Bulletin

No. A-03/02

Property & Casualty

- Auto

Vehicle rate groups - update and automobile insurance changes

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

The Financial Services Commission of Ontario (FSCO) has recently approved the updated methodology developed by the Vehicle Information Centre (VIC), a division of the Insurance Bureau of Canada (IBC) for determining rate groups under the Canadian Loss Experience Automobile Rating (CLEAR) system. This bulletin provides further information on vehicle rate groups and supercedes Bulletin No. A-7/01 issued by FSCO in May 2001.

Also, this bulletin outlines a recent regulation change regarding motorized snow vehicles and changes to the Settlement Disclosure Notice Form for final settlement of Bill 59 accident benefit claims.

Changes to the CLEAR Methodology

The VIC has recently proposed changes to the CLEAR methodology that include the following: treating two-door, sport specialty and multipurpose convertible vehicles as unique body styles, using the same model for both trucks and cars, including new characteristics in the model such as the presence or absence of air bags, anti-lock brakes and VIC approved theft deterrent systems, and changes to the adjustment factors used in the methodology.

FSCO has reviewed the updated methodology. FSCO has concluded that the changes proposed will improve the risk classification system for vehicles and has approved the updated methodology.

Annual Update of Rate Group Tables

VIC has developed a new approach to the annual update process so that the average differential underlying the vehicle rate group table, based on a static book of business, would remain substantially the same from the previous year. FSCO has reviewed this new process for the 2002 table and has approved its use, subject to the following conditions.

VIC will provide technical documentation on the annual update to the CLEAR vehicle rate group table to FSCO. Once FSCO has reviewed the documentation and approved the table, VIC will publish the vehicle rate group table and provide to insurers the rate group drift for the rate group table. It is anticipated that an updated vehicle rate group table will be published by VIC in January of each year.

Insurers are expected to submit a major filing for private passenger automobile insurance containing rate level indications, using the *Section 410 Filing Guidelines* - Major, on at least a bi-annual basis. Such a filing must reflect a provision for vehicle rate group drift in estimating the rate level indications. Insurers may rely on the rate group drift published by VIC or provide documentation that demonstrates how the rate group drift is calculated based on the insurer's rate group distribution.

Insurers are expected to propose changes to base rates for coverages that reflect rate adequacy by coverage, after considering the rate group drift by coverage, when submitting expedited, Respond to Market (R2M) or major filings. If insurers are proposing to use differentials or rate groups other than those published by VIC, insurers will be required to provide support within a rate filing. The rate group drift impact, along with the estimated rate adequacy and loss cost trends, will be considered in setting the criteria for R2M on an annual basis.

Insurers should update vehicle rate groups on an annual basis, shortly after a new rate group table is released. Updated rate manual pages, that include the new rate group tables, should be provided to FSCO.

In addition, changes will be made to the Automobile Statistical Plan to capture the vehicle rate groups directly. This will assist in assessing the rate group drift impact and the relative loss cost experience between rate groups used in the CLEAR methodology.

Please refer to the following IBC bulletins for information on the price based rate group tables and for the 2002 CLEAR tables that include the impact by coverage for the average differentials: IBC Vehicle Bulletin No. 2002-14, dated April 29, 2002 and IBC Rating Bulletin No. 2002-01, dated May 2, 2002.

Other Changes:

Motorized Snow Vehicles

A regulation was recently passed amending Regulation 186/01 under the *Motorized Snow Vehicles Act.* The amendment exempts trail grooming machines in excess of 500 kilograms with fully enclosed cabs from the requirement to have a motor vehicle liability policy. Regulation 68/02 was filed and published in the *The Ontario Gazette* on March 30, 2002. A copy of this regulation is enclosed for your information.

Settlement Disclosure Notice Form

A correction has been made in the Description of Benefits section on page 5 of the Settlement Disclosure Notice form for final settlement of Bill 59 accident benefit claims. The description for "Payment of Other Expenses" previously referred to a $15,000 limit that should only have been applicable to lost educational expenses. This form was originally released in Bulletin A-01/02 on February 7, 2002. The revised form is available on FSCO's website at www.fsco.gov.on.ca under "Insurance - Auto Insurance"and under forms - "Insurance Forms."

Contact

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

Philip Howell

Chief Executive Officer and

Superintendent of Financial Services (Acting)

May 17, 2002

Attachment (PDF):

Ontario Regulation 68/02 made under the Motorized Snow Vehicles Act

To view PDF files, you will require Adobe Acrobat® Reader version 7.0. You can download this free software from Adobe's Web site.

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ONTARIO REGULATION 68/02

made under the

MOTORIZED SNOW VEHICLES ACT

Made: March 8, 2002
Filed: March 11, 2002

Amending O. Reg. 186/01
(Trail Grooming)

Note: Ontario Regulation 186/01 has not previously been amended.

1. Subsection 6(1) of Ontario Regulation 186/01 is repealed and the following substituted:

Exemptions

(1) A groomer, other than an Alpine, is exempt from subsections 2(1), (2), (7) and (8), 2.1 (1) and (4) and 3(2) and (3), section 12, clause 9(3) (b) and sections 19 and 21 of the Act.