Bulletin

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Property & Casualty

- Auto

Implementing Bill 59: Pre-inspection regulation for reducing insurance claim fraud

To the attention of all insurance companies in the Province of Ontario

licensed to transact automobile insurance

With this Bulletin, the Ontario Insurance Commission (OIC) wishes to draw your attention to a new regulation that is designed to reduce fraudulent insurance claims in Ontario.

Ontario Regulation 530/96 was made under the *Insurance Act*, as amended by *Bill 59 (the Automobile Insurance Rate Stability Act, 1996)*, and was published in The Ontario Gazette on December 28, 1996. The regulation requires insurance companies to inspect many private passenger vehicles within 10 days of insuring them.

Ontario Regulation 530/96 **becomes effective January 1, 1997**.

The regulation represents a significant initiative developed by an industry-government committee representing a broad cross-section of the insurance industry, including the Canadian Coalition Against Insurance Fraud. The recommendations of the committee formed the basis of the regulation.

Insurers should make a special effort to communicate features and

importance of pre-insurance inspection

To ensure the effectiveness of this regulation for insurers and consumers, **insurers should make a special effort to communicate to their staff, agents/brokers and adjusters, and finally to consumers, the importance and timeliness of the pre-insurance inspection of their vehicles for insurance purposes.**

The Canadian Coalition Against Insurance Fraud has produced an industry model to help the insurance industry set up pre-insurance inspection programs and develop effective procedures. The model stresses that it is important for insurance companies to clearly communicate with their insureds the need for an inspection and the consequences of not having a vehicle inspected.

The model, entitled Pre-Insurance Vehicle Inspection Industry Model, was distributed to insurers under Ontario Auto Coalition Update, Transition Notes, OAC #96-40 on December 17, 1996.

Highlights of the pre-insurance inspection regulation

This regulation focuses on the visual inspection and photographing of vehicles as part of the insurance application process and is aimed at preventing insurance fraud. **It does not** deal with vehicle safety inspections which are required by the Ministry of Transportation.

The main objective of pre-insurance inspection is to reduce fraudulent insurance claims that have been made for " phantom " vehicles (where a person insures a vehicle that does not exist and subsequently claims that it was stolen); non-existent equipment and accessories; and pre-existing damage.

Some key provisions of the regulation are:

- Insurers are required to visually inspect and photograph many used private passenger automobiles before issuing an automobile insurance policy in Ontario. The regulation exempts some vehicles (see below). The inspection must be done within 10 days of insuring the vehicle. The time and place of an inspection must be reasonably convenient to the customer. **The inspection costs are to be paid by insurers**.
- Vehicles exempted from this regulation include: commercial vehicles, public vehicles, motorcycles or motor-assisted bicycles, off-road vehicles, motor homes, camper units and private passenger automobiles that are more

than 10 years old. Insurers are expected to document the reasons why they have exempted any vehicle from an inspection.

- Companies will not be required to inspect automobiles acquired by their customers if the customer has been continuously insured by them for the past three years. (It is important to note that on January 1, 1998, the continuous insurance requirement will be increased to four years. On January 1, 1999, the continuous insurance requirement will be increased to five years.)
- The inspection, which includes photographing the front, rear, and sides of the vehicle as well as the identification number (VIN) on the vehicle's compliance label, will be carried out by a service provider or person that is authorized by the insurer.
- The person or organization carrying out the inspection must record the following information: the VIN from the VIN plate affixed to the vehicle; the VIN on the compliance label on the vehicle; the vehicle's make, model and model year; a description of modifications made or equipment added to the vehicle; a description of unrepaired damages, the name of the service provider or inspector that carried out the inspection.

Monitoring the effectiveness of pre-insurance inspection

Insurers should maintain records of their inspections, such as the total number of inspections conducted, reasons for exempting vehicles, and the use of their inspection reports in resolving property damage claims.

The Government may ask insurers to provide information on their inspection programs in order to assess the effectiveness of this regulation.

Practice suggestion

A practice that insurers should consider is to reinforce the message, in their marketing and post-sale communications, that customers should notify their insurers of any added equipment or modifications made to their vehicles.

Questions-and-answers sheet

To help facilitate your training and communication efforts to your staff, agents/brokers, adjusters and consumers on this new regulation, we have prepared the attached questions-and-answers sheet for your use.

Also attached is a copy of the text of *Ontario Regulation 530/96* which sets out the minimum requirements for each insurer's pre-insurance inspection program. A copy of this regulation is available in French upon request which should sent by fax to the Attention of Administrative Officer, OIC, (416) 590-7070.

D. Blair Tully

Commissioner

December 30, 1996

Attachments :

- Questions and Answers Pre-inspection of Private Passenger Vehicles for Automobile Insurance in Ontario
- Regulation to Amend Regulation 664 of the Revised Regulations of Ontario, 1990 Made under the Insurance Act

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QUESTIONS AND ANSWERS

Pre-inspection of Private Passenger Vehicles for Automobile Insurance in Ontario

Q1. What is pre-insurance inspection?

A1. As of January 1, 1997, insurance companies will be required by law to visually inspect and photograph many private passenger automobiles within 10 days of insuring them.

Q2. Why is pre-insurance inspection necessary?

A2. Pre-insurance inspection is one of several anti-fraud measures introduced in the *Automobile Insurance Rate Stability Act, 1996* which came into effect on November 1, 1996. Fraud has become a major factor in the cost of automobile insurance, with insurers estimating that 10 to 15 per cent of every premium dollar goes towards paying for fraudulent claims.

Pre-insurance inspection addresses "phantom car" fraud, as well as reduces opportunities for false claims for pre-existing damage and claims for non-existent equipment or accessories. Insurance companies are required to conduct pre-insurance inspections in several U.S. states. The inspections have resulted in significant claims cost savings through reduced fraudulent claims. Studies carried out by the Canadian Coalition Against Insurance Fraud show that for every dollar to be spent by Ontario insurance companies in carrying out inspections, insurers will save from $4 to $6. Some insurance companies operating in Ontario already have inspection programs in place and report virtually no negative consumer reaction.

Q3. When will an inspection be required?

A3. An inspection will normally be required when an insurance company insures an individual for the first time. An insurance company will also be required to inspect the automobile if a person either purchases or seeks to insure a used private passenger automobile, that is less than 10 years old, and the insured is not a long-standing client of the insurance company (at least three years), or the insured has not been a long-standing client of the same insurance broker (at least five years).

An insurance company will not have to inspect a new private passenger automobile (including demonstrator models with less than 12,000 kms) if the vehicle was purchased from a registered motor vehicle dealer and the insured provides a copy of the bill of sale to the insurer.

Commercial and public vehicles, fleets, motorcycles, off-road vehicles, and motor homes are not required to be inspected. Insurance companies may, however, inspect any vehicle if they wish to do so.

Q4. Does the law require an insurance company to inspect automobiles that are currently insured by it?

A4. No. An insurance company is only required to inspect an automobile if a new application for insurance is made or if an automobile is added to a policy and it is not exempt from inspection.

Q5. When will insurance companies have to conduct these inspections?

A5. As noted above, some insurance companies already conduct visual inspections of automobiles they insure. However, as of January 1,1997, all insurance companies will be required by law to inspect private passenger automobiles unless exempted by regulation.

Q6. What does an inspection consist of?

A6. A pre-insurance inspection is not a safety inspection. It is a visual inspection of the automobile carried out by or on behalf of the insurance company. The person carrying out the inspection will note the make, model, model year and VIN plate number of the automobile. The person will also note any existing damage and whether the automobile has any after-market accessories such as stereo systems or whether any modifications have been made to the automobile. Three photographs of the automobile will be taken, two angular photographs showing the front, rear and both sides of the automobile as well as one photograph of the compliance label affixed to the automobile by the manufacturer.

Q7. Where will automobiles be inspected?

A7. It will depend on the insurance company that an insured deals with and where he/she lives. It is up to each insurance company to establish its own pre-insurance inspection programme. For example, an insurance company could employ its own agents or contract with its brokers or may choose to contract the work out to a third party. The insurer will inform the insured where to have the automobile inspected. It should be noted that the time and place of an inspection must be reasonably convenient to the customer.

Q8. How much will an insured be required to pay for an inspection?

A8. The law requires that inspections be carried out at no cost to the insured. Insurance companies will arrange the inspections and bear the cost.

Q9. When must an automobile be inspected?

A9. If the insurance company carries out its own inspections, the automobile may be inspected at the time the application for insurance is made. In other cases, the insurance company may direct the insured to have the automobile inspected somewhere else. The law requires the insurance company to inspect the automobile within 10 days of insuring it.

Q10. What happens if the automobile is not inspected?

A10. If an insured is unable to have the automobile inspected within the 10-day time frame, the insurance company should be contacted. If an insured fails to make alternate arrangements, the insurance company may deny claims under the optional property damage coverage. It is likely that the insurance company will cancel optional property damage coverage if an inspection is not carried out within the 10-day time frame and the insured has not made alternate arrangements with their insurer to have the vehicle inspected.

Q11. How will insureds be informed of the need for an inspection?

A11. At the time an application for insurance is made or when an insured seeks to add a new vehicle to the policy and the vehicle is not exempt, the agent or broker will inform the insured that the vehicle must be inspected.

In addition, Insurers sent every policyholder in Ontario a pamphlet about the new automobile insurance system prior to its introduction on November 1, 1996. These pamphlets are still available to the public from many sources. All insurers are currently training their staff to properly inform insureds of the need and implications of the inspection.

A12. How will the government know if requiring a pre-insurance inspection is working?

Q12. The government has committed to working with the industry to monitor the effectiveness of the pre-insurance inspection regulation in reducing insurance fraud.

Q13. **What other anti-fraud measures were introduced by the government?**

A13. In addition to the pre-inspection of automobiles, it is now an offence for a person to make false or misleading statements relating to an insurance claim, or for a person to wilfully fail to disclose to an insurance company material changes in circumstances relating to a claim or make false or misleading statements or representation to an insurance company to obtain payment. Auto insurers can also request that claimants make statements under oath.

REGULATION TO AMEND
REGULATION 664
OF THE REVISED REGULATIONS OF ONTARIO, 1990
MADE UNDER THE INSURANCE ACT

Note: Since January 1, 1996, Regulation 664 has been amended by Ontario Regulations 399/96 and 464/96. For prior amendments, see the Table of Regulations in the Statutes of Ontario, 1995.

1. Regulation 664 of the Revised Regulations of Ontario, 1990 is amended by adding the following section:

INSPECTION REQUIREMENTS
(Section 232.1 of the Act)

2. (1) This section applies only to an automobile that is used primarily as a private passenger conveyance and to which section 2 of the *Compulsory Automobile Insurance Act* applies.

(2) Despite subsection (1), this section does not apply to,

(a) a commercial vehicle;

(b) a public vehicle;

(c) a motorcycle or motor assisted bicycle;

(d) an off-road vehicle within the meaning of the *Off-Road Vehicles Act*;

(e) a motor home, including any vehicle that is built on or as an integral part of a motor vehicle chassis and that is used for travel and recreational camping purposes, for commercial purposes or as a dwelling; or

(f) a camper unit, including any vehicle constructed to provide temporary accommodation that is mounted on and is removable from an automobile and that is used for recreational purposes.

(3) Before issuing a policy in respect of an automobile, the insurer shall conduct a visual inspection of the automobile in accordance with this section.

(4) The inspection shall be conducted not later than 10 days after a contract of automobile insurance is entered into in respect of the automobile or the automobile is added to a contract of automobile insurance.

(5) Subsection (3) does not apply if another insurer conducted a visual inspection of the automobile in accordance with this section not earlier than 30 days before the policy is issued and the information recorded under subsection (8) and the photographs taken under subsection (9) are obtained and retained by the insurer that issues the policy.

(6) An inspection under this section shall be conducted at no cost to the owner or lessee of the automobile.

(7) The inspection shall be conducted at a place and time that is reasonably convenient to the owner or lessee of the automobile.

(8) At the time of the inspection, the insurer shall record the following information:

1. The vehicle identification number on the automobile's VIN plate.

2. The vehicle identification number on the compliance label attached to the automobile under the *Motor Vehicle Safety Act* (Canada).

3. The make, model and model year of the automobile.

4. A description or list of any modifications made to the automobile or equipment added to the automobile after the first purchase of the automobile.

5. A description or list of any unrepaired damageto the automobile.

6. The name of the individual or organization that recorded the information required by this subsection and took the photographs required by subsection (9).

(9) At the time of the inspection, the insurer shall take photographs of,

(a) the front, rear and both sides of the automobile; and

(b) the vehicle identification number on the compliance label attached to the automobile under the *Motor Vehicle Safety Act* (Canada).

(10) The insurer shall retain the information recorded under subsection (8) and the photographs taken under subsection (9).

(11) On request, the insurer shall provide the owner or lessee of the automobile with copies of the information recorded under subsection (8).

(12) Subject to subsection (13), this section does not apply if,

(a) the policy of automobile insurance is being renewed;

(b) the insurer is issuing a policy that is being transferred from an affiliate of that insurer;

(c) more than 10 years have elapsed since the model year of the automobile;

(d) the automobile is being purchased or leased from a motor vehicle dealer registered under the *Motor Vehicle Dealers Act* and,

(i) the automobile is a new automobile or or less,

(ii) the policy is being issued inconjunction with the purchase or lease, and

(iii) the owner or lessee has provided the insurer with a copy of the bill of sale or lease agreement that contains a complete description of the automobile, including options and accessories included in the purchase or lease;

(e) the owner or lessee of the automobile has been continuously insured under motor vehicle liability policies issued by the insurer or an affiliate of that insurer throughout,

(i) the preceding three years, if the policy is being issued before January 1, 1998.

(ii) the preceding four years, if the policy is being issued after December 31, 1997 and before January 1, 1999, or

(iii) the preceding five years, if the policy is being issued on or after January 1, 1999;

(f) the owner or lessee of the automobile has been continuously insured under motor vehicle liability policies issued through the same broker throughout the preceding five years and the insurer is satisfied, having regard to all the circumstances, that an inspection of that automobile would not be worthwhile;

(g) the insurer is acquiring all the automobile insurance business of another insurer; or

(h) an agent or broker is transferring all of his, her or its automobile insurance business with an insurer to one or more other insurers and the insurer issuing the policy is acquiring a significant portion of that business.

(13) If, because of subsection (12), no inspection of the automobile is required, the insurer shall make and retain a record of the reason why the inspection is not required.

2. This Regulation comes into force on January 1, 1997.