

# A new supervisory model for auto insurance rating and underwriting in Ontario

The logo for the Financial Services Regulatory Authority of Ontario (FSRA) consists of the letters "FSRA" in a large, bold, blue, sans-serif font.

Financial Services Regulatory  
Authority of Ontario

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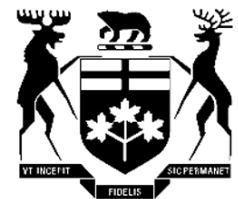
**Date:**

October 16, 2024

**Speakers:**

Michelle Dodokin, Head of Auto Insurance Supervision  
Cong Wang, Chief Actuary, Auto Insurance Supervision

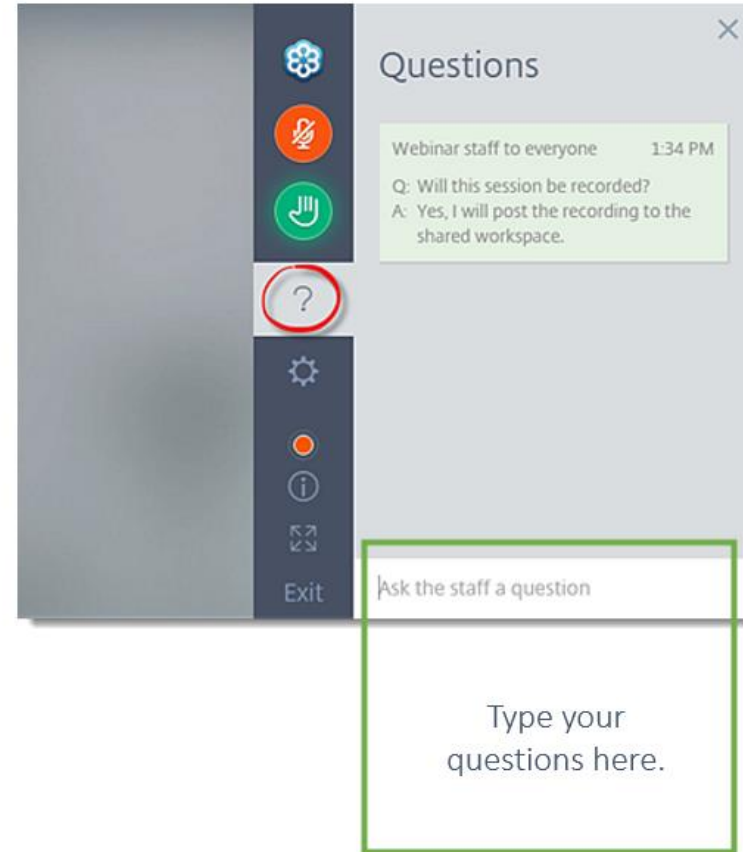
**Moderator:** Rheena Arthur, Senior Policy Analyst, Auto Policy



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**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**

We acknowledge the land we are on is the traditional territory of many nations including the Mississaugas of the Credit, the Anishinaabeg, the Chippewa, the Haudenosaunee and the Wendat peoples and is now home to many diverse First Nations, Inuit and Métis peoples. We acknowledge that Toronto is covered by Treaty 13 with the Mississaugas of the Credit and the Williams Treaties signed with multiple Mississaugas and Chippewa bands.

## SPEAKERS & MODERATOR

- **Michelle Dodokin**, Head of Auto Insurance Supervision
- **Cong Wang**, Chief Actuary, Auto Insurance Supervision
- **Rheena Arthur**, Senior Policy Analyst, Auto Policy

# Agenda

1. FSRA's Auto Rating and Underwriting Strategy
2. Progress on our strategy
3. The journey to becoming a PBR regulator
4. Objectives of the new supervisory approach
5. Benefits for consumers and the industry
6. Overview of the guidance
7. Early industry response
8. Consultative approach
9. Bringing it all together



# FSRA

Financial Services Regulatory  
Authority of Ontario



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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**

## Fair rating and underwriting

**Accurate pricing** and **absence of unfair bias and discrimination** in rating and underwriting

## Promoting market health with effective regulation




**Stimulate competition and innovation** that delivers **value-for-money** to consumers

## Informed decision-making

**Increased transparency** to ensure that consumers can make **informed decisions**



# Progress on our Auto Rating & Underwriting Regulation Reform Strategy

	<b>Fair rating and underwriting</b> 	<b>Market Health and Effective Regulation</b> 	<b>Informed Decision-Making</b> 
<b>PBR Supervisory Model</b> <i>Drafting guidance, building capabilities, redesigning processes, technology uplift</i>	●	●	●
<b>Fraud Reporting Service</b> <i>Mitigating fraud and premium inflation through industry reporting and insights</i>	●	●	
<b>Auto Reform*</b> <i>Increasing choice, transparency and affordability through optionality, HSP review</i>	●	●	●
<b>Document Modernization</b> <i>Increasing consumer transparency on premiums and plain language</i>			●
<b>Tech Transformation</b> <i>Legacy system replacement, accreditations, proactive supervision, FRS</i>	●	●	

\*Government-led reforms

- Principles-based regulation is **not a ‘light touch’** to regulation; it’s a **more effective way** to regulate an evolving industry where **rules alone can’t keep up with the pace of change**
- **Where previously rules determined ‘compliance’, in the future, overarching principles set expectations**, and rules and guidance provide more explicit direction where consistency is imperative
- **Principles require a higher level of accountability** across the industry to review practices and ensure consumer fairness is embedded into decision-making
- The new supervisory model will help **ensure protection of consumers while promoting market health and encouraging innovation** through a more flexible approach
- The **journey to building a mature, principles-based regulatory model will take time**
- We will evaluate our progress and **adjust as necessary** to continue to refine our approach

# Recap: Understanding principles-based regulatory approaches

- PBR is a focus on principles and outcomes versus strict rules to achieve regulatory objectives
- Regulatory models are not exclusively rules or principles-based, but usually a blend of both, weighted toward one or the other
- Even in a PBR model, there may be circumstances where rules or more prescriptive guidance will be appropriate
- In a mature state, demonstrated industry accountability for alignment to principles reduces the need for prescription
- If principles don't achieve the desired outcomes, regulators may need to revert to rules

	Rules-based approach	Principles-based approach
When to use	<ul style="list-style-type: none"> <li>• Consistency is imperative</li> <li>• Only one way to comply</li> <li>• Where the risk of harm is high</li> </ul>	<ul style="list-style-type: none"> <li>• Industry is rapidly changing</li> <li>• More mature industries, or,</li> <li>• Emerging industries without established practices</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>• Clarity</li> <li>• Industry standardization</li> <li>• Rapid compliance</li> <li>• Legal certainty</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental responsiveness</li> <li>• Many ways to achieve outcomes</li> <li>• Flexibility increases innovation</li> <li>• Executive/board engagement</li> </ul>
Drawbacks	<ul style="list-style-type: none"> <li>• Too slow</li> <li>• Rules can't anticipate all scenarios</li> <li>• 'Spirit' of the regulation is lost</li> <li>• Loophole behaviour</li> </ul>	<ul style="list-style-type: none"> <li>• Differing interpretations of principles</li> <li>• Supervision of principles requires more effort/resources, and skill</li> </ul>

# Recap: Illustrative examples of rules-based versus principles-based approaches

Regulatory issue	Rules-based approach	Principles-based approach	Desired outcome
<b>Fair pricing</b>	Establish specific criteria and rating factors for calculating premiums	Pricing models are fair and transparent and reflective of consumer risk	Premium reflects the underlying risk and consumers have high trust
<b>Underwriting eligibility</b>	Mandate specific eligibility criteria, or prohibited criteria, for every coverage	Underwriting practices should reflect the underlying risk and not unduly disadvantage certain consumer groups	Widely accessible coverages and reduced discrimination
<b>Territorial rating</b>	Define rating territories for the industry	Encourage insurers to make more dynamic adjustments based on current and emerging risks	More responsive and equitable pricing models
<b>Transparency</b>	Dictate exact content and format for certain customer communications	Communicate clearly about rating and underwriting decisions and use easy-to-understand language	Increased consumer trust through open communication and understanding

*Requirements to be complied with*

*Clear expectations without prescription*

## Regulatory Objectives



Establish **principles and consumer outcomes** centered around fair treatment of consumers



Reduce **regulatory lag** and achieve **closer match between premiums and claims trends**



Establish **high standards for sound operations, controls and governance** in pricing and underwriting



Stimulate **innovation by introducing more flexibility** into the supervisory approach

## Consumer and Industry Benefits



### Consumers

- Premiums that more closely align with their **individual risk profile**
- **Absence of unfair discrimination and bias (mitigation)**
- Increased transparency in rating and underwriting = **more informed decision-making**



### Auto Insurance industry

- **Get rates to market faster** and keep up with trends
- Focus on outcomes with more flexibility on how they are achieved (**more focus on 'what', not 'how'**)
- **Enhanced practices** strengthening operations, governance and controls
- **Credibility as an accredited organization** that treats consumers fairly

This Guidance aligns FSRA's regulatory approach to its statutory objects, vision and mission. It is intended to establish a principles-based, outcomes-focused and risk-based approach to regulating rates and underwriting.

## Chapter 1: Fair Consumer Outcomes



Defining fair consumer outcomes for rates and underwriting

## Chapter 2: Automobile Insurance Rating and Underwriting Operations, Controls, and Governance Guidance



Outline effective operations, controls and governance for delivering fair consumer outcomes in rating and underwriting

## Chapter 3: Accreditation, Proactive Supervision and Assessment Approach Guidance



Establishing new accreditation system and assessing fair consumer outcomes and effective operations, controls and governance.

## Chapter 4: Automobile Insurance Filing Guidance



New filing processes for various types of filings and purposes.

Consultation – September 16 (60 days)

Consultation – January 2025 (30 days)

Principle	Fairness outcomes
<b>Accurate Pricing and Underwriting</b>	<ul style="list-style-type: none"> <li>• Premiums and coverages closely reflect consumers individual risk profile.</li> <li>• Risk profiles are determined by driving behavior, experience, driving distance, location, vehicle, and other relevant risk factors associated with the consumer’s driving.</li> </ul>
<b>Absence of Unfair Discrimination, Bias, or Proxies</b>	<ul style="list-style-type: none"> <li>• Auto insurance rating and underwriting practices are free from unfair discrimination and bias</li> <li>• Rating and underwriting decisions are not directly or indirectly influenced by protected grounds under the Ontario Human Rights Code.</li> <li>• Criteria are not used in rating and underwriting practices that are directly or indirectly proxies.</li> </ul>
<b>Accessible Products and Coverages</b>	<ul style="list-style-type: none"> <li>• Rating and underwriting practices balance pricing accuracy with accessibility and suitability.</li> <li>• Rating and underwriting decisions would not unfairly impact the ability of consumers to access critical auto insurance coverages.</li> </ul>
<b>Cost Mitigation</b>	<ul style="list-style-type: none"> <li>• Insurers prevent unnecessary and excessive costs from being passed onto consumers.</li> </ul>
<b>Balanced Profitability and Consumer Interests</b>	<ul style="list-style-type: none"> <li>• Insurers balance their needs for sustainable growth and profitability with fair treatment of consumers.</li> <li>• Premiums are based on reasonable profit assumptions.</li> </ul>
<b>Clear Consumer Communications</b>	<ul style="list-style-type: none"> <li>• Communications that impact the rights of the policyholder are timely, clear and enable them to respond and make informed decisions.</li> <li>• Consumers can access the information they need to reasonably understand the factors that influence pricing, underwriting and implications for future claims.</li> <li>• Consumers receive communications through a medium convenient to them, utilizing current technology options.</li> </ul>



### Insurers operations, controls and governance in rating and underwriting ensure rating accuracy and that FSRA's principles and fair consumer outcomes are embedded into business decision-making

- The guidance establishes a strong and foundational process for insurers' governance and controls.
- FSRA Auto Supervision team is not a prudential regulator and does not supervise insurers' governance and controls directly.
- We seek evidence of robust, adequate, and effective governance and controls in rating and underwriting, specifically
- Insurers demonstrating strong governance and controls will receive accreditation status
- Accredited insurers will be granted additional filing privileges, enabling them to take greater accountability for their business decisions and focus resources on delivering fair consumer outcomes

#### **Areas of focus**

- Three lines of defense
- Senior executives' fiduciary obligations
- Risk controls process and procedures
- Independent model review
- Model interpretability and explainability
- Model approval function

**Insurers that demonstrate the delivery of Fair Consumer Outcomes and sound OCG characteristics will be accredited and benefit from streamlined filing processes**

- **Application:** Optional for insurers. Insurers not seeking or not ready for accreditation will continue using the prior approval filing approach
- **Assessment:** Evaluates insurers' fair consumer outcomes, governance and controls, and data and model risk management.
- **Proportionality:** While the goal of fair consumer outcomes is the same for all insurers, each may find its own unique path to achieve it.
- **Qualification:** Areas of defect in governance and controls and model risk management that do not pose a material risk to consumer harm may still be eligible for accreditation
- **Duration:** FSRA does not specify a fixed duration for accreditation status but all insurers will be subject to ongoing supervision that could lead to a reassessment and possible change in accreditation status if material deficiencies are found

### Key points

- Pursuit of accreditation is encouraged but is optional; insurers decide
- Proportionality will ensure relevance for insurers of all sizes
- Accredited insurers will maintain their status indefinitely unless they fail to maintain standards of accreditation
- Proactive supervision activities will monitor both accredited and unaccredited insurers to ensure fairness outcomes are achieved
- Accredited insurers will have access to fast-tracked rate changes subject to some limits and thresholds

## Support for the new approach

- PBR is a step forward in modernizing rate/UW regulation
- Industry agrees that high standards for operations, controls and governance are important
- Industry appreciates clarity in principles/outcomes
- Streamlined filing processes 'sound good' but wait-and-see mindset

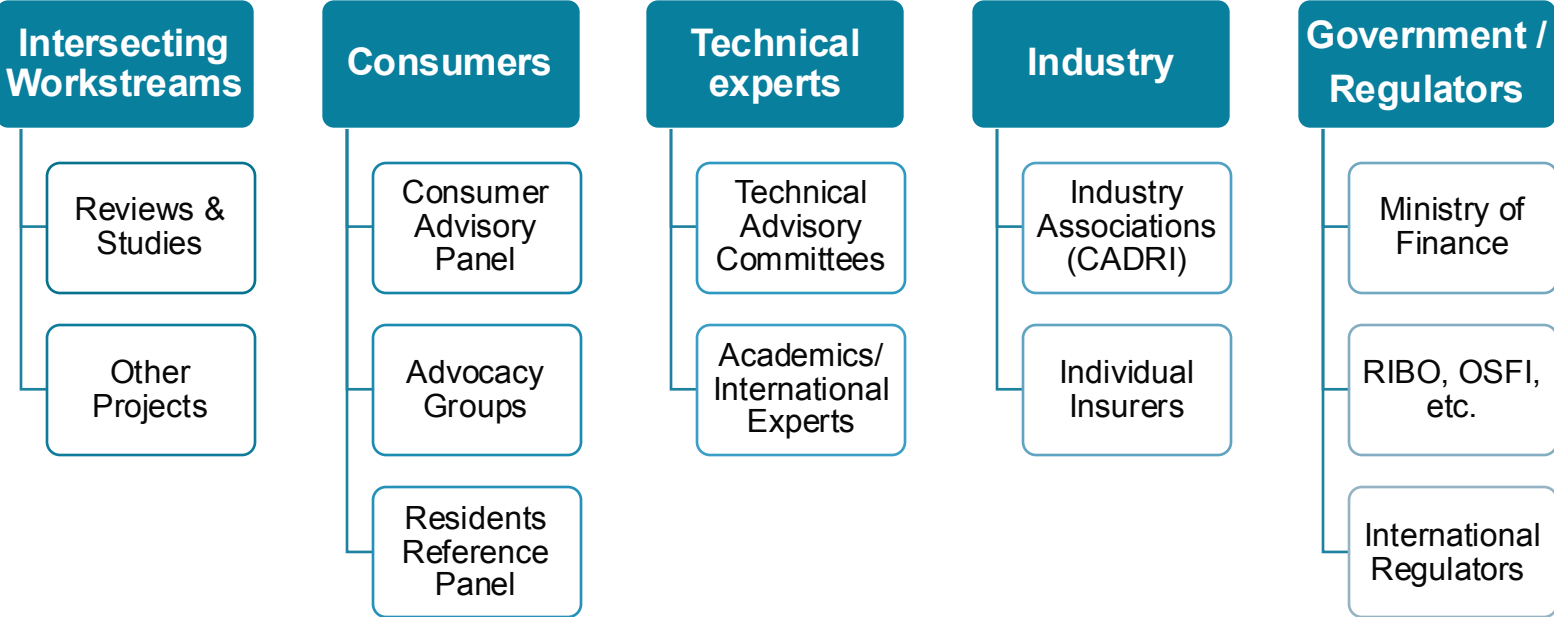
## Considerations raised

- Proportionality – resources/time/fairness
- Effort involved in becoming accredited and need for more clarity
- Challenges around profitability benchmarks
- Insurers looking for tangible benefits and more clarity on filing processes
- Potential risk of duplication with OSFI's prudential regulation

# Highly consultative approach across all major stakeholders



## Inputs\*



## Completed Consultations

<b>5+</b>	Technical Advisory Committee Meetings
<b>130+</b>	Attendees at Consultation Kick Off Event
<b>2</b>	Resident Reference Panels
<b>50++</b>	Hours of Engaging Sector
<b>5</b>	Research Studies
<b>19</b>	Bilateral Meetings with Stakeholders
<b>3</b>	Consumer Advisory Panel Meetings

\*Non-Exhaustive List

## PBR Maturity Model

### Aligning (2024-25)

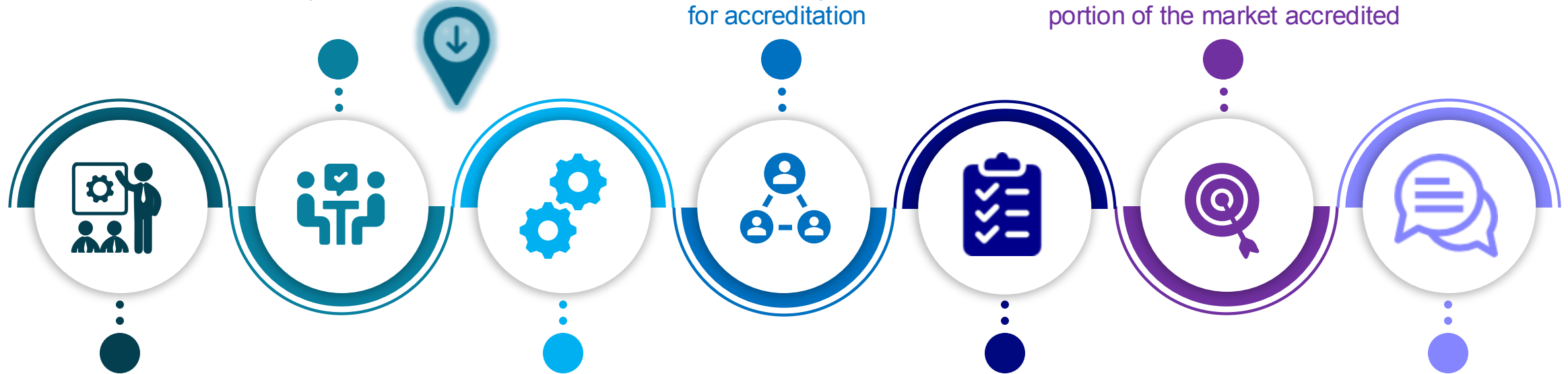
Consulting formally and informally on guidance with two-way discussion

### Embedding (2025-27)

Principles included in decision making and operations, insurers expressing readiness for accreditation

### Stabilizing (2027+)

Earned trust and confidence; entering steady-state with evidence of realized benefits; substantial portion of the market accredited



### Awareness

Learning about PBR and understanding future state; spreading the word about the change coming

### Building and Tooling (2024-26)

Developing new capabilities, tools, processes and systems to support the new approach

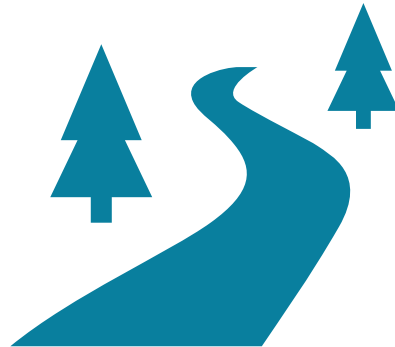
### Maturing (2026-28)

Gaining confidence in the new model, seeing benefits and discussing ways to calibrate/enhance; more insurers pursuing accreditation

### Evolving (2027+)

Model needs to continue to adapt to stay relevant and ensure objectives are achieved

- Concluding the consultation for Chapters 1 – 3 (Deadline: November 16, 2024)
- Consultation for Chapter 4 – Filing Guidance (Consultation, January 2025 – 30 days)
- All guidance finalized by Spring 2025, subject to feedback received



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# Questions?

**Thank you for your time!**