



Property and Casualty - Auto Bulletins

Pension Bulletins

Monitoring and Enforcement Bulletins

Licensing Changes Bulletins

Bulletins by Sector

Bulletin

No. A-11/96

Property & Casualty

- Auto

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Regulation changes for lapse in coverage as a rating variable

To the attention of all insurance companies licensed

to transact automobile insurance in Ontario

The use of lapse in coverage as a rating and underwriting variable has long been a source of concern and confusion for consumers in Ontario. This is due in part to the lack of uniformity in which the industry has used lapse in coverage, with some companies using it as a rating variable, while others have not. For consumers, the use of lapse in coverage has usually meant a higher premium in the regular market, and in some cases, referral to the Facility Association Residual Market (FARM).

In response to the concerns expressed by consumers, the Minister of Finance issued a statement on lapse in coverage earlier this year. In addition, the Facility Association (FA), anticipating the direction of the government, released a series of bulletins removing lapse in coverage/continuous insurance as an entry criteria to the FARM. The FA bulletins were as follows: Bulletin No. F96-019 and Bulletin No. ONT.AGCY.96-002 issued June 4 on the redefinition of "no prior insurance" and Bulletin No. ONT.INT.96-001 issued June 11 and entitled "Suspension of Provisions in FARM Eligibility Rule".

Effective November 1/96, Ontario Regulation 664/96 will prohibit the use of lapse in coverage as a rating variable, with certain exceptions as outlined in the attached amendment. You may wish to check this amendment against the official version published in *The Ontario Gazette*. Beginning November 1, insurance companies will no longer be allowed to use lapse/gap in coverage, continuous insurance or some surrogate wording as a rating variable. Companies that have such a rule in their rating manuals are required to re-file those manual pages. Companies that have a factor based on lapse in coverage will need to amend the factor and re-file.

It is expected that Ontario Regulation 664/96 will provide insurers with a clear and consistent set of rules to follow. The regulation was developed using the expertise of an industry working group and the inclusion of industry representatives has highlighted awareness earlier in the process, thereby enabling insurers to plan for these changes ahead of time. At the same time, Charles Anderson, Director of Rates and Classifications Branch at the Ontario Insurance Commission, has been in contact with the companies most affected by this change, on a regular basis, so that they were kept current on matters such as directions and timing.

This inclusive consultation process and co-operative participation has resulted in a regulation which will reduce consumer dissatisfaction with the significantly higher premium rates associated with the use of lapse in coverage as a rating variable. It also demonstrates the industry's responsiveness to a topic that has been a source of consumer concern for a significant length of time.

If you have any questions concerning lapse in coverage as a rating variable, please call your rate analyst in the Rates and Classifications Branch of the Ontario Insurance Commission.

D. Blair Tully

Commissioner

October 28, 1996



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Last Modified: 10/3/2005 1:57:13 PM

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