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Bulletin

No. A- 02/06

Property & Casualty

Auto

Rating Territories and Postal Code Changes by Canada Post

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

With this Bulletin, the Financial Services Commission of Ontario (FSCO) is reminding insurers that any changes to rates and risk classification systems, including territory definitions, must be filed with and approved by FSCO.

To reflect increases to the population of certain areas over time, Canada Post, using a process it refers to as urbanization, introduces urban style postal codes to areas that may have been previously considered rural. Rural areas are usually identified with a 0 (zero) as the second letter of the postal code (e.g., L0N). Canada Post makes these and other changes to postal codes on a regular basis. Recently, changes were made by Canada Post for the Brampton and Caledon areas effective October 17, 2005.

As a result of the recent postal code changes, FSCO has received some complaints regarding increases in policyholder premiums. This Bulletin is to remind you that rating territory definitions are elements of an insurer's risk classification system. FSCO's approval of a risk classification system that defines rating territories based on postal codes is an approval based on the geographic boundaries of those postal codes as they existed at the time of approval, and on the related actuarial data and support that existed at that time. Revisions to postal codes subsequently made by Canada Post do not alter an insurer's existing filing with FSCO.

Therefore, insurers must continue to use their approved territorial definitions as they existed when they were approved by FSCO, even where these may be in conflict with the current Canada Post postal code definitions. Any of your policyholders who are impacted by the postal code changes must be rated based on the postal codes as they existed at the time your current territorial definitions were approved, whether for mid-term changes, renewals or new business.

As a reminder, Section 2 of the Statutory Conditions of the Ontario Automobile Policy (OAP 1) states:

> Incorrect Classification
>
> > 2. (1) Where the insured has been incorrectly classified under the risk classification system used by the insurer or under the risk classification system that the insurer is required by law to use, the insurer shall make the necessary correction.
>
> Refund of Premium Overpayment
>
> > (2) Where a correction is made under subcondition (1) of this condition, the insurer shall refund to the insured the amount of any premium overpayment together with interest thereon for the period that the incorrect classification was in effect at the bank rate at the end of the first day of the last month of the quarter preceding the quarter in which the incorrect classification was first made, rounded to the next highest whole number if the bank rate includes a fraction.

Where an insurer wishes to update its territorial definitions to reflect the new Canada Post definitions, it must submit a rate filing to FSCO for approval. Any changes to elements of a risk classification system must be approved by FSCO before use.

Should you have any questions, please contact your rate analyst in the Automobile Insurance Services Branch in FSCO.

Bob Christie

Chief Executive Officer and

Superintendent of Financial Services

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