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No. A-3/98

Property & Casualty

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Automobile Insurance Discounts and Surcharges

To the attention of all insurance companies licensed

to transact automobile insurance in Ontario

The Ontario Insurance Commission (OIC) has received enquiries about the OIC's approval process for automobile insurance discounts and surcharges. Surcharges and discounts are subject to the same statutory approval process as other elements in rate and risk classification systems.

The *Insurance Act* sets out the approval standards. The approval standards are set out in section 412.1. The Commissioner shall refuse to approve an application if the Commissioner considers that the proposed risk classification system or rates are not just or reasonable in the circumstances, or the risk classification system is not reasonably predictive of risk, or does not distinguish fairly between risks.

The definition of "rate" under the *Insurance Act* includes all monetary amounts payable under contracts of automobile insurance whether or not it is expressed in dollar terms, and includes commissions, surcharges, fees, discounts, rebates and dividends. The OIC has approved both monetary and non-monetary discounts. The OIC may approve non-monetary discounts in cases where policyholders receive a product in kind that is a risk management tool that directly reduces the insurance risk and lowers insurance loss costs.

An insurance company wanting to amend their risk classification system and rates by offering additional discounts or surcharges will need to provide the OIC with supporting documentation that demonstrates the discount or surcharge satisfies the appropriate approval standards in section 412.1. The insurer would need to supply the OIC with actuarial data and/or statistical information to support its proposal.

Automobile insurers who wish to have discounts and/or surcharges must submit a filing, in accordance with Section 411/412 Filing Guidelines, to OIC's Rates, Classifications and Actuarial Services Branch.

Dina Palozzi

Commissioner

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Financial Services Commission of Ontario
5160 Yonge Street
Toronto, ON M2N 6L9
1-800-668-0128
(416) 250-7250

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