

Territories TLE Webinar

Test and Learn Environment for Territories



FSRA

Financial Services Regulatory
Authority of Ontario

Date: January 2024

Speakers:

Glen Padassery, EVP Auto Insurance Products and Policy, *FSRA*

Cong Wang, Chief Actuary Auto Insurance Operational Risk Supervision , *FSRA*

Jonas Schwab Pflug, Senior Manager Auto Reform Policy, *FSRA*



Ontario

House Keeping

Video and sound will be turned off automatically

There will be a Q&A session after the presentation.

You can submit questions in the Q&A

Questions will be selected at random

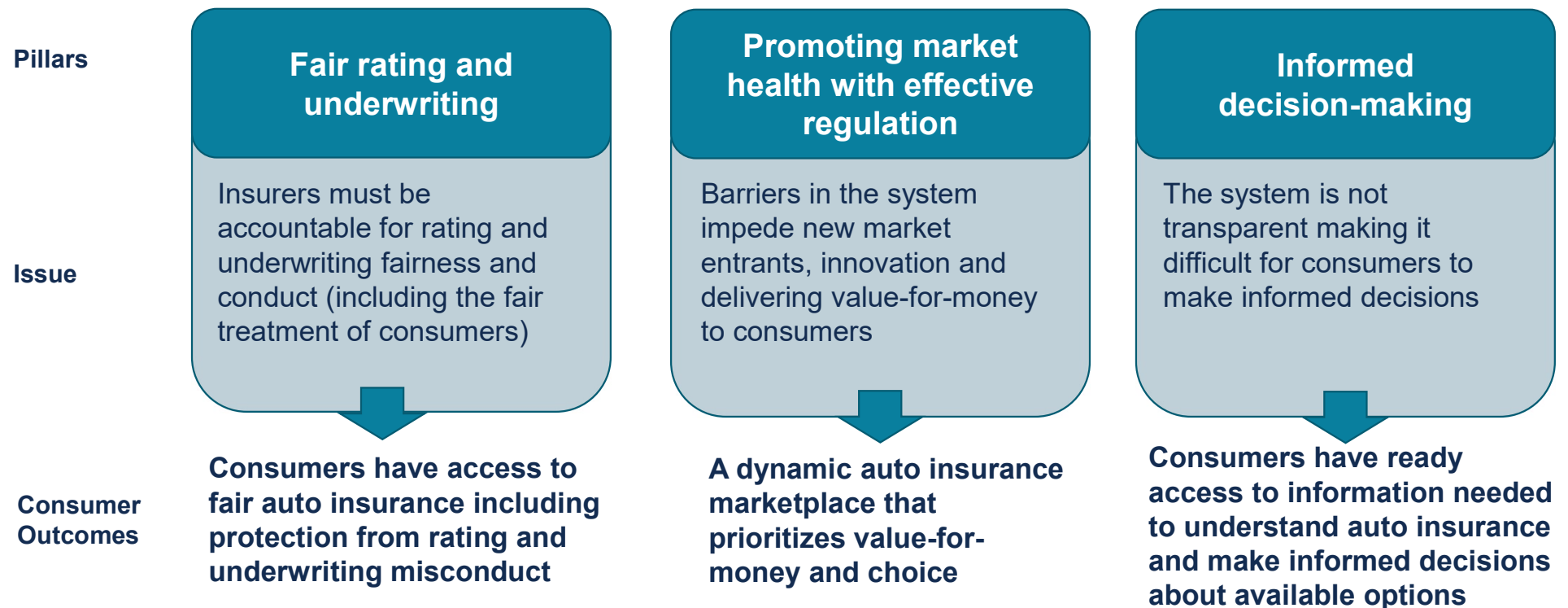
Any unanswered questions will be addressed in the FAQ to be released later.

Opening Remarks: Glen Padassery, EVP Auto Insurance Products and Policy

Reform Strategy Outcomes



Make FSRA's oversight more dynamic, flexible and transparent with a consumer-focus on **fair rates and underwriting practices, promoting market health with effective regulation** and fostering **informed decision-making**.



Issue and Background:

FSRA has recently completed **a review of Territory Rating.**

The review showed that the **current approach to territory rating is limiting rate accuracy and therefore making rates less fair.**

Public perception that the current approach has an element of unfairness and more negatively impacts certain areas of Ontario.

Purpose:

FSRA is using a Test and Learn Environment (TLE), announced on January 3, 2024, to proactively monitor the impact of participating auto insurers, who would **no longer be required to adhere to the territory rating bulletin**

Insurers' responses and engagement with the TLE will **enhance FSRA's understanding of the impacts of territory changes** and inform policy work to improve fairness and supervision in response to concerns found in FSRA's territorial review.

Test and Learn Environment For Territories

Further Details on the Innovation Framework and TLE in Appendix 2

Acceptance into the Territories TLE will mean **insurers will no longer be required to adhere to some auto rate filing guidelines associated with territories** (e.g. 55 in Ontario and 10 in Toronto)



The TLE will serve as a mechanism to receive proposals from industry and allow FSRA to better **understand innovative auto insurer methods** for designing territories.



These results could **identify any unforeseen consequences** and allow FSRA to develop mitigating strategies.



FSRA has developed a **preliminary framework for outcomes-focused analysis** of territory rating changes under the TLE.



This initiative will also enable FSRA to **monitor whether intended regulatory outcomes can be achieved** by territory rating changes made by auto insurers under the TLE.



FSRA's central aim is to **ensure fair auto insurance rates and underwriting throughout the TLE process**.

Filing Process & Requirements



Approach:	Major Filing Required for Territory Changes to PPA within the GTA
Filing Specifications:	<ul style="list-style-type: none">a) Overall Descriptionb) Data Submissionc) Predictive Models and Resultsd) Evaluation of Proposed Territory Impactse) Evaluation of Proposed Changes for Fairnessf) Capping
Additional Details	<p>Effective for Policies on or after July 2nd, 2024</p> <p>FSRA does not anticipate reviewing auto insurers' overall rate level indications during the Territories TLE review</p> <p>Priorities will be establishing fairness for consumers and aiming for rate level neutrality post territory rating adjustments</p> <p>Will replace the current specifications found in the current <i>Private Passenger Automobile Filing Guidelines – Major</i>.</p>

Insurer Accountability

Insurers are expected to identify policyholders who may face adverse effects due to the territory rating changes and **develop mechanisms to support the consumer experience during transition.**

For example: capping, rebating, and waiving cancellation fees.

Enhanced Communication

Enhancing communication with consumers for greater transparency and interpretability.

For example: extending renewal notices to impacted consumers, allowing them time to shop around.

Limited Scope

A reduced scope on **territory rating changes within the Greater Toronto Area (GTA) for Private Passenger Vehicles (PPA)**, ensuring minimal disruption to consumers outside this region during the transition.

GTA Definition:

GISA Territories 704, 710, 717

Effective for Policies on or
after **July 2nd, 2024**

Subsequent territory rating
changes will be processed
under a regular Major
Filing approach.

FSRA will gather data to evaluate the **outcomes resulting from territory rating changes** over the testing period

Neutral Average Premium

Validating that overall/average premiums stemming from territory changes remain neutral within the GTA enables FSRA to monitor for positive / negative outcomes

Shifts in
Quote Volume | New Business Volume | Retention Rates

Analyzing shifts in quote volume, new business volume, and retention rates enables FSRA to evaluate consumer shopping around activity and market competition.

Improved Rating Accuracy & Reduced Subsidization

Consumers pay premiums that better align with their risks

A majority of drivers in the GTA paying less and no longer subsidizing high claim costs for drivers in other parts of the GTA

TLE Uptake

Increased TLE uptake (measured by the number of participating insurers and market share) from a diverse group of large and small insurers enhances consumer outcomes for drivers in the GTA.

1. Criteria are subject to further development.

Innovation Framework and TLE Overview

Appendix 1

Questions?

Innovation Office Overview

- Supporting innovation in the regulated sectors is a foundational part of FSRA's mandate as a regulator. One of FSRA's statutory objects under the *FSRA Act* is “to foster strong, sustainable, competitive and innovative financial services sectors.”
- As part of this commitment, the Innovation Office was launched in 2020 to promote innovative thinking, help innovators develop their ideas and enable ‘responsible innovation’.
 - For FSRA, 'responsible innovation' means managing risk to consumers and members of the regulated sectors.
- To-date it has launched an **Innovation Framework** and established a **Test-and-Learn Environment**.
 - The Innovation Framework sets clear expectations and guiding principles to help financial services innovators bring innovative products to market in a sustainable, responsible and accessible way. The framework is in place to make it easier to propose new ideas, products and services while maintaining consumer confidence in financial services.
 - The Test and Learn Environment is a way for us to work collaboratively with innovators and test new business ideas and ventures and understand how they might impact the marketplace, businesses and consumers.

Test and Learn Environment (TLE) Overview



- FSRA provides customized Test and Learn Environments – “safe spaces” for testing.
- TLEs are, in essence, staging grounds where financial services companies can test new approaches, products and services in a closely monitored environment and limited time duration.
- During this experimental phase, both the FSRA Innovation Office and test participants will gather and review information on how the new approach, product or service performs in a real market.
- The findings can help test participants validate their new product or offering while giving FSRA insights on how it might enhance or adapt particular regulations.