

Territory Filing Specifications

Auto insurers who opt to participate in FSRA's Territories TLE are permitted to make territory definition and rating changes within the Greater Toronto Area (GTA), as defined by General Insurance Statistical Agency Stat - Territory 704, 710, 717. For detailed statistical territory definitions, refer to the Automobile Statistical Manual.

- 704: City of Hamilton including nearby areas
- 710: Oshawa, Aurora, Newmarket, Orangeville Districts, parts of regional municipalities of Durham, York, Peel, etc.
- 717: City of Toronto including nearby municipal areas and part of regional municipality of Peel

To ensure a level playing field, auto insurers are expected to implement territory definition and rating changes for policies effective on or after July 2nd, 2024, regardless of when auto insurers receive FSRA's approval decision for the Territories TLE.

FSRA will evaluate territory rating changes outside of the GTA on a case-by-case basis. Auto insurers who are not participating in FSRA's Territories TLE can still implement territory rating and definition changes through FSRA's Major Filing Guidelines using the existing territory specifications.

FSRA does not anticipate reviewing auto insurers' overall rate level indications during the Territories TLE review, as the priorities will be establishing fairness for consumers and aiming for rate level neutrality post territory rating adjustments.

The territory filing specifications and desired outcomes that auto insurers are expected to achieve outlined below replace the current specifications found in section "4.k. Territorial Indications and Proposed Differentials" within the *Private Passenger Automobile Filing Guidelines – Major*.

Test and Learn Environments and responsible innovation

Supporting innovation in FSRA's regulated sectors is a foundational part of the regulator's mandate. One of FSRA's statutory objects is to foster strong, sustainable, competitive, and innovative financial services sectors in Ontario. For FSRA, 'responsible innovation' means managing risk to consumers and members. FSRA pursues responsible innovation by driving greater choice and value for consumers while protecting their interests and managing risk and uncertainty. It is important to note that the 'responsible' aspect of the mission is as critical as the 'innovation' aspect. Our object of fostering innovation coincides with those of promoting high standards of business conduct and protecting the rights and interests of consumers.

The Territories TLE is an activity-based TLE which enables TLE participants to test business approaches otherwise not permitted under the current regulatory framework by using available regulatory tools as appropriate on a strictly as-needed basis.

Through the TLE, participants will have access to a relatively low-risk environment for assessing the market's response to innovation and practicing data-driven design. The TLE allows for early warnings of unintended consequences and potential compliance complications, thus managing the scale of risk from innovation and collaborating to manage risk.

FSRA's role as a regulator requires that all prudent and reasonable steps be taken to ensure that innovation-based risk is recognized and mitigated to the fullest possible extent and in alignment with the intent of FSRA's objects in the regulated sectors.

FSRA's Innovation Framework outlines the standardized Innovation Process to assess all innovation opportunities and the five-step Risk Framework for assessing risk.

The five-step process standardizes the review of innovation opportunities. The assessment determines how to process, prioritize, and validate an innovation opportunity, while also assessing risk and determining how to measure success. The outcome of a risk assessment will decide how an innovation opportunity is processed. Interpreting risk contextually, FSRA will demand that TLE participants develop strong mitigation plans for all significant risks identified during the process.

The specifications set out below (in 4.k.a-f) are intended to provide the information necessary for FSRA's Innovation Process to review territory rating changes, including due diligence aimed at ensuring responsible innovation that protects the consumers' interest. To submit an application for territory rating changes under the TLE, interested auto insurers will need to apply through the usual Rate Filing Application Process (*Private Passenger Automobile Filing Guidelines - Major*). No further documentation or fees will need to be submitted in order for FSRA to process the application.

Appendix 4.k.a. Overall description

The Territories TLE will focus on both the reasonability of the information used and an output-oriented review of the proposed territory rating plan. This approach fosters innovation by allowing for an understanding of the proposed methodology of the territory pricing without dictating a specific territory rating methodology. The output-oriented review will help evaluate if the proposed rates by territory reflect material differences in expected cost as well as determine the reasonableness of the results.

Auto insurers are required to provide a detailed description of the internal data and the length of the experience period used for the territory rating analysis. Should the auto insurer decide to rely on external data, the insurer should identify the source of the external data and provide an explanation of its applicability in this circumstance. All

other data and modeling adjustments, including the credibility procedures, large loss capping, developing claims and loss amounts to ultimate level, and adjustments for trends, should be disclosed and supported in the same detail.

Considerations should be given to data stability and homogeneity when deriving actuarially supported territorial differentials.

Appendix 4.k.b. Data submission

FSRA requires auto insurers to provide vehicle level data with policy effective date and all rating characteristics used in the auto insurer's rating algorithm in spreadsheet format in supporting the territory rating analysis used in the TLE filing. Please provide current capped and uncapped premiums, proposed capped and uncapped premiums, and claims and losses data for each vehicle at coverage level.

Appendix 4.k.c. Predictive models and results

Include the following predictive models and results in the filing:

- description of the predictive model or analytical pricing method used for territory rating
- comparison between the TLE territory development approach and previous methods
- details about training and validation data, justification for any data exclusions
- explanation of data adjustments, pre and post modeling
- rationale behind variable selection with a variable summary table
- evaluation and mitigation of potential bias or discrimination in the model
- explanation of significant differences in proposed territorial definitions and differentials
- explainability metrics for the territory definition model

The model results should be summarized to include the earned exposures, number of claims, credibility, indicated loss costs or loss ratios, re-balanced indicated relativities, and proposed relativities by coverage. If claim frequency and severity are analyzed separately, separate analysis results should be provided. The statistical significance and fittedness of the rating methodology in the validation data should be provided.

To demonstrate that the model results are reasonable, auto insurers should provide a comparison of the projected results to the historically observed results, including lift charts. Results supplied should also include information separated by a measure of time element (such as accident/policy year) for a review of consistency across time. Historical loss experience should support the proposed territory changes.

Appendix 4.k.d. Evaluation of proposed territory impacts

In the TLE filing, auto insurers should provide the territory rating impacts on in-force policies and a description of the process used. Impacts by key risk characteristics should be reviewed for appropriateness on both an overall and individual basis. This can be accomplished by measuring exposure distributions for key risk characteristics and showing the premium impact of territory changes at granular and summary levels. Auto insurers are expected to provide a list of proposed territories in the GTA, number of annual exposures, current and proposed average premium at an all coverages combined level, proposed average premium relativities, and loss cost relativities.

With the removal of the specifications that territorial definitions be identical for all coverages, auto insurers may now use territorial definitions that vary by coverage. Auto insurers are required to provide the following to support their proposed territory definition if territories vary by coverage:

- compare total current and proposed territories by coverage
- provide color maps of current and proposed territory definitions by FSAs for each coverage

- compare current, indicated, and proposed territorial differences by coverage
- highlight the maximum percentage difference in proposed territorial differentials between adjoining territories for each coverage
- explain the rationale behind non-contiguous geographical areas within a given territory

Appendix 4.k.e. Evaluation of proposed changes for fairness

FSRA's decision to approve or deny auto insurers' proposed territory rating changes relies on its assessment of whether the desired fairness outcomes have been achieved. Auto insurers are expected to provide FSRA with evidence validating their achievement of the fairness outcomes.

Accuracy

An auto insurer is expected to demonstrate that its rating and underwriting are actuarially and statistically justified. The review of the actuarial justification will include review of model validation and the auto insurer's approach to ensure the territory model is not overfitting the historical data.

Bias, discrimination, and proxy discrimination

An auto insurer is expected to demonstrate that its rating and underwriting data, models, process, systems, and decisions are not unlawfully or unfairly discriminatory and do not contravene the Human Rights Code. That will include providing details respecting auto insurer processes and methods for detecting, measuring, and mitigating potential bias and unfair discrimination within their rating models.

Transparency

The change in territorial definitions and ratings may cause significant premium impact to policyholders. We expect auto insurers to be accountable for their customers' experience by providing their policyholders with ample time to review and understand the changes in their policies. An auto insurer is expected to demonstrate that it provides enhanced and timely communications of rating and underwriting decisions to consumers, aiming for greater transparency and interpretability. FSRA will evaluate transparency based on the insurer's plan to communicate rating and underwriting decisions, including any changes resulting from its proposed territory rating plan to policyholders in a clear and timely way.

FSRA may request additional data and information from auto insurers to assess whether fairness outcomes have been achieved.

Appendix 4.k.f. Capping

To minimize the territory rating change impact on customers, auto insurers are encouraged to implement a capping strategy or alternative mechanism in the rate filing submission. Auto insurers are expected to exemplify increased accountability in their business practices and in managing the consumer experience.

Future filing submissions

These territory filing specifications apply to an auto insurer's initial territory filing under the TLE. Subsequent territory rating changes will be processed under a regular Major Filing approach.