whether they'll make an insurance claim than many traditional risk variables. Credit scores are widely recognized as fair tools to predict insurance claims.

¹ Empowering Credit Inclusion: A new perspective on new to credit consumers, January 2023

Using data from the property insurance field, our members have engaged with FSRA and independent third parties to demonstrate that credit scores do not discriminate against certain income or geographic communities. We were expecting a third-party assessment by Pinnacle Actuarial Resources of FSRA's study to be published in 2024. With that in hand, an argument could be made to the Ontario government to implement its 2019 Budget commitment and amend Regulation 664 which would, in turn, allow FSRA to delete credit scores from UDAP and allow Ontario drivers to opt to share their credit information.

We look forward to FSRA publishing that Pinnacle Study. Making the information publicly available would be useful and it would also validate the leadership and investment CADRI members made collaborating with FSRA over the past few years on the credit score research project.

1.4 Fair Consumer Outcomes for Rating and Underwriting

Returning to the proposed Guidance and fair consumer outcomes, among the specific issues cited as problematic by our members are:

- balancing pricing accuracy with ... accessibility,
- appropriately balance their needs for sustainable growth and profitability with fair treatment, and
- premiums are based on reasonable profit assumptions in accordance with FSRA's most recent Annual Review Guidance (p.13)

Balancing accuracy with accessibility

CADRI commends the regulator for having heard from and listened to the industry through its Technical Advisory Committee and not imposing a standard of 'affordability' on the industry.

That said, our members have several challenges with the issue of linking pricing accuracy with accessibility. While accessibility is important, pricing accuracy is not the lever to make auto insurance more accessible. Rather distribution makes insurance more accessible. Moreover, each company has its own risk appetite and, in compliance with competition law, acts independently from its competitors. Thus, accessibility is provided across the marketplace among the active companies.

Balancing profitability with fair treatment

In no uncertain terms, CADRI members oppose the regulator including profitability as a measure of fairness. Firstly, it is at odds with principle-based regulation. More importantly, it inherently sets out several false premises: that profitable companies aren't fair or that those with more conservative loss reserve policies are unfair. It negates and simplifies all the work that well-run companies invest in leadership, governance, product development, underwriting and pricing, staff selection and training, marketing and communications, cost controls, risk management and a myriad of other factors that contribute to their success.

In our experience, such marketplace interventions lead to increased loss ratios and eventually to the exodus of companies from the market – leaving consumers with less choice.

Aside from our opposition to its inclusion in principle, there are practical arguments against the regulator's profitability approach which we would be pleased to discuss.

These issues also come up in Chapter 3 – Accreditation where FSRA explores means of assessing fairness on pp 25 – 29.

Chapter 3: Accreditation

As stated in the introduction, CADRI members support the general direction FSRA is taking. Specifically, we welcome the incentive that insurers that meet FSRA’s accreditation standards will be able to enjoy streamlined rate and underwriting and filing processes.

With that said, becoming an accredited insurer will require a significant investment to clearly align policies and procedures with FSRA’s final framework. To justify that kind of outlay to shareholders and stakeholders, companies will need to demonstrate the benefits of the process. Anecdotally, FSRA has suggested it is expecting an accredited insurer to experience streamlined filings half the time. Our members would like to see that accredited insurers benefit from ‘privileged’ processes at least 90 percent of the time.

Proactive supervision for rating and underwriting & for accredited insurers

Since insurers will be required to inform the regulator of any material changes to their business, our members find some of the conditions for remaining accredited set a lower bar. These include changes in:

- leadership, and
- in business strategy or mix of business. (p.25)

Approach to assessing fair consumer outcomes

We have previously stated our opposition to prescriptions on profits in the accreditation process. We have also noted that references to prior-year loss developments and loss reserves should be evaluated in this context. (p. 26)

So far, CADRI members are not aware of a minimum duration for accreditation. Without a higher threshold, the risk of reassessment, suspension, or loss may be a disincentive to participate in the accreditation process. There are other practical implementation issues to be explored when the Guidance is closer to implementation.

Conclusion

CADRI appreciates the opportunity to review and comment on FSRA’s proposed Guidance. It represents an enormous step toward accreditation for qualifying insurers.

While supportive of the overall direction, we have cited several reservations with the proposed approach including the need for industry understanding of the regulator’s expectations around fair consumer outcomes and that achieving accreditation represents a significant investment for an insurer and the benefit of doing so should be demonstrable.

We call for the publishing of the Pinnacle Actuarial Resources report on FSRA’s credit score research project.

CADRI comments on FSRA Proposed Guidance: 24-10 Auto Insurance Rating & Underwriting Supervision

We do not equate prescriptive approaches to profits as consistent with a principle-based accreditation process.

We would be pleased to discuss these and related issues prior to FSRA's finalization of its Guidance.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Geoffrey Beechey". The signature is fluid and cursive, with the first name being more prominent than the last.

Geoffrey Beechey

Chair and CEO

cc:

CADRI Board of Directors

CADRI Ontario Committee

CADRI Risk Classification Task Force

Francisco Chinchon, ADM, Ontario Ministry of Finance

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