

# Guidance



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## Automobile Insurance Rating and Underwriting Guidance

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## Executive summary

This Automobile Insurance Rating and Underwriting Guidance (“Guidance”) transitions Ontario automobile insurance rating and underwriting practices from what has been a highly prescriptive regime to a more principles-based and outcomes-focused form of regulation. The outcomes that this Guidance intends to facilitate are fairer auto insurance rates and underwriting for consumers, a healthier marketplace enabled by effective regulation, and greater transparency for all stakeholders.

FSRA is introducing a supervisory model in which consumers may have greater confidence that:

- the price they are paying is aligned with their risk profile;
- they are protected against unfair discrimination and bias in rating and underwriting;
- the system is reliable, transparent and that information is available to support informed decision-making; and
- they can access the coverage they need to operate an automobile in Ontario.

The supervisory model also enables insurers to deliver better value for consumers by:

- reducing “regulatory lag” through streamlining processes, so that premiums can be more closely matched to claims trends;
- providing more flexibility for insurers to innovate with a focus on Fair Consumer Outcomes; and
- recognizing insurers that internalize Fair Consumer Outcomes and align processes to deliver them.

The new approach benefits all stakeholders by supporting innovation in accurate pricing, focusing regulatory activities on risks of consumer harm, facilitating a better functioning market, and enhancing accountability for consumer outcomes.

This Guidance identifies how insurers can internalize desired consumer outcomes by embedding them into rating and underwriting decision-making. Chapter 1 describes what is considered Fair Consumer Outcomes. Chapter 2 provides details on how insurers may pursue accreditation, how FSRA assesses the demonstration of Fair Consumer Outcomes, and FSRA’s ongoing supervision for rating and underwriting practices. Chapter 3 explains the filing requirements for accredited and unaccredited insurers.

## Purpose

This Guidance has three chapters

**Chapter 1 – Fair Consumer Outcomes** contains FSRA’s interpretation of subsections 3(5), 7(7) and 7.1(1) of the *Automobile Insurance Rate Stabilization Act* (the “**AIRSA**”) and/or subsections 238(4)(d), 412(6), or 415(1) of the *Insurance Act, R.S.O. 1990, c. 1.8* (the “**Insurance Act**”) as to what informs FSRA’s judgement when exercising its discretion to approve, reject, vary or reconsider risk classification systems, rates, and/or prohibit underwriting rules.<sup>1</sup> It also provides FSRA’s view that, as part of achieving Fair Consumer Outcomes, insurers need to take reasonable steps in operationalizing their approved risk classification systems, rates and/or underwriting rules, to ensure any act or omission does not result, or is not likely to result in the prohibited outcomes set out in the *Rule 2020 – 002 Unfair or Deceptive Acts or Practices Rule* (the “**UDAP Rule**”).

**Chapter 2 – Guidance on Accreditation, Assessment Approach and Ongoing Supervision** outlines FSRA’s accreditation model and assessment process and communicates assessment criteria for determining whether to accredit insurers and grant them access to fast-track rate change processes under section 413 of the *Insurance Act*. It also sets out FSRA’s approach to monitoring and supervising the rating and underwriting practices of all automobile insurers.

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<sup>1</sup> The Chief Executive Officer (“CEO”) may exercise regulatory authority under AIRSA and the *Insurance Act*. However, for the purposes of this Guidance, reference will only be made to FSRA as the CEO exercises such authority in his capacity as FSRA’s chief executive (and not in his personal capacity) and may delegate authority to FSRA employees, as permitted by subsection 10(2.3) of the *Financial Services Regulatory Authority of Ontario Act, 2016* (the “**FSRA Act**”).

**Chapter 3 – Automobile Insurance Filing Guidance** specifies regulatory processes for applications for approval under sections 3-10 of the AIRSA and/or sections 410-417 of the *Insurance Act*, as well as the information, material, and evidence for proposed rate and risk classification system filings that demonstrate the Fair Consumer Outcomes.

This Guidance complements the information provided in, and should be read in conjunction with, other FSRA Guidance and supporting publications available on FSRA’s website.

## Scope

This Guidance affects the following:

- All insurers licensed to sell automobile insurance, including but not limited to those underwriting private passenger automobile (“**PPA**”), non-private passenger automobile (“**non-PPA**”) and fleet, and intermediaries carrying out related functions;
- Third-party providers of related products and services engaged by such insurers, including but not limited to aggregators and rating model vendors; and
- Consumers.

## Rationale and background

FSRA’s role in the automobile insurance sector includes a responsibility to ensure that all Ontarians have access to fairly priced automobile insurance, in accordance with all regulatory requirements. That includes ensuring:

- that rates proposed by insurers are:
  - just and reasonable in the circumstances;
  - reasonably predictive of risk; and
  - fairly distinguish between risks;

- and that underwriting rules are not:
  - subjective;
  - arbitrary;
  - bearing little or no relationship to the risk; or
  - contrary to public policy.

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 rules that is informed by actuarial considerations and also prioritizes Fair Consumer Outcomes. The regulatory approach set out in this Guidance also aims to foster a marketplace that prioritizes the rights and interests of consumers and fairness in alignment with the International Association of Insurance Supervisors’ Fair Treatment Principles, while promoting a competitive environment for insurers.

## Chapter 1: Fair Consumer Outcomes

This Chapter provides FSRA’s interpretation of the approval tests it administers:

**“Risk Classification System Provisions”** being:

- Subsections 3(5), 7(7) and 7.1(1) of the AIRSA; and
- Subsections 412(6) and 415(1) of the *Insurance Act*,

and

**“Underwriting Provision”** being:

- Subsection 238(4)(d) of the *Insurance Act*.

and

“**Non-Standard Form Provision**” being:

- Section 227 of the *Insurance Act*.

The *Insurance Act*, including *R.R.O. 1990, Reg. 664: Automobile Insurance* (“**Regulation 664**”), the AIRSA and the *Compulsory Automobile Insurance Act*, R.S.O. 1990, c. C.25, work together to create a no-fault automobile regime and make it mandatory for Ontarians to maintain automobile insurance to own and/or operate a motor vehicle in Ontario. While owning or operating a motor vehicle is not a right, it is necessary to the livelihood of many Ontarians and contributes to the functioning of Ontario’s economy in general.

To properly serve consumers,<sup>[2]</sup> the no-fault automobile regime in Ontario requires that automobile insurance be readily available, accessible, priced fairly, and provide the coverages that are necessary to afford claimants with the compensation they need in the event of an accident or loss. The effective functioning of the automobile insurance system also depends on insurers being able to make a reasonable profit and cover expenses. The Risk Classification System Provisions and the Underwriting Provision each play a critical role in achieving this objective.

The interpretations contained in Chapter 1 reflect what FSRA has determined, informed by its statutory objects, best supports Fair Consumer Outcomes.

FSRA’s discretion under the Risk Classification System Provisions and Underwriting Provision will also be informed by market monitoring activities and the objectives of fostering a strong, sustainable, competitive and innovative automobile insurance sector and contributing to public confidence by ensuring fair access to automobile insurance system wide. For example, if FSRA observes market dynamics and trends or expects that a specific approach to rating and underwriting will frustrate or impede the ability of consumers to access automobile insurance, it may refuse to approve a filing or request that it be varied.

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<sup>2</sup> “Consumer” is defined as a person or business that has purchased, intends or is likely to purchase automobile insurance.

## 1.1 Risk Classification System Provisions

The Risk Classification System Provisions set out four (4) criteria that FSRA considers when determining whether to refuse to approve all or part of an insurer’s application for automobile insurance rates.<sup>[3]</sup> For example, for Personal Vehicles — Private Passenger Automobile (“PPA”), subsection 3(5) of the AIRSA states:

3 (5) The Chief Executive Officer shall refuse to approve all or part of an application and may require the applicant to vary one or more of the elements of its proposed risk classification system or to reduce or vary one or more of its proposed rates if, in the Chief Executive Officer’s opinion,

(a) the proposed risk classification system or proposed rate is not **just and reasonable** in the circumstances;

(b) the proposed risk classification system is **not reasonably predictive** of risk or does not distinguish **fairly** between risks;

(c) the proposed rates would impair the applicant’s solvency; or

(d) the proposed rates are excessive in relation to the applicant’s financial circumstances.

The phrase “just and reasonable” has been used in numerous regulatory contexts in Canada and allows a regulator the ability to inform its discretion by referencing its statutory objects to determine the appropriate approach, method or technique to be used, as in this case, for approving automobile insurance rates that balance the interests of insurers and consumers in a manner that achieves fair outcomes for the consumer. More specifically, a statutory object related to protecting the interests of consumers, such as that which exists under the *FSRA Act*, has been identified as appropriate to inform a regulator’s exercise of discretion with related public policy

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<sup>3</sup> For clarity, FSRA’s interpretation of subsection 3(5) is equally applicable when FSRA decides whether to refuse to approve an insurer’s risk classification system under sections 7 and 7.1 of the AIRSA, as well as under subsections 412(6) and 415(1) of the Insurance Act.

considerations that may extend beyond pure financial criteria in approving a rate classification system.<sup>[4]</sup>

FSRA's determination is that, in general and subject to the actual structure and terms of the system used by an insurer, a risk classification system is just and reasonable, reasonably predictive of risk and distinguishes fairly between risks if the rates it generates are consistent with the Fair Consumer Outcomes set out in this Guidance.

## 1.2 Underwriting Provision

The Underwriting Provision sets out four (4) criteria FSRA shall consider when determining whether to refuse to approve an underwriting rule (referred to as "ground" in section 238 of the *Insurance Act*). Specifically, the Underwriting Provision provides that:

238(4) The Chief Executive Officer shall notify the insurer orally or otherwise that the insurer is prohibited from using one or more of the grounds filed under subsection (2) if the Chief Executive Officer is of the opinion that the ground,

(a) is subjective;

(b) is arbitrary;

(c) bears little or no relationship to the risk to be borne by the insurer in respect of an insured;  
or

(d) is contrary to public policy.

Underwriting rules will generally not be considered subjective, arbitrary, bearing little or no relationship to the assumed risk, or contrary to public policy – subject to the actual structure and terms of the system used by an insurer – if the resulting underwriting decisions demonstrate the Fair Consumer Outcomes identified in this Guidance.

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<sup>4</sup> *Advocacy Centre for Tenants-Ontario v. Ontario Energy Board (2008)*, 293 DLR (4th) 684 at paras 55 and 56.

## 1.3 Non-Standard Form Provision

Subsection 227(8) of the *Insurance Act* requires that FSRA provide written reasons for its decision respecting an approval decision made with respect to a non-standard form. Although, the Non-Standard Form Provision does not prescribe the factors or elements that FSRA must apply when considering a request for the approval of a non-standard form, FSRA will generally exercise its discretion under section 227 by assessing if the insurance policies that use the non-standard form are consistent with the Fair Consumer Outcomes.

## 1.4 Application of the UDAP Rule to Fair Consumer Outcomes

In addition to FSRA’s discretion being informed by its statutory objects as identified below, FSRA also takes into account the effect of subsection 9(1) of the UDAP Rule when assessing Fair Consumer Outcomes. Section 439 of the *Insurance Act* provides that “No person shall engage in any unfair or deceptive act or practice.” The UDAP Rule defines “unfair or deceptive act or practice” as: “conduct, including inaction or omission, which results in, or could reasonably be expected to result in the” prohibited outcomes identified in the UDAP Rule (“**Prohibited Outcomes**”).

For insurers and their directors, officers and employees, conduct, including inaction or omission, constitutes a UDAP, if “a reasonable person in that person’s business or profession with full knowledge of all and any facts and circumstances that person knew about or, with reasonable diligence under the circumstances, ought to, have known” would conclude that the Prohibited Outcome is likely to occur, even if a Prohibited Outcome has not actually yet occurred.

### 1.4.1 Prohibited Outcomes under the UDAP Rule

For the purposes of this Guidance, subsection 9(1) of the UDAP Rule provides that “Unfair treatment by an agent, broker or insurer to a consumer with regard to any matter relating to quotations for automobile insurance, applications for automobile insurance, issuance of contracts of automobile insurance or renewals of existing contracts of automobile insurance” is a Prohibited Outcome, and provides a non-exhaustive list of specific conduct that constitutes unfair treatment, which includes:

- using credit information or a prohibited factor,
- applying any other information in a manner that is subjective or arbitrary or that bears little or no relationship to the risk assumed or to be assumed by the insurer,
- misclassifying a person or vehicle under the risk classification system used by an insurer or that an insurer is required by law to use,
- engaging in unfair discrimination,
- treating a consumer in an arbitrary, capricious or malicious manner,
- not acting in good faith or behaving in a way that causes consumers to have a reasonable apprehension of bias, and
- communicating in an untimely manner.

The development and use of risk classification systems and underwriting rules are captured within the above Prohibited Outcome. Consequently, the failure to take appropriate safeguards to avoid outcomes which constitutes unfair treatment in and of itself may constitute a UDAP without there being actual use of a prohibited factor, misclassification, unfair discrimination, etc. FSRA expects insurers to take appropriate measures to ensure that the risks of Prohibited Outcomes occurring have been effectively mitigated.

## 1.5 Fair Consumer Outcomes for Rating and Underwriting

The Fair Consumer Outcomes align with FSRA's statutory objects to:

- contribute to public confidence in the regulated sectors,
- promote high standards of business conduct,
- protect the rights and interest of consumers,
- promote transparency and disclosure of information by the regulated sectors,

- foster strong, sustainable, competitive and innovative financial services sectors.

All insurers are accountable for aligning their rating and underwriting practices with FSRA’s intended consumer outcomes for fairness, profitability and transparency (the “**Fair Consumer Outcomes**”).

Principle	Fair Consumer Outcomes
<b>Fairness</b>	
<b>Accuracy</b>	<ul style="list-style-type: none"> <li>• Premiums charged to consumers in support of coverages are actuarially justified and closely reflect the customer’s individual risk profile.</li> <li>• Consumers’ individual risk profiles are largely determined by consumer driving behaviour, experience, use of the vehicle and driving distance, location and vehicle, and other relevant factors associated with the risks.</li> </ul>
<b>No unfair discrimination</b>	<ul style="list-style-type: none"> <li>• Automobile insurance rating and underwriting practices are free from unfair discrimination and bias, and insurers have taken steps to effectively mitigate this risk.</li> <li>• Rating and underwriting decisions are not directly or indirectly influenced by protected grounds under the Ontario <i>Human Rights Code</i>.</li> <li>• Criteria are not used in rating and underwriting practices that are directly or indirectly proxies for criteria whose use would be inconsistent with these Fair Consumer Outcomes.</li> </ul>

**Accessibility**

- Rating and underwriting practices balance pricing accuracy with considerations of consumer accessibility and suitability.
- Rating and underwriting decisions, if applied across the sector, would not unfairly impact the ability of consumers to access what FSRA considers to be critical automobile insurance coverages.<sup>[5]</sup>

**Cost effective**

- Insurers prevent unnecessary and excessive costs from being passed onto consumers, including taking reasonable steps to mitigate fraud and increase efficiency without negatively impacting the consumer experience.

**Profitability**

**Balanced profitability**

- Insurers appropriately balance their needs for sustainable growth and profitability alongside the delivery of the other Fair Consumer Outcomes.
- Premiums are based on reasonable profit assumptions in accordance with FSRA's most recent Annual Review Guidance.

**Transparency**

**Transparency**

- Communications that impact the rights of the policyholder are timely, clear and enable them to respond and make informed decisions. These communications should be clearly distinguishable from marketing or other communications.

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<sup>5</sup> Insurers should speak to their FSRA Relationship Manager regarding what FSRA considers critical automobile insurance coverage. Insurers are expected to support all rationale for critical and non-critical coverages with appropriate documentation and actuarial evidence.

- Consumers can easily access the information they need to adequately understand the factors that influence pricing and underwriting decisions on their policy, and any implications to their coverage.
- Consumers receive timely, appropriate and clear communications through channels that are convenient and accessible to them, utilizing current technology options such as email, text or mobile apps.

The Fair Consumer Outcomes are not listed in order of priority, and while some may come into conflict in practice, insurers must be able to support their decision-making. The Fair Consumer Outcomes need to be considered holistically. FSRA expects insurers to consider the interaction of the outcomes with each other when filing risk classification systems and underwriting rules with FSRA.

## Chapter 2: Guidance on Accreditation, Assessment Approach and Ongoing Supervision

### Introduction

This Chapter outlines FSRA's accreditation model and supervisory process. It provides examples of what FSRA may consider effective demonstration of Fair Consumer Outcomes. It also provides specific characteristics of sound Controls and Oversight that insurers are expected to use to demonstrate Fair Consumer Outcomes for the purposes of accreditation and ongoing supervision, as outlined in the Assessing Sound Controls and Oversight Characteristics table. FSRA's assessment and ongoing supervision will consider whether the appropriate and adequate Controls and Oversight characteristics are in place, meaning that automobile insurance rating and underwriting functions are designed to achieve their role in the delivery of Fair Consumer Outcomes.

## Accreditation

Insurers that demonstrate the delivery of Fair Consumer Outcomes may be eligible for accreditation. Accredited insurers will benefit from fast-track filing processes using FSRA's discretion under section 413 of the *Insurance Act*. Any insurers underwriting automobile insurance in Ontario may apply for accreditation.

## Accreditation Process, Decisions and Status

This Chapter establishes a principles-based accreditation system with privileged filing streams for insurers that demonstrate Fair Consumer Outcomes, subject to FSRA assessments and in collaboration with insurers. Insurers that do not apply for accreditation and/or do not demonstrate the achievement of Fair Consumer Outcomes and specific characteristics of sound Controls and Oversight, will not be accredited. All insurers will be subject to ongoing supervision, and insurers that do not meet accreditation standards will be provided feedback and the opportunity to reapply for accreditation. Accreditation is a voluntary process and FSRA does not require insurers to be accredited.

## Accreditation Status

Insurers may be accredited, unaccredited or under review.

- **Accredited:** Insurers that achieve Fair Consumer Outcomes and demonstrate the required characteristics of sound Controls and Oversight. Accredited insurers will benefit from privileged filing processes as set out in Chapter 3.
- **Unaccredited:** Insurers that have decided not to pursue accreditation or have not yet satisfied the requirements for accreditation.
- **Under Review:** Insurers that were previously accredited but have failed to maintain the standards for accreditation may be placed under review or lose accreditation status. Maintaining accreditation will be conditional on addressing identified issues to FSRA's satisfaction.

## Approach to Assessing Fair Consumer Outcomes

The tables below provide some best practices respecting FSRA’s measurement and evaluation of Fair Consumer Outcomes for all insurers. As insurers may devise other means of demonstrating Fair Consumer Outcomes, these tables are not intended to be exhaustive.

FSRA recognizes that demonstrating the achievement of Fair Consumer Outcomes is a complex exercise and that outcomes may need to be considered holistically. Insurers are responsible for assessing the unique circumstances of their business operations and for considering how each outcome interacts with the other outcomes. FSRA will evaluate both the achievement of Fair Consumer Outcomes, and the methods employed to demonstrate that they are achieved.

FSRA will assess Fair Consumer Outcomes for accredited insurers through the accreditation assessment process. For unaccredited insurers, FSRA will assess the Fair Consumer Outcomes as part of the auto insurance rating and underwriting filing approval process. FSRA will continue to monitor the delivery of Fair Consumer Outcomes by all insurers through ongoing supervision.

FSRA's assessment of Fair Consumer Outcomes considers the size and complexity of each insurer. Insurers may adopt different approaches and mechanisms to achieve Fair Consumer Outcomes depending on their size and complexity.

### Assessing Fair Consumer Outcomes – Fairness (non-exhaustive)

#### Accuracy

- Insurers regularly review rate level adequacy. Insurers provide evidence that actuarial assumptions and judgments used in rate level analysis and rating models are reasonable, realistic, and that rate changes closely align with claim cost changes over time.
- Pricing actuaries explain any significant deviations of business decisions from actuarial indications and model outputs.
- Insurers review prior-year loss developments to demonstrate that loss reserves are neither materially excessive nor inadequate.

- When using the work of others in automobile insurance rating and underwriting, pricing actuaries provide evidence that they review that work of others and ensure appropriateness and take responsibility for it.

**No Unfair  
Discrimination**

- Insurers introducing new data, data elements, or models confirm compliance with all relevant insurance legislation, regulations and rules, and provide FSRA with supporting rationale for their decisions based on their due diligence.
- Insurers provide FSRA with a comprehensive list of all data sources not collected through the OAF1: Ontario Application for Automobile Insurance Owner's Form. This includes demonstrating how the use of these data elements is actuarially justified and relates to the risks assumed.
- Insurers provide a detailed inventory of all models, analytics and data used in rating and underwriting decisions. This includes the policy driven data, as well as non-driver and non-vehicle related factors such as consumer behaviour, marketing data, and other elements that may indirectly or directly influence rating and underwriting decisions.

**No Bias**

- Insurers provide evidence that tools and processes are implemented throughout the model life cycle to address identified risks and mitigate bias and conduct assessments for disparate impact. Tests may include using loss ratio and control variable tests, considering multivariable effects.
- Testing involves evaluating disparate impact on model outputs, and business decisions on deviations from actuarially indicated rates, particularly when final premiums significantly differ from indicated premiums.
- Insurers provide evidence that renewal premiums for existing policyholders are not higher than new business premiums with identical

driver, vehicle and vehicle use characteristics, preventing bias against retained customers.

**No Proxies**

- Insurers provide evidence that tools and models do not unfairly discriminate against consumers by using internal and external data that approximates prohibited grounds in automobile insurance rating and underwriting.
- Insurers provide evidence that models are regularly assessed to detect any unfairness stemming from indirect influence of prohibited grounds, and that corrective action is taken as appropriate.
- Tests are designed to be accessible to internal stakeholders and meet expectations of all relevant professionals, with varying levels of expertise. Tests consider multivariable effects and adapt to new data and technologies, utilizing multiple testing methods transparently. Tests may include control variable tests, balancing tests, premium correlation tests, among others.

**Accessibility**

- Insurers demonstrate with evidence and supporting rationale that pricing and underwriting actions would not lead to reduced availability or accessibility of insurance, or key insurance coverages, if applied across the sector.
- Insurers provide evidence that pricing practices are proportionate to consumer risk profiles and do not deter consumers from attaining coverage that best suits their needs.

**Cost Effective**

- Insurers demonstrate with documented policies and procedures that appropriate steps are taken – including but not limited to anti-fraud initiatives and systems to prevent unjustified and excessive costs from being imposed upon consumers.

### Assessing Fair Consumer Outcomes: Profitability (non-exhaustive)

- Balanced Profitability**
- Insurers’ ratemaking documentation demonstrates that the target underwriting profit provision is based on reasonable profit assumptions in line with FSRA’s current underwriting profit benchmark targets, and related criteria, as set out in FSRA’s most recent Annual Review Guidance.
  - Insurers may be asked to provide evidence that key actuarial assumptions used in the past, including but not limited to loss trend rates, loss development and underwriting results, are reviewed against actual observed results and validated for reasonableness against FSRA’s benchmarks.

### Assessing Fair Consumer Outcomes: Transparency (non-exhaustive)

- Transparency**
- Insurers provide documented policies outlining transparency measures and effectively monitor and respond to inquiries and complaints.
  - Insurers provide evidence of policies outlining standards for communication in plain language and supporting consumer informed decision-making, employing convenient and technologically current options.
  - Insurers provide evidence of policies demonstrating adequate preparation of agents, underwriting teams and distributors for customer questions related to premium changes, including those caused by significant rate level changes and material model changes.
  - Insurers provide documentation demonstrating integration of transparency initiatives into their strategy and mechanisms to improve consumer experience.

## Approach to Assessing Sound Controls and Oversight Characteristics For Accreditation

The table below provides examples of the characteristics of sound Controls and Oversight for rating and underwriting risk classification systems that FSRA will consider in assessing applications for accreditation. FSRA's assessment of Controls and Oversight considers the size and complexity of each insurer.

Either enterprise-level or Ontario-specific policies and procedures that sufficiently consider rating and underwriting processes and activities may be used to demonstrate sound characteristics of Controls and Oversight. For clarity, FSRA's assessment is focused on evidence (i.e., verifiable data) that the Fair Consumer Outcomes set out in Chapter 1 have been met.

Assessing Sound Controls and Oversight Characteristics	
<b>Data Governance</b>	<ul style="list-style-type: none"> <li>• Data quality assessments: Credible estimates based on data verification, fit-for-use assessments and relevant criteria determined by the insurer that are monitored on a timely basis.</li> <li>• Identification of data limitations: Identification and documentation of data limitations and consideration of the rationale for using such data.</li> </ul>
<b>Model Risk Management</b>	<ul style="list-style-type: none"> <li>• Model Policies and Procedures: Establish and maintain policies and procedures proportionate to the size, complexity, and importance of the models for each phase of the model life cycle. For each phase of the model life cycle, insurers:                             <ul style="list-style-type: none"> <li>• Develop model documentation on technical, operational, controls, methodology, assumptions and judgments, design, testing and implementation.</li> <li>• Identify and assess inherent risks, apply controls, prioritize and mitigate residual risks, and monitor and report model risk based on the model's complexity and significance.</li> </ul> </li> </ul>

- **Model Approval Function:** Establishing a designated member of senior management or a standalone internal committee that reviews and approves all relevant materials, with appropriate documentation of its findings.
- **Model Review and Performance Monitoring (Validation):** Addressing identified risks to maintain the model's viability and relevance to business objectives. Model validation involves comprehensively evaluating the model's technical functionality, including its logic, methodology, formulas, and input/output data controls. It also verifies governance mechanisms for managing changes in structure, logic, assumptions, and outputs to ensure consistency and reliability across all models.

### **Oversight**

- **Three Lines of Defence for rating and underwriting:** Insurers establish an organizational structure where automobile insurance rating and underwriting activities are conducted by the operational management and process owners (first line of defence), are reviewed and challenged by risk management (second line of defence), and independent assurance is provided by internal audit (third line of defence).
- **Clearly Defined Roles, Responsibilities and Accountabilities:** The Board of Directors or Chief Agent (as is applicable) is responsible for establishing the necessary strategies and governance structures, overseeing and approving operational risk management policies and processes and providing effective challenge.
- **The Board of Directors or Chief Agent guides senior management to achieve intended outcomes in areas such as consumer interest, regulatory compliance and stakeholder engagement.** The Board or Chief Agent is accountable for ensuring that the Controls and Oversight frameworks are in place to deliver rates and underwriting rules that are fair and reasonable.

## Supervision for Accredited Insurers

An insurer that has been accredited will maintain that status, subject to FSRA's discretion. If FSRA determines, through supervision, that an insurer has not maintained the conditions for accreditation, the insurer may be placed under review or lose accreditation status. Additionally, issues reported from other core regulatory areas within FSRA, or other regulators may also trigger a re-evaluation of an insurer's accreditation status. FSRA may also reassess accreditation status in circumstances such as a material change to an insurer's business and operations.

Insurers that are under review may have up to one year to address deficiencies after FSRA has completed its review, during which time its filing privileges may be suspended. If issues are not addressed within the specified timeframe, the insurer will revert to unaccredited status. Insurers that lose accreditation status may reapply for accreditation when the deficiencies have been resolved.

## Ongoing Supervision for all Insurers

FSRA's ongoing supervision for rating and underwriting is intended to:

- ensure that all insurers are continuously demonstrating the Fair Consumer Outcomes in their rating and underwriting practices;
- ensure that accredited insurers maintain the standards of accreditation; and
- monitor market trends and practices in rating and underwriting.

FSRA's supervision for rating and underwriting applies to all insurers regardless of accreditation status. It involves regularly collecting data, information and insights to supervise insurer practices and mitigate adverse consumer outcomes.

Supervisory activities may consider a range of factors, including delivery of Fair Consumer Outcomes, ratemaking methodology, underwriting results, rate filing procedures, regulatory compliance, conduct, pricing committee records, cost saving and efficiency efforts, rate level indications and risks associated with the use of advanced technologies, modelling techniques and third-party data.

FSRA expects insurers to inform FSRA of any material changes to their business and operations as they relate to the business of auto insurance, including but not limited to strategy, risk appetite and governance.

FSRA's supervision focuses on areas of higher risk, considers insurers' size and complexity and is informed by adherence to the regulatory requirements as interpreted by FSRA Guidance.

FSRA's data collection in support of supervision for rating and underwriting practices will aim to reduce duplication, including by using data available from existing sources. FSRA will accept documents that insurers share with other regulators provided that these documents meet the informational requirements set out in this Guidance and the Filing Manual.

Best practices for sound Controls and Oversight in rating and underwriting are outlined in Appendix A. FSRA's ongoing supervision of Controls and Oversight will focus on accreditation requirements such as, data governance, model risk management and oversight. FSRA may decide that a broader review of Controls and Oversight is necessary for specific insurers or the sector to ensure that the Fair Consumer Outcomes are being achieved.

## Chapter 3: Automobile Insurance Filing Guidance

### Introduction

This Chapter outlines FSRA's approach to receiving, reviewing and making decisions on applications for automobile insurance rates, risk classification and underwriting changes ("Automobile Insurance Filings"), which also includes fees, forms and endorsements. It sets out the principles that FSRA will adhere to in reviewing Automobile Insurance Filings and outlines the processes governing their submission.

This Chapter is intended to transition automobile insurance rating and underwriting filing processes, as well as non-standard form approvals, to outcomes-focused, principles-based and risk-based regulation. It streamlines processes and ensures that FSRA has the information needed to assess insurer delivery of Fair Consumer Outcomes and eligibility for accreditation. This Chapter is complemented by the Automobile Insurance Rating and Underwriting Filing Manual ("Filing Manual"), which provides further detail regarding the preparation and submission of Automobile Insurance Filings by insurers.

## Application of this Guidance

This Approach Guidance applies to insurers writing all types of automobile insurance in Ontario, regardless of accreditation status. For clarity, it applies to:

- insurers that are required to file Automobile Insurance Filings with FSRA under *AIRSA* 3. (1) and *Insurance Act* subsection 238 (4.1) and 227; and
- lines of business (e.g., fleet and non-PPA) or types of filings that have been granted filing process exemptions under *Regulation 664* and *Insurance Act* subsection 413 (2).

Please consult the Filing Manual for the types of filings that have been granted exemptions under *Regulation 664* and the *Insurance Act* subsection 413 (2). Requirements may vary for classes and categories that have been granted exemptions under the *Insurance Act* subsection 413 (2) as a result of accreditation and for exemptions granted under *Regulation 664*, including for fleet.

## Filing Manual and Related Guidance

This Chapter should be read in conjunction with Chapters 1-2 of this Guidance, the Filing Manual and the latest Annual Review Guidance. For clarity:

1. The Filing Manual supplements this Guidance with detailed filing specifications based on the purpose and complexity of various Automobile Insurance Filings and the insurer's accreditation status. Insurers are required to submit filings in accordance with the latest version of the Filing Manual. FSRA will update the Filing Manual periodically based on market trends and emerging issues, and the alignment of sector practices with Fair Consumer Outcomes.
2. The Annual Review Guidance sets out FSRA's Benchmarks, including the loss trend benchmark, the target underwriting profit benchmark and additional requirements or clarifications related to Automobile Insurance Filings. The Annual Review Guidance is updated twice annually based on available industry data. Insurers are required to submit filings in accordance with the latest version of the Annual Review Guidance.

## Approach

FSRA will exercise its regulatory authority with respect to the approval of Automobile Insurance Filings in a manner that is consistent with its statutory objects as set out in the *FSRA Act*. FSRA's review and communication with insurers respecting filing submissions will aim at:

1. delivering **Fair Consumer Outcomes** as specified in Chapter 1 of this Guidance;
2. promoting **transparency, accessibility, clarity and certainty** with respect to the criteria that FSRA will consider or request;
3. fostering a **competitive, innovative, strong and sustainable automobile insurance sector**;
4. using a **risk-based outcomes-focused approach** that prioritizes Fair Consumer Outcomes and specified sound Controls and Oversight practices;
5. exercising **proportionality**, taking into consideration the purpose and complexity of the proposed filing and potential consequences for insurers and consumers; and
6. adhering to a **practical** approach that emphasizes substance over form when determining if the criteria for an application's approval has been satisfied.

## Process and practices

### Filing Streams

This Guidance establishes two filing streams, the Fast-Track filing stream and Prior Approval filing stream.

- Fast-track: Insurers filing in this stream will be able to implement new rating changes in one business day.
- Prior Approval: Insurers filing in this stream will not be able to implement changes until formal approval is provided.

Insurers will have access to Fast-Track and Prior Approval filing processes depending on the purpose and complexity of the proposed Automobile Insurance Filing and their accreditation status. Accredited insurers will have privileged access to additional Fast-Track processes.

FSRA's review of Automobile Insurance Filings will consider the extent to which submitted filings are consistent with the expectations and requirements set out in the *AIRSA* and the *Insurance Act* as interpreted by this Guidance and the Filing Manual. If filings do not meet expectations, FSRA may use its discretionary authority to address identified issues and align automobile rating and underwriting practices with Fair Consumer Outcomes, including but not limited to requesting changes to filings going forwards, suspending insurers from using the Fast-Track filing process, placing insurer accreditation status under review or withdrawing accreditation.

For further details regarding Fast-Track and Prior Approval filing processes as they relate to specific filing purposes and insurers' accreditation status, see the latest version of the Filing Manual.

## Submitting Filings

Insurers must submit filing applications to FSRA's Automobile Insurance Supervision team. For all further information regarding the submission of applications, please consult the latest version of the Filing Manual.

## Meeting with FSRA

If insurers have questions about the Automobile Insurance Filing processes or requirements, they may contact their FSRA Automobile Insurance Rating and Underwriting Relationship Manager after having conducted appropriate internal due diligence.

## Service Standards

Please consult the latest version of the Filing Manual for details respecting service standards for various Automobile Insurance Filing purposes and streams.

## Filing Format and Contents

All filings and contents are to be submitted in accordance with specifications set out in the Filing Manual. The Filing Manual contains further details for insurers preparing Automobile Insurance Filings, including details regarding the formatting, processes, general and specific content requirements, filing categories and required supporting documentation for given filing purposes.

Consult the Filing Manual for all requirements respecting contents, accreditation status, or specific filing processes and service standards.

Automobile Insurance Filings should comply with all relevant legal requirements and principles set out in Chapters 1-3 of this Guidance, the latest Filing Manual and the latest Annual Review Guidance. All Automobile Insurance Filings must be accompanied by actuarial justifications. Insurers are expected to provide evidence of both quantitative and qualitative measures to support their filings. Insurers are expected to follow the Canadian Institute of Actuaries' Standards of Practice and ensure that all actuarial work is well-documented and supported by clear evidence, including peer review. Please consult the latest version of the Filing Manual for further information related to the demonstration of rate level indications, actuarial justifications for segmentation and modeling changes.

FSRA will focus on actuarial assumptions and methodologies that have the greatest impact on rate setting, such as loss development, trend analysis and the use of credible data. Insurers have the flexibility to use internal and external data. FSRA will proactively monitor for areas of concern, such as excessive ultimate loss projections or inconsistencies in trend rate selections.

FSRA will seek assurances that the appropriate level of analysis and due diligence have been internally conducted on all representations made by insurers. FSRA may develop policy positions, or request policy and legal opinions regarding compliance to any applicable laws or other issues as they arise in the sector. FSRA will also conduct its own due diligence and reserves the right to request additional supporting information to evaluate whether desired outcomes are being achieved.

## Effective date and future review

This Guidance is effective on **TBD** and will be reviewed no later than **TBD**.

## Retired Guidance

On the date this filing guidance becomes effective, the following filing guidelines are retired.

- Private Passenger Automobile Filing Guidelines - Major
- Private Passenger Automobile Filing Guidelines – Simplified
- Private Passenger Automobile Filing Guidelines – CLEAR Simplified
- Filing Guidelines for Proposed Revisions to Underwriting Rules & Rates for Endorsements
- Filing Guidelines for Automobile Insurance Forms
- Filing Guidelines for Automobile Insurance Manuals
- Technical Notes for Automobile Insurance Rate and Risk Classification Filings
- Automobile insurance non-standard forms, endorsements and certificates of insurance approval filing process
- AU0107ORG Other Than Private Passenger Automobile Filing Guidelines - Major
- AU0108ORG Other Than Private Passenger Automobile Filing Guidelines - Minor
- AU0109ORG Filing Guidelines for Underwriting Rules
- AU0110ORG Technical Notes for Underwriting Rules
- AU0126APP Standard Filing

- AU0108ORG Other than Private Passenger Automobile Filing Guidelines – Minor
- AU0111ORG Other Automobile Insurance Forms

## About this Guidance

Chapters 1-3 of this Guidance are consistent with [FSRA's Guidance Framework](#). As Interpretation guidance, it describes FSRA's view of requirements under its legislative mandate (i.e. legislation, regulations and rules). As Approach guidance, it describes FSRA's internal principles, processes and practices for supervisory action and application of CEO discretion.

## Appendix A – Sound Controls and Oversight Standard Practices

<p><b>Oversight</b></p>	<ul style="list-style-type: none"> <li>• <b>Oversight:</b> The Board of Directors and senior management are responsible for overseeing the design and implementation of controls.</li> </ul>
<p><b>Operational Risk Controls and Mitigation</b></p>	<ul style="list-style-type: none"> <li>• <b>Risk Appetite:</b> A comprehensive risk appetite statement for automobile insurance rating, underwriting and risk classifications that outlines acceptable levels of risk.</li> <li>• <b>Risk identification and assessment:</b> Comprehensively identifying, assessing and understanding the operational risk inherent in rating and underwriting processes and products, activities, people, systems and in the external environment.</li> <li>• <b>Risk controls:</b> Maintaining appropriate risk controls and implementing measures to address potential risk events, including transferring, avoiding and accepting identified risks in accordance with the insurer’s risk appetite.</li> <li>• <b>Risk mitigation:</b> Implementing effective mitigation measures to reduce the severity and probability of identified risks. Insurers are also accountable for documenting the effectiveness and performance of risk mitigation measures.</li> <li>• <b>Risk monitoring and reporting:</b> Performing continuous monitoring of processes, products, models, projects and initiatives and internal reporting on operational risk in a timely manner.</li> </ul>

## Data Governance

- **Identification of data problems/opportunities:** Prompt identification and resolution of problems, including improvements in data processes that increase the quality of existing and future data.
- **Data ownership:** Data sets have designated owners and are subject to oversight and challenge from independent technical experts and data users.

## Model Risk Management

- **Model Governance Framework:** A sound model governance framework includes policies and procedures that ensure model integrity, define model risk, clarify roles and responsibilities, perform validations and set governance controls.
- **Three lines of defence for model risk management:** Responsibilities are divided amongst each line of defence throughout the model life for new and updated models. Independent second line reviews mitigate against bias and ensure that rating and underwriting decisions are actuarially and statistically justified, as appropriate given the materiality and consumer impact of the model.
- **Model Fairness:** Having tools and processes in place to minimize, control and mitigate unfair discrimination and bias in models used throughout the modelling process. These tools may consider inputs (e.g., ensuring no prohibited variables are being used), processing/computation (e.g., achieving a balance between intended Fair Consumer Outcomes outlined in Chapter 1 and increased predictive performance) and outputs (e.g., ensuring measures are implemented that allow insurers to assess and track fairness of model outputs).
- **Model Risk Scoring and Measurement:** Implementing a scoring and measurement process to assess and quantify the level of risk associated with various models based on model materiality and model fairness assessments.

- **Model Interpretability and Explainability:** Ensuring interpretability and explainability of advanced predictive models including, but not limited to, artificial intelligence and machine learning, to help prevent unfair model development and outcomes.
  - **Interpretability:** in terms of understanding a model's soundness (e.g., understanding its mechanics), model results and whether results meet the models' objectives.
  - **Explainability:** in terms of models results and drivers being readily understood by stakeholders not involved in model development (such as consumers, business partners) and providing consumers with clear information that support decisions in a timely and transparent way.
- **Model Implementation:** Ensuring successful implementation of model results in production. That includes establishing the necessary hardware and software environment and developing data pipelines, calculation engines and reports. Governance controls such as user acceptance testing (or quality assurance testing) ensure the accurate implementation of model results in production.
- **Model Inventory:** Maintaining a centralized and current model inventory with version controls that ensure accuracy and deployment of correct models into production.