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Bulletin

No. A-07/01

Property & Casualty

- Auto

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Rate Group Tables

To the attention of all insurance companies licensed to transact automobile insurance in Ontario

The purpose of this bulletin is to inform automobile insurers about the use of rate group tables in automobile insurance rate filings under the *Insurance Act*.

For reasons that are set out in this bulletin, auto insurers should be advised that CLEAR Rate Group Tables issued under VICC Rating Bulletin No. 2001-01 dated May 2, 2001 and Combined Bulletin No. 2001-01 dated May 3, 2001 are not intended to apply to Ontario. These tables assume a static book of business and as such are based on a methodology not approved by FSCO and may not be adopted by companies directly for rate filings purposes in Ontario. Filings made using these tables will be considered to contain a risk classification system that does not distinguish fairly between risks and not to be just and reasonable.

Page three of this bulletin outlines revised filing requirements for insurers.

Background

The Vehicle Information Centre of Canada (VICC), a division of the Insurance Information Centre of Canada (IICC), has recently released the following: updated 2000 tables for the Canadian Loss Experience Automobile Rating (CLEAR) system in Ontario, an updated 2000 Manufacturers Suggested Retail Price (MSRP) table, and CLEAR (Canada) rate group tables for the 2001 year. The IICC is currently reviewing the CLEAR methodology for Ontario.

The methodology for the CLEAR system submitted by VICC was approved by the former Ontario Insurance Commission (OIC). The physical damage portion (used for rating collision, comprehensive and direct compensation coverages) of CLEAR was approved in 1994 and in 1995 the accident benefits portion was approved. At that time, the OIC was satisfied that the CLEAR methodology was actuarially sound and that the implementation of CLEAR would be "revenue neutral" based on a projected book of business. "Revenue neutral" is a term to describe that there is no expected increase in total premiums, though premiums for different vehicles may change due to different loss experience. To produce a "revenue neutral" table, the calculation of the rate group drift should be taken into account so that the new table will generate the same premium level as the current table on an overall industry basis.

The OIC, and now FSCO, take the position that once the CLEAR methodology was approved, individual insurers do not need to justify the methodology in individual rate filings. The methodology has remained basically unchanged since it was initially introduced though there have been annual updates to the CLEAR rate group tables produced under the system to take into account more recent claims experience and make the appropriate adjustments to rate group assignments. The IICC is aware that any changes to the CLEAR methodology would require that an appropriate filing be submitted for review and approval by FSCO.

In the past, an insurer could adopt the vehicle rate groups as developed by VICC without submitting a rate filing to FSCO on the assumption that the impact would be revenue neutral. If the impact is not revenue neutral on an individual insurer's book of business, an insurer is required to submit a rate filing to FSCO.

CLEAR Rate Group Tables for Ontario

A technical committee reporting to the VICC held several meetings in December and January to review different versions of the 2001 rate group tables based on various assumptions. At one point there was a recommendation to proceed with publishing the 2001 CLEAR rate group tables based on the standard methodology and defer any changes to the methodology to later in the year. Further analysis continued to take place on the methodology.

Subsequently, members of the IICC Board of Directors approached FSCO with a CLEAR methodology that assumed a static book of business. The IICC board members expressed the view that the CLEAR methodology may not be fully recognizing the loss costs associated with older vehicles.

FSCO's viewpoint is that vehicles do depreciate, and their expected loss costs and the vehicle rate groups should decrease relative to newer vehicles. The assumption of a static book of business is considered to be a significant departure from the historical definition of "revenue neutral" that is acceptable to FSCO and had been approved as part of the methodology. FSCO suggested that VICC release the 2001 rate group tables using the standard assumption of a projected book of business and that further review of the methodology take place after the release of the 2001 rate group table.

However, the IICC decided not to issue 2001 CLEAR rate group tables based on the standard assumption of a projected book of business. The 2000 CLEAR tables that have been recently published have been simply updated to include newer vehicles (see VICC Rating Bulletin Ontario No: 2001-01 and Combined Bulletin Ontario No: 2001-01, both dated April 27, 2001).

I understand that the IICC is continuing to review the CLEAR methodology and an industry committee has been established by IICC to assist in the process. The IICC's original expectation is that the review will be completed by the end of May and a filing submitted to FSCO shortly thereafter.

MSRP Rate Group Table

The VICC has produced an MSRP Rate Group Table for 2000 under VICC Bulletin No: 2001-08, dated April 26, 2001. The vehicles in this table have not been depreciated from when the table was last published.

Impact of Delaying Updates to Vehicle Rate Groups

Due to the delay in updating the CLEAR vehicle rate groups for older vehicles based on a methodology considered acceptable to FSCO, and the delay in publishing an updated MSRP table, there will be a positive premium impact. Historically, older vehicles have depreciated at about 7 - 8 per cent per year. Due to the delay in the publication of the table, older vehicles will not receive normal premium reductions as a result of depreciation.

It is not certain when the updated CLEAR rate group table will be published. An appropriate filing would need to be

made to FSCO attested to by a consulting actuary. Assuming that in fact a filing were to be made by the VICC by the end of May, it is quite likely that FSCO's review and approval of the filing would take a further 90 days. Companies would probably need at least a further 30 days to implement any changes.

It is also not certain when an updated MSRP vehicle rate group table will be available.

Filing Requirements

Until such time as an appropriate vehicle rate group table is approved by FSCO, published and implemented by insurers, insurers must take into account the rate level impact when submitting a filing that uses the existing rate group tables. This includes any filing under the R2M process.

The estimated impact of the delay in publishing updated vehicle rate group tables is an overall 3 per cent rate level increase. Under the R2M process, provided other criteria are met, insurers can take up to a 5 per cent cumulative rate increase. However, given the rate level impact of not updating the rate group table, insurers will now only be allowed a 2 per cent cumulative rate increase. This is effective immediately.

If an insurer is submitting a filing using the Section 410 Filing Guidelines - Major, it should account for the delay in publishing the updated vehicle rate group tables in calculating its premium trend and in its overall rate level indications.

I will inform you when I have approved an updated CLEAR methodology and of any impact this may have on the rate filing process.

Contact

Should you have any inquiries regarding this Bulletin, please contact your rate analyst in the Automobile Insurance Analysis Division at FSCO.

Dina Palozzi

Chief Executive Officer and

Superintendent of Financial Services

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