

Approach



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Innovative Auto Insurance Products-Subscriptions (“IAIP-S”)

Purpose and Scope

This Guidance on IAIP-S outlines FSRA’s principles, processes and requirements related to an insurer’s application for the necessary approvals and exemption under the [Insurance Act](#) for the purpose of introducing a new subscription-based automobile insurance solution¹. It includes provisions for the approval of policy forms for such solutions.

If insurers have other innovative automobile insurance products that require a section 413 exemption, insurers may contact FSRA to discuss broader application of this Guidance.

This Guidance comes into effect on a test-and-learn basis January 14, 2020 but FSRA will be seeking stakeholder input through active [consultation](#) until March 31, 2020. FSRA will actively monitor application of this Approach and will revise it as necessary.

Rationale and Context

Enabling innovation and facilitating consumer choice for automobile insurance solutions in the mobility space requires a regulatory approval process that supports development and marketing of non-traditional insurance products. Some of those products neither fit within Ontario’s

regulatory framework for automobile insurance nor its current automobile insurance rate regulation processes.

Automobile insurers and automobile manufacturers have been exploring insurance products for automobile subscription programs and services that differ from traditional vehicle ownership and leasing and the existing automobile insurance coverages. These products may require solutions that fall outside of traditional automobile insurance product and pricing models.

In many cases, these products and proposals require pricing and risk classification systems similar to those employed with traditional automobile fleets because it is impractical, or administratively cumbersome, to price the automobile insurance policies on an individual basis. Moreover, the structure of many automobile subscription programs is similar to a fleet with the exception that the automobiles are not commercial vehicles or used for business purposes within the meaning of Ontario Regulation 664 under the *Insurance Act*.

This Guidance reflects a principles-based approach that will facilitate the introduction of new subscription-based automobile insurance solutions under FSRA's existing regulatory authority to:

- define subscription vehicles as a class distinct from private passenger vehicles
- exempt an insurer, where appropriate, from making a major rate filing under section 410 of the *Insurance Act* for designated categories or coverages (as set out in section 413)
- approve automobile insurance forms under section 227 of the *Insurance Act*

Principles

FSRA previously developed Rate Regulation Principles (“RRP”) in collaboration with the Rate Regulation Advisory Group that are foundational to FSRA's automobile insurance rate regulation approach. In deciding to develop a framework for providing approvals and exemptions from section 410 of the *Insurance Act* for automobile subscription programs, FSRA was guided by the principles of *Consumer Focus 1.2* and *Innovation* under the RRP². Absent approvals and an exemption, subscription based insurance programs and other innovative insurance solutions are subject to limitations of current rate regulation. Those limitations preclude these types of solutions from being offered to consumers.

FSRA will evaluate how insurers adhere to these principles in their businesses and operations as part of its ongoing monitoring of the automobile insurance system.

Eligibility

Insurers seeking an IAIP-S review of rates and/or forms supporting a new subscription-based automobile insurance solution must submit an application to FSRA and explain how the proposed product meets the following eligibility criteria:

- falls within the scope of this Guidance
- is offered by an insurer authorized to write automobile insurance in Ontario
- requires approvals and an exemption from making a major rate filing under the *Insurance Act*
- the insurer and its partners have agreed on a program and approach
- the application otherwise meets the criteria outlined below under “*Information Required*”

Application Process

Legal Framework

The *Insurance Act* affords FSRA significant discretion over the regulation of automobile insurance. Historically, Ontario’s insurance regulators have categorized “automobiles” as either private passenger or non-private passenger and then relied on section 413 of the *Insurance Act* to exempt certain classes of non-private passenger vehicles from the rate filing requirements in section 410. However, FSRA³ has the regulatory authority to modify its approach to categorization and use of exemptions, subject to the requirements of the *Insurance Act* and the *Automobile Insurance Rate Stabilization Act, 2003*.

In accordance with this Guidance, FSRA would look to exercise its discretion in:

- classifying subscription vehicles as a separate category from private passenger vehicles⁴

- granting an exemption, using section 413, to automobile subscription programs from the regulatory requirements for non-private passenger vehicles in section 410
- approving forms necessary to support automobile subscription programs

In turn, FSRA will establish new requirements that reflect a principles-based approach to the regulation of automobile insurance for these types of subscription programs.

Overview

Insurers may submit an application to provide automobile insurance for subscription-based automobile programs to FSRA to approve a defined subscription vehicle class, request a section 413 exemption from the rate filing process (section 410 of the *Insurance Act*) and approve any necessary forms.

If granted, this exemption would mean that the insurer is not required to make an application under section 410 for prior approval of rates and risk classification systems. All other aspects of the *Insurance Act* and its regulations would continue to apply.

Information Required

Insurers are encouraged to meet with FSRA in advance of making a submission to provide an overview of the proposed product so FSRA can offer a preliminary assessment of eligibility.

An insurer must apply for approvals on a case-by-case basis for each program that it wishes to offer. In determining whether approvals and an exemption are appropriate, FSRA will assess, amongst other things, whether the proposal meets the RRP, whether the proposal supports consumer choice and whether the product provides appropriate insurance protection. The application process may change as business models evolve. In that event, this Guidance will be updated to reflect any new requirements or changes to existing ones.

FSRA must receive a complete filing that addresses all aspects of the proposed business model including:

Description of Business Model	<ul style="list-style-type: none">• Full description of the subscription model and its participants including the intermediary and distribution channel(s), vehicle supplier, subscriber (consumer) and all other participants (e.g. mandatory repair facilities)• Enrollment and eligibility requirements
Transparency & Disclosure	<ul style="list-style-type: none">• Contracts, applications and forms developed to administer the program• Marketing material, pricing and overview of all fees and charges
Legal Agreements	<ul style="list-style-type: none">• Copies and summaries of all applications and legal agreements for the participants, including the consumer• Identification of all parties to the contract and a description of the rights and obligations including insurer, insured and mobility entity• Applicant's undertaking to comply with any reporting requirements, conditions or restrictions noted in FSRA's approval order

Risk Management Plan

- Applicant's plan for monitoring program efficacy and financial viability
- Applicant's plan for monitoring compliance with legislative and regulatory requirements

Pricing and Underwriting

- Pricing and underwriting models used by the insurer and intermediaries including definition of subscription vehicles as a class
- Description of how premiums are allocated or apportioned in the pricing model. Changes to the pricing model after launch of the program will be subject to review by FSRA

Proposed Policy Forms and Endorsements

- Overview of the coverage intent and the complete policy and endorsement forms reviewed by the Applicant's legal advisor to give effect to that intent including limits of the policy, deductibles and/or self insured retentions

Consumers Experience and Claims Handling

- Applicant's plan for monitoring and managing the consumer experience (e.g. customer consent, inquiries and complaints, subscription agreement terminations, and claims service)

Decision and Monitoring

In processing an application, FSRA is committed to working with the insurer to resolve any issues with the application or the planned program.

FSRA, at its discretion, will decide whether to provide an insurer with the required approvals. FSRA will retain full discretion over IAIP-S Filings and may reject a request for any reason. However, in that event, FSRA will provide the rationale for its decision in writing.

FSRA may also place conditions on the approval and these may include, but are not limited to:

- information and reporting requirements during the conditional approval period
- revisiting the decision for any exemption granted at any time
- a definition of required coverages or terms to enhance consumers' protection
- any amendments to policy forms and applications required to ensure transparency and appropriate disclosure for consumers

FSRA will publish a summary of the approvals and exemption granted that demonstrates FSRA's application of its discretion. FSRA will also publish the names of approved subscription programs and the respective applicants⁵ approved under this Approach Guidance on FSRA's website.

Submitting a Request for IAIP-S Review

Insurers currently using FSRA's filing applications may submit applications through FSRA's [Automated Rates and Classification Technical Information Communication System \(ARCTICS\)](#). Insurers must select the Other-than-Private Passenger Automobile – Major category of filing for ARCTICS.

Insurers not currently using ARCTICS may submit an application by email outlining the information required to RatesOperations@fsrao.ca with subject line:

IAIP-S Request for Approval and Section 410 Exemption.

Service Standards and Review Process

In administering the process for reviewing and approving IAIP-S Filings, FSRA will follow the service standards set out below.

Item	Service Standard
Filing Submitted	FSRA will send an acknowledgement when an insurer has successfully submitted a filing
Notice of Eligibility	FSRA will provide notice within five (5) business days that a filing is eligible and complete
Decision on Filing	FSRA will provide a decision, or an updated time for decision, within thirty (30) business days after submission of the filing. The failure of FSRA to meet this standard does not constitute approval

Appendices and References

Appendices

- Appendix 1: Rate Regulation Principles

References

- [ARCTICS](#)

About this Guidance

Approach documents describe FSRA’s internal principles, processes and practices for supervisory action and application of CEO discretion. They do not, of themselves, create compliance obligations. Visit [FSRA’s Guidance Framework](#) to learn more.

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¹ Subscription programs are commercial arrangements where a customer, in exchange for a fee, (1) gets exclusive access to a vehicle for a period of time which may exceed 30 days and (2) the fee includes insurance coverage which fulfills the customer’s obligation to carry automobile insurance under the Compulsory Automobile Insurance Act.

² FSRA’s Rate Regulation Principles are included in Appendix 1.

³ Pursuant to Section 413 of the Insurance Act, the Chief Executive Officer of FSRA (“CEO”) is granted the regulatory authority to grant the exemption. However, for the purposes of this Approach Guidance, the reference will be to FSRA granting the exemption.

⁴ Ontario legislation does not expressly define “Personal Vehicles — Private Passenger Automobile category of automobile insurance” and leaves this to be within the CEO’s discretion.

⁵ The name of the parent company will also be published if the applicant is a subsidiary of an insurance group.

Appendix 1: Rate Regulation Principles

1. Consumer Focus

1.1 Risk-Based	<p>FSRA focuses its regulatory resources on outcomes for consumers and monitoring market health.</p> <p>FSRA’s regulatory guidance, directions and decisions are transparent, anchored in public policy objectives and proportionate to the objectives that they intend to achieve.</p> <p>FSRA reviews and assesses the outcomes of regulatory guidance, directions and decisions against policy objectives.</p>
1.2 Competition & Choice	<p>Insurers are able to bring forward new business or pricing models that create more choice for the consumer and a more competitive marketplace.</p>
1.3 Accountable	<p>Insurers are accountable for their business, business practices, pricing models and related inputs.</p>
1.4 Fair	<p>Rating models are free of bias and unfair discrimination as defined by public policy objectives.</p>

2. Sustainability

2.1 Adequate

FSRA's rate regulation framework provides for a rate adequate market with an expectation that insurers effectively manage claims costs and expenses.

The marketplace supports competition, consumer choice and innovation.

2.2 Evidence-Based

Insurers attribute the costs resulting from physical damage and injury claims to those generating the expense.

Pricing decisions are actuarially sound, and supported by appropriate evidence and sound business decisions.

Evidence-based pricing provides a signal to consumers, markets and stakeholders about the underlying risk and creates an incentive for risk mitigation.

3. Transparency & Disclosure

3.1 Open

FSRA publicly discloses its guidance, standards and the public policy basis for rate regulation.

Rating models including those employing advanced methods such as machine learning and artificial intelligence are subject to accepted governance practices and available for regulatory review.

3.2 Comprehensible

FSRA's guidance, processes and standards are clear and consistent.

Insurers know how to meet regulatory requirements.

Factors which impact individual premiums and changes to that premium over time are explainable to the consumer.

4. Simplicity

4.1 Low Burden

Rate regulation requirements are proportionate to the rates and risk classification systems proposed.

FSRA's oversight will focus on outputs (price) over inputs, costs and methodology.

Regulatory guidance, direction and decisions are consistent with the objective of enabling a competitive marketplace and consistent with stated public policy objectives.

4.2 Consistent

The basis for FSRA's decisions is reasonable, consistent and understood.

5. Responsiveness

5.1 Collaborative

FSRA engages with, and encourages, stakeholder input to facilitate continuous improvement of the rate regulation framework.

5.2 Timely

Insurers receive timely decisions from FSRA and understand how FSRA prioritizes its work.

6. Innovation

6.1 Modern

FSRA's rate regulation framework permits experimentation that benefits consumers by providing greater choice, convenience and ease of use.

The regulatory framework is flexible and adaptable to technological changes and consumer needs.

FSRA applies risk-based principles to monitor and address the impact of new products and models.