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Amendments to the Private Passenger Automobile Filing Guidelines - Major, Technical Notes and Benchmarks



Bulletin

No. A-10/14
Property & Casualty
-Auto

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

The Financial Services Commission of Ontario (FSCO) is releasing updated Private Passenger Automobile Filing Guidelines - Major, Technical Notes, and benchmarks for automobile insurance rate and risk classification system filings.

This Bulletin also outlines the new requirements for submitting applications for approval of automobile insurance rates and risk classification systems to FSCO.

Changes to Filing Guidelines and Technical Notes

The Private Passenger Automobile Filing Guidelines - Major and Technical Notes have been updated to reflect changes identified over the past year as a result of review of filings. For example, the models now include filing requirements for Usage-based Insurance Pricing (UBIP).

Also, FSCO has implemented a Return on Premium (ROP) rather than Return on Equity (ROE) approach for its review of rate filings. Changes to the Filing Guidelines and Technical Notes have been made accordingly.

The Technical Notes have revised benchmarks, including the analysis of loss costs trends and auto reform adjustment factors based on Ontario industry private passenger data to December 31, 2013 from the Automobile Statistical Plan. Insurers are reminded that this analysis is based on the distribution of risks Ontario-wide. In determining appropriate factors to use, insurers should consider the differences in the distribution of risks for their own portfolio as compared to the Ontario-wide analysis.

Attached is a list detailing the changes to the Guidelines and Technical Notes. FSCO reviewed these changes with its industry advisory committee.

ARCTICS

All insurers must use FSCO's electronic filing system – ARCTICS – when submitting rate and risk classification system filings. FSCO is making changes to ARCTICS to reflect the revised filing requirements.

Contact

For inquiries regarding this Bulletin, please contact your Team Lead/Analyst in the Automobile Insurance Services Branch at FSCO. On matters concerning actuarial requirements, company actuaries may contact FSCO's actuarial staff directly.

Please note that this Bulletin, the Guidelines, Technical Notes, benchmarks and rate profiles are posted on FSCO's website at www.fSCO.gov.on.ca.

NOTE: The bulletins that are posted on this website are provided for historical reference purposes. The information in these bulletins is accurate on the date the information is published, but is subject to change and may be replaced by more recent bulletins.

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Philip Howell
Chief Executive Officer and
Superintendent of Financial Services

October 3, 2014

Attachments:

- [Summary of Changes to Private Passenger Automobile Filing Guidelines - Major and Technical Notes](#) 

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Summary of Changes to FSCO's Private Passenger Automobile Rate Filing Guidelines - Major and Technical Notes

List of Changes to Guidelines

A. GENERAL INFORMATION

- Added provisions from Regulation 7/00 *Unfair or Deceptive Acts or Practices* for ease of reference.
- Added provisions from Regulation 664 highlighting the prohibited rating criteria defined in the regulation.

B. DEFINITIONS

- Added definition of Underwriting Profit Provision.

SECTION 2: SUMMARY OF INFORMATION

- Clarified information required in question 4b with respect to the exclusion of endorsement premiums and consistency of approach between filings.

SECTION 4: ACTUARIAL SUPPORT

- 4.d. and 4.f. Unallocated Loss Adjustment Expenses - Clarified the treatment of ULAE and requirements for explanation of significant differences in expense provisions in rate filings as compared to GISA data.
- 4.g. Underwriting Profit Provision – added section and deleted Return on Equity section.
- 4.m.1. Indicated Differentials - Clarified requirements where general linear models and non-linear models are used.
- 4.o. Usage-based Insurance Pricing (UBIP) programs – Clarified requirements for approved programs.

SECTION 5: DISCOUNT/SURCHARGE CHANGES

- Added statement that FSCO is unlikely to approve a filing where the proposed rate level change is based on an overstatement of estimated impact of the introduction of a new discount.

SECTION 10: RATING EXAMPLES

- Added requirement for additional rating territories to be provided for the existing

profiles.

List of Changes to Technical Notes

B. Requirement to File

- Added reporting requirements for approved UBIP programs.

E. Major Filings

- 9. Finance Fees – Added statement that finance fee revenue is to be included in determining rates.
- 11(f) Contingent Commissions – Added statement that FSCO will not likely approve rates based on a contingent commission that is significantly higher than the industry average and will require details on any significant change to an insurer's contingent commissions.
- 11(g) Health Levy – Added statement that FSCO will not approve rates based on a health levy that is different from that calculated as required by regulation.
- 11(h) Expenses - Added requirement for an explanation where there is a significant difference in expense provisions in a rate filing as compared to insurer's GISA data.
- 12. Underwriting Profit Provision - Changed requirements to include Underwriting Profit Provision and deleted requirements for Return on Equity.
- 17. Territory Definition Changes – Added statement that a full set of Canada Post forward sorting areas (FSAs) must be included as part of territory definition changes.
- 19. General Linear and Non-linear Models – Added more guidance regarding these models.
- 20. Conditional Approval of UBIP programs – Added further details on the conditional nature of initial UBIP program approval and on interim and annual reporting requirements.
- 22. Dislocation and Capping Premium Increases – Added statement that capping impact is to be calculated based on the mandatory and physical damage coverages, including OPCF 44R but excluding endorsements and Optional

Accident Benefit coverages. The capping procedure must indicate which coverages are specifically covered by capping.

List of Changes to APPENDIX A: Summary of Information

- Question 1. o) – added example of other proposed changes – e.g., Usage-based Insurance.
- Added text under Question 4.b) to include current and proposed average rate.
- Modified Question 5 a) to include Filing Type. Consistent with *Simplified Filing Guidelines*.
- Revision to Question 8.a) to include ULAE provision.
- Revision to Question 8.b) to only capture expense information from P&C-1 and P&C-2 (not P/E and investment return).
- Revision to Question 9 to capture only target and proposed Underwriting Profit Provision information.
- Revision to Question 10 to capture only Investment Return on Cashflow (and not Investment Return on Equity).