Bulletin

No. A-04/02

Property & Casualty

- Auto

Automobile Insurance Regulatory System

To the attention of all insurance companies licensed

to transact automobile insurance in Ontario

The Financial Services Commission of Ontario (FSCO) has recently received enquiries and concerns about the underwriting practices of insurers given the current market conditions for automobile insurance.

This bulletin outlines regulatory requirements and how insurance companies can effectively deal with the current market conditions within these requirements.

The Minister of Finance, the Honourable Janet Ecker, has announced that the automobile insurance review will now be under the lead of Ted Chudleigh, MPP (Halton), her Parliamentary Assistant, assisted by Rob Sampson, MPP (Mississauga Centre). FSCO staff continue to support the Ministry's review.

Rate and Risk Classification Filing System

Automobile insurance rate and risk classification system changes are required to be filed and approved through the appropriate filing process. During the year ended March 31, 2002, the average approval time for complete rate and risk classification filings for private passenger automobile insurance has been 37 days. This includes all filings received under the Respond to Market (R2M) and major filing processes.

The criteria for the R2M process were updated effective January 1, 2002, to more accurately reflect current market conditions. One of the requirements for this process is that the proposed cumulative rate change effective for renewal business in 2002 is 7% or less. By establishing criteria up-front, thereby reducing the amount of information required to be filed, the review process time by FSCO is significantly reduced. During the year ended March 31, 2002, the average approval time for R2M filings has been 12 days.

If insurers have immediate concerns about rate inadequacy, the R2M process is the faster process to use, provided the insurer qualifies based on the established criteria. In the event an insurer does not qualify for R2M, it may be advisable to submit base rate changes only using the major filing process. Simplifying the type of changes being filed will require less review time by FSCO.

It is also suggested that if a filing is contemplated that involves significant changes, that a meeting be arranged with staff from FSCO's Automobile Insurance Division prior to a filing being made. This early dialogue has assisted a number of companies in receiving approval more quickly as potential issues are identified early and it has allowed for a more comprehensive understanding of the issues by everyone. Also, insurers should refer to Technical Notes issued by FSCO that provide guidance on preparing filings and common issues that have arisen through the rate filing process.

Insurers are also reminded that there is a simple process for filing changes to categories of automobile insurance such as motorcycles, snow vehicles, etc. Provided that the rate change proposed is less than 10%, insurers only need to provide summary information as set out in the *Section 413 Filing Guidelines - Minor*.

Filing guidelines and Technical Notes are posted on FSCO's website at www.fsco.gov.on.ca.

There have also been other recent initiatives that help improve the rate filing system. Insurers were advised about recent changes to the CLEAR rating system through Bulletin No. A- 3/02 issued in May 2002. The changes to the CLEAR system methodology will assist insurers in simplifying the rate changes that they make.

Underwriting Rule Filings

There is a separate process for filing rules used to decline risks (i.e. underwriting rules). Rules cannot be used until filed appropriately. If an insurer has not reviewed their filed rules for a period of time it may be appropriate to review the rules to ensure they are reflective of an insurer's current business strategy. The process for filing underwriting rules is simple. *Section 238 Filing Guidelines for Underwriting Rules* are posted on FSCO's website at www.fsco.gov.on.ca.

In addition, insurers may want to review their strategy on the use of the Risk Sharing Pool. Rules used to cede business to the Risk Sharing Pool are not required to be filed with FSCO. Please refer to the Facility Association's Risk Sharing Pool Procedures Manual for requirements.

Electronic Filing System

FSCO has recently launched Phase 1 of its internet based system called ARCTICS (Automated Rates and Classifications Technical Information Communication System) so that nine groups, representing 20 companies, can submit rate and risk classification filings and other automobile insurance filings electronically. FSCO appreciates the advice and constructive comments made by these companies in the development phase of ARCTICS.

The ARCTICS system has the following benefits for both insurers and FSCO:

- efficiency through technology - reduce labour intensive manual processes and duplication of entry of information;
- enhance communication - improve the speed and efficiency in the filing and communication process;
- expand information availability - allow both insurers and FSCO to have filing information readily available, including historic information;
- uniformity and consistency - filings comply with the filing guidelines FSCO has issued to avoid re-submissions; and
- minimize record storage - reduce paper and records management issues.

The plan is to launch Phase 2 of ARCTICS in the fall of this year to allow all insurers to send electronic automobile insurance filings.

Other Automobile Insurance Regulatory Requirements

Insurers are reminded that the requirements for monthly payment plans are outlined in Regulation 664 to the Insurance Act. The requirement to offer a monthly payment plan is to assist consumers in paying the cost of automobile insurance. FSCO will be increasing its monitoring for compliance on this issue.

Contact

Should you have any inquiries regarding 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)

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