



27 July 2020

Mr. Tim Bzowey  
Executive Vice-President, Auto/Insurance Products  
Financial Services Regulatory Agency of Ontario (FSRA)  
5160 Yonge St.,  
Toronto, ON M2N 6L9

Via: <https://www.fsrao.ca/engagement-and-consultations/public-consultation-now-open-fsras-loss-trend-benchmarks-private-passenger-automobile-major-rate-filings>

Dear Mr. Bzowey,

**Re: 2020-6 – Loss Trend Benchmarks for Private Passenger Automobile Major Rate Filings**  
**Introduction**

The Canadian Association of Direct Relationship Insurers (CADRI) is the voice of insurance enterprises that offer automobile, home and commercial insurance directly to Canadians. We advocate for flexible and evolving regulatory and legislative frameworks governing automobile, property and commercial insurance to enable product and service innovation so that Canadians can easily choose insurance that serves their needs through the delivery channels of their choice.

In general, CADRI favours a principle- and risk-based system that focuses on the treatment of accident victims and timely compensation for their financial losses, while minimizing the administrative costs and fees which are a significant part of insurance losses but do not go to accident victims.

The issues, core to CADRI's mandate, which we would like to explore are:

- contextualizing Benchmarks as predictive factors,
- balancing the guidelines in FSRA's own *Rate Regulation Principles*, and
- responding to the marketplace rather than taking a one-size-fits-all approach.

**Loss Trend Benchmarks**

CADRI will not comment specifically on the Loss Trend Benchmarks other to say that:

- There is considerable uncertainty in projecting loss cost trends over a significant period of time.
- There is not a single answer, but a range, based on the assumptions that are used.

While we understand the need for FSRA to request an evaluation of lost cost trends, this evaluation is just one number among many potential scenarios – many of which are as likely to happen.

Hence, we believe that FSRA should make use of considerable flexibility in the way it intends to use the Benchmarks and should recognize that there will be other estimates that are just as valid.

### **Principle-based framework**

CADRI submits that under a principle-based approach to regulation, FSRA should only need to be satisfied that a set of assumptions used by an insurer is not unreasonable on an overall basis. It should, therefore, restrain from being prescriptive.

This approach would appear to fit with FSRA's *Rate Regulation Principles*. These principles were positioned as a road map to transform the regulator. They guide its 2020 - 23 Business Plan and outcome measurement on an annual basis.

In its May 15 Loss Trends Approach document, AU0132APP, FSRA notes that it has put more emphasis on the principles of *Transparency* and *Simplicity*. CADRI argues that guidance posed by *Consumer Focus* and *Sustainability* are also important principles to consider. Taking a risk-based approach, fostering competition and choice, allowing insurers to be accountable for their pricing and planning, encouraging insurers to be fair, and keeping the industry in a sustainable position, serves the interest of both consumers, industry and government.

Thus, insurers' proposed rates should be measured against whether they are 'reasonable and just' in the context of the assumptions expressed and materials submitted by the insurer.

### **Marketplace diversity rather than one-size-fits-all**

The need for flexibility is even more critical because there are considerable differences between the portfolios of insurers.

CADRI members have a different business model from other insurers and tend to attract a more urban, technology-savvy clientele. As individual insurers have varying exposure in different parts of the province and to different client risk profiles, their respective loss cost trends are subject to vary significantly from an industry-wide average.

CADRI submits that it may not be reasonable for the regulator to impose one benchmark value, derived from the work of one independent firm, however credible, on the array of insurers it regulates.

### **Conclusion**

Therefore, we encourage the regulator to recognize that flexibility is required to serve consumers' interests.

We would welcome a balance among its key principles including *Consumer Focus* and *Sustainability*.

We encourage FSRA to consider the proprietary market intelligence an insurer presents to the regulator. Guided by the *Rate Regulation Principles*, and assuming the rate proposal is not unreasonable, insurers' rates would be approved.

Yours truly,

A handwritten signature in black ink, appearing to read 'Alain Thibault', written in a cursive style.

Alain Thibault  
Chairman and CEO

cc:  
CADRI Board of Directors  
CADRI Ontario Committee  
CADRI Risk Classification Task Force