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Bulletin

No. A-11/10
Property & Casualty
– Auto

Implementing Auto Insurance Reforms: Transition Issues on Coverage and Rating

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

This Bulletin provides direction on issues associated with mid-term policy changes during the period from September 1, 2010, until a policyholder's regular renewal date, and on the handling of requests for purchasing optional or reduced benefits.

Policyholder requests to move to new standard policy before next renewal

Some policyholders may wish to take advantage of the new options that will be available as a result of the government's auto insurance reforms. Insurers are expected to allow policyholders to move to the new Statutory Accident Benefits Schedule (SABS) standard coverage before the regular renewal date if they wish to do so. There are two methods for achieving this: cancel the policy and re-issue; or use the OPCF 25A to modify the terms of the existing policy. Insurers can use one or both methods.

In these situations, insurers and their intermediaries are expected to adhere to these key principles:

- › The insurer must act in the best interest of the policyholder.
- › There must be full disclosure to the policyholder of the impact of the move on coverages and applicable rates.
- › The SABS mandates that all vehicles written on a single policy must have the same SABS coverages and levels.
- › "New" optional accident benefits rates must be used with "new" standard accident benefits rates.

Option 1: Cancel and re-issue

If a policyholder cancels his or her existing automobile insurance policy prior to the scheduled expiry date which is after September 1, 2010, and renews with the same insurer, the insurer will pro-rate, not short rate, the policy, and all renewal discounts, accident forgiveness rules, etc. will continue to be applied. Consistent with some insurers' existing practices, the policyholder could also be re-rated to include any other changes in circumstances such as accidents, convictions, etc. that may have occurred since the last renewal.

Option 2: Use the OPCF 25A

The new SABS (s. 68(1)) provides an alternative option by which an existing policy can be amended without termination or expiration, if "agreed in writing by the named insured and the insurer."

The OPCF 25A, released with Bulletin No. A-08/10, has been amended to reflect the optional accident benefits that are available under the new SABS, and will enable policyholders and insurers to exercise this option, if desired.

To amend a policy to reduce one or more SABS coverages to the new standard levels, insurers should obtain a completed OPCF 25A signed by the policyholder. Under this option the policyholder would continue to be classified as before, but the new SABS coverage rates filed in connection with the auto reforms would apply for the unexpired portion of the policy period.

Mid-term changes requested by policyholder unrelated to product reforms

There may be other changes to the policy mid-term, for example if a policyholder substitutes a vehicle, or wishes to change coverages (e.g., increase collision deductible) that are unrelated to the auto reforms. In this case the SABS coverages would continue at the same levels as previously written, **unless the policyholder requests otherwise**.

If an additional vehicle is added to the policy, the SABS coverages would continue at the same levels as previously written **unless the policyholder requests otherwise**, and would be the same for all vehicles written on the policy.

Although the final decision is made by the policyholder, the insurer or intermediary shall at that time also inform the policyholder of the availability of the new SABS coverage options, along with advice as appropriate to enable the policyholder to make an informed decision as to whether to continue with or change any one or more of his or her existing SABS coverages. As noted above, the decision is for the policyholder and not the insurer or intermediary to make.

Insurers are otherwise expected to continue to use their existing processes for handling mid-term change requests.

Optional Accident Benefits

Policyholders should be receiving appropriate information from intermediaries and insurance companies in order to make informed choices when purchasing optional accident benefits. Negative optioning is not permitted. (Please refer to FSCO Bulletin No. G-09/00 on Negative Option Marketing/Billing.)

Optional accident benefits cannot be applied automatically on new or renewal business without a policyholder's instructions. The only exception to this will be where a policyholder has optional accident benefits on his or her current policy, in which case the renewal will be issued with the same optional accident benefits. Intermediaries and insurance companies must receive specific instructions from the policyholder to add optional accidents benefits to the policy.

Philip Howell
Chief Executive Officer and
Superintendent of Financial Services

June 14, 2010



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Last Modified: 6/14/2010 4:20:31 PM

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