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in the residual market

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Bulletin

No. A-04/96

Property & Casualty

- Auto

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Facility Association amendment to eligibility rules in the residual market

To the attention of all insurance companies licensed

to transact automobile insurance in Ontario

The Ontario Insurance Commission (OIC) supports the recent decision by the Facility Association (FA) to pursue a change to the eligibility requirements of drivers for the residual market. Previously, a driver's lapse in prior coverage might have resulted in risk points and referral to the Facility Association Residual Market (FARM).

The redefinition of "no prior insurance" for FARM eligibility is outlined in the following FA bulletins: [Bulletin No. F96-019](#) and [Bulletin No. ONT.AGCY.96-002](#), both dated June 4, 1996; and interpretive [Bulletin No. ONT.INT.96-001](#) entitled "Suspension of Provisions in FARM Eligibility Rule", issued June 11, 1996.

The change should lead to a reduction in the number of drivers in the FARM as drivers exercise their right to exit the FARM. Insurers are expected to help facilitate this process. This will help strengthen public confidence in the change to the eligibility rules for the FARM as well as underscore the customer service improvements undertaken by the automobile insurance industry.

Insurers acting as servicing carriers for the FARM are asked to inform those drivers who qualify to leave the FARM, as

a result of the recent change, that they are eligible to return to the regular market, and to do so in a timely manner.

In keeping with existing rules, premium refunds for all FARM automobile insurance cancellations requested by insured drivers should be on a pro rata basis. Further, when former FARM drivers return to the regular market, insurers are required to write optional coverages for those drivers that had optional coverage in the FARM; writing only compulsory coverage is insufficient.

The OIC will be looking to the FA to formalize the amendment, as required by its Articles of Association, and to insurers to implement the change by:

- instructing their underwriting departments to adjust promptly their underwriting rules and manuals, and filing these underwriting rules and manuals with the OIC;
- informing their agents of the change; and
- communicating this amendment to their agencies and brokerage force.

Please note that the "take-all-comers" (TAC) provisions under the FA Plan of Operation are unaffected by the amendment. Under TAC, insurers are obligated to insure drivers for private passenger automobile insurance, except those drivers that demonstrate significant driving or insurance risk.

This bulletin updates the guidelines on TAC and underwriting rules contained in OIC Bulletin 14/92 and OIC Bulletin A-11/95 as well as the OIC Commissioner's letter dated March 14, 1995, issued to the President and Chief Executive Officer of each insurance company licensed for automobile insurance.

Insurers are reminded of our view that underwriting rules allow, but do not require an insurer to reject an applicant because he or she fits the definition of a "residual market risk". These rules are not intended to unduly restrict the flexibility of an insurer's underwriting practices. Discretion should be used in placing individual risks in the FARM as it is in the public interest that applicants for insurance be written, where possible, in the regular market.

If you have any questions regarding changes to underwriting rules or rate manuals, please call your rate analyst in the Rates and Classifications Branch at the Ontario Insurance Commission.

D. Blair Tully

Commissioner

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