



3 January 2019

Mark White
CEO
Financial Services Regulatory Authority
130 Adelaide Street West, Suite 800
Toronto ON M5H 3P5

Re: FSRA Fee Rule - Assessments and Fees

Dear Mr. White,

Thank you for the opportunity to comment on the proposed FSRA Fee Rule. At Intact, we insure 1 in 5 Ontarians, and we're proud to directly employ 4,400 Ontarians. Our goal is to help people, businesses, and society prosper in good times and be resilient in bad times. We are committed to helping you create an auto insurance system that is more fair and affordable for consumers.

We look forward to working with you to address systemic issues in Ontario's auto insurance system, and we are pleased to provide the following recommendations that will help you deliver on your mandate in a timely and cost-efficient manner.

Reconciliation of Assessment Fees

Intact agrees with FSRA that that funding should be based on forward looking budgeted expenses rather than the retrospective expenditures incurred model currently used by FSCO. However, we disagree with the reconciliation of fees approach proposed by FSRA.

Although we acknowledge that current FSCO reconciliation approach carries financial and administrative costs, we are of the view that certain conditions merit reconciliation of assessment fees. We recommend that FSRA establish a financial threshold above which reconciliation would be required (for example, such a threshold could be above anticipated inflation levels). This approach would ensure transparency and highlight early detection of changes in assumptions for subsequent budget cycles providing insurers with control on expenditures.

In addition, we believe that a reconciliation should be made for the 2019 budget, noting differences with the FSCO model. This again would provide transparency and help payers set future budgetary expectations, which we anticipate will be considerable for both large and small payers.

Automobile Rate Approval and Market Conduct Fees

FSRA has proposed a "variable rate" approach for large participants and a "fixed rate" approach for small sectors. Intact acknowledges that both approaches provide



advantages and disadvantages. However, we believe that a fixed rate approach should be considered for activities where the cost is not a function of size. For example, we recommend that automobile rate approval fees be charged on a fixed rate, given that the effort required to review a rate filing is not influenced by the size of the insurer but rather by the number of companies operating in the marketplace. In this instance, a variable rate approach to automobile rate approval fees is perceived to unfairly penalize large payers because it incorrectly assumes that bigger companies generate greater cost expenditures. Therefore, we propose that a fixed rate approach to fees associated with the automobile rate approval process be used.

We are also supportive of the variable rate approach for calculating costs associated with market conduct activities on a direct written premium basis. As part of this approach, we suggest that FSRA incorporate a “step-scale” rate structure for P&C insurance market conduct activities, whereby a decreasing scale would be applied proportional to direct written premium earned (i.e. $X = \text{Rate} \times \text{Level of DWP}$ (<500m, 500-750m, etc...)).

Contingency Reserve

Intact agrees that as part of its operations, FSRA should maintain a capped contingency reserve to cover expenses which may arise from unforeseeable events.

However, we do not believe that there is a need for such a reserve to be fully funded within the first year of FSRA’s operations. Instead, we think it makes sense to fund the reserve over a period of several years, which would allow regulated entities to better manage the costs.

Fee Structure Review

We note that the consultation proposes to review the fee rule structure in the near-medium term. Although three years is cited as an example of a near-medium term, Intact was under the impression that this was a pre-agreed commitment. We would recommend a firmer commitment for a three-year review, which would ensure that it is seen as a priority (even if there is a funding surplus).

Review of Rate Regulation

Lastly, we would like to make a quick comment regarding the importance of reforms to automobile rate regulation. We specifically would like to highlight the benefits of transitioning towards a “use-and-file” process, which allows insurers to adjust pricing quickly within an acceptable range, while also reducing regulatory costs associated with rate filings.

Under the current system, a submitted rate filing usually takes at least three months to be approved by the regulator. Once approved, these rates are then implemented into the system. The resulting delay means that in many cases rates are lagging actual industry experience by approximately six months. Intact would like to see rate regulation transition



to a “use-and-file” framework, which would allow for rates to be changed immediately, while still subject to filing within a specified period.

Revising the current framework to a use-and-file system could result in many potential benefits, including:

- reduced regulatory costs associated with rate approval reviews;
- a more competitive environment, leading to more insurers entering the market;
- insurers able to quickly adjust prices in response to competitive pressures; and
- more accurate pricing reflective of loss experience.

Should FSRA require additional information, or clarification regarding the contents of this letter, Intact would be pleased to offer additional assistance.

Thank you and regards,

A handwritten signature in black ink that reads "Julie Nolette". The signature is written in a cursive, flowing style.

Julie Nolette
Vice President, Intact Insurance Personal Lines, Ontario and Atlantic