ONTARIO MUTUAL
INSURANCE ASSOCIATION

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Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, Ontario M2N 6S6

Dear Sir/Madame;

Proposed FY2022-2023 Statement of Priorities as published October 7, 2021

Thank you for the opportunity to provide comments on the 2022-2023 Statement of Priorities.

As the Ontario Mutual Insurance Association, we are providing feedback on behalf of our member companies, all of whom are property-casualty insurers organized as mutual insurers and incorporated under Ontario statute.

We represent 38 mutual companies in Ontario; our members write farm, home, automobile, and commercial business. All of our mutuals are over 100 years old, with the oldest being about 160 years old. Most of our companies are located in small towns and cities across Ontario. As mutuals, each of our policyholders is a fully participating mutual member. The boards of directors of our mutuals are composed of policyholders and all policyholders are eligible to vote at annual general meetings and participate in any refunds granted from surplus.

From an enterprise level our individual mutuals are relatively small insurers in a rapidly consolidating property-casualty insurance sector. Nonetheless our mutuals, when aggregated, write a significant volume of farm, home, and auto insurance in the province.

When regionality is considered many of our mutuals are a significant part of the P&C market in many areas of the province.

FSRA's 2022-2023 Statement of Priorities continues to expand on the 4 cross sectoral priorities identified in 2021-22, along with 4 sector specific priorities that affect P & C Markets. We will focus our response on those areas newly introduced this year and sector specific priorities that impact OMIA members and our customers.

Regulatory Efficiency and Effectiveness

Strengthen Customer Focus

Customer focus has and will always remain a core value to our member companies, as this has been the cornerstone of "mutuality" for our policyholders throughout our long history. We support the ongoing focus of FSRA in the fair treatment of customers though the lifecycle of the insurance product. The work completed by the Residents Panel on Auto was instructive, even-handed, and insightful. As we consider what future initiatives may look like in support of this broad priority, we urge using similar effective methods and avoiding downloading consumer research onto the sector through mandated customer surveys and reporting.

Property and Casualty (Auto) Priorities

4.1 Implement a new strategy for reforming the regulation on auto insurance rates and underwriting.

We are in support of this reform and understand the enormous undertaking such restructuring would require.

We recommend that FSRA considers the specific circumstances of the filing insurer be included in this strategy. Such considerations could include territory exposure requirements, use of own vs. 3rd party data to update rating differentials, and product offerings all of which disproportionately impact smaller insurers and make it harder to compete and ultimately grow. Additionally, expense ratio capping doesn't recognize the larger impact of fixed expenses on smaller insurers.

We also suggest that a list of approved rating variables/methods should be kept up to date with any rating variables used in any approved filing added to this list at least quarterly. Group relationships under filing guidelines section 4.n. should be publicly listed. We also clearly understand that when a company innovates and creates a new rating variable/methodology this would be a different case as we do not wish to discourage innovation by permitting the entire industry to follow and eliminate the advantage.

4.2 Develop recommendations and act on reforms of the auto insurance system

We agree that change is needed and should be acted upon for the auto insurance system to remain sustainable. Our recommendations include improved limitation of coverage and control of claim costs, indemnification management to ensure that recovery doesn't exceed actual claim costs, supporting courts to better understand the concept of indemnity without draining resources from the entire system. In addition, insurers across the industry now spend considerable resources in refining coverage wording and making coverage unduly restrictive in efforts to ensure that unintended coverage will not be freely provided. The industry could lower their expenses if this worry was unnecessary through appropriate legal reform. To further this point, while fundamental tort reform may be beyond the regulators authority, we believe that decisions from Ontario's legal system have undermined the good policy intentions of previous auto reforms, thereby creating an endless reform cycle.

Recent changes to towing industry oversight are welcomed. These changes were targeted and the intended changes in behaviour and positive impact could be readily understood. Further attention to fraud, inducements and other actions resulting in parties being unfairly compensated would be welcomed to offset these rising costs. Such measures would help protect and restore consumer confidence in our auto insurance system.

Initiatives on fraud and abuse should also include clear consultations on the role of data on a broader strategy. Data capabilities among insurers differ and any mandated data reporting to support a strategy, must be carefully considered and potentially limited in scope. Unfortunately, regulatory data collection has, in instances in the past, failed to justify the expense downloaded onto the reporting entity with a measurable constructive use of the data collected by regulators.

Any strategy should include a clear timeline for reporting objective outcomes, in support of continuing the strategy.

4.3 Ensure the fair treatment of P & C/auto consumers

To ensure the fair treatment of P& C/auto consumers, we support FSRA's concept of a risk-based targeting to prioritize compliance initiatives. We believe that an approach based on risk targeting requires a clear indication from the regulator as to how the risk of unfair treatment is assessed and quantified.

We believe that one of the challenges that can arise with a principles-based approach is creating such a broad level of expectations that new and separate administration systems and expenses need to be created to satisfy external stakeholders. As we represent smaller insurers, we find that proportionality is often lost in the translation. We believe that small enterprises operate at a much higher level of transparency and a much lower level of complexity. As a result, the level of administration and compliance mechanisms required to oversee a large and complex organization is not necessary at the small enterprise level. Nonetheless, despite all efforts to the contrary we often find unreasonable expectation as related to record-keeping and documentation based on processes arising from principles-based guidance.

4.4 Implement insurance prudential supervision

As noted in FSRA's Statement of Priorities, there are 54 Ontario incorporated insurance companies, comprised of Farm Mutual Guarantee Fund (FMGF) members, stock companies and reciprocals. Although all offer insurance in Ontario, there are fundamental differences among the three categories and thus the approach to prudential supervision must acknowledge and address the differences.

The FMGF members are unique in terms of our organizational and support network, consisting of the Ontario Mutual Insurance Association, the Fire Mutual Guarantee Fund, and the Farm Mutual Reinsurance Plan. The system provides multiple benefits, including financial oversight, monitoring and assistance. Ontario farm mutuals, although independent companies, have access to a wide range of professional expertise, training, and educational and regulatory resources,

The priorities are to better protect policyholders, promote financial stability and provide a choice for Ontarians. In achieving these goals, one must first assess the strengths that exist within the farm mutual community in respect of each of these items:

Protecting policyholders
Ontario farm mutuals have developed a networked approach to comply with the various requirements set by the regulatory bodies, as well as privacy legislation, complaint handling, fair and competitive pricing, and policies tailored to the needs of the consumers in their respective fields.

Financial oversight
For more than 20 years, the FMGF members, through the agreement between OMIA and FSCO/FSRA, have been effectively and efficiently monitored by the Financial Examination

Committee (FEC). When difficulties have arisen, companies have been required to take remedial action, long before the company's position has become critical. When various strategies have not been successful, or where the underlying problems are not totally within the control of the company, steps have been taken to merge with another mutual. Prior to and during the last twenty years, not a single Ontario farm mutual has failed; no policyholder has suffered a loss due to the financial difficulties experienced by a company. This unique approach should be recognized for its effectiveness for all stakeholders.

Providing Choice for Ontarians
In rural Ontario, the primary market of the mutuals, there is intense competition not only with stock companies, but amongst the mutuals themselves. Except for automobile insurance, which has been standardized amongst almost all the mutuals, consumers have a choice of provider, with different pricing, terms, personal service, and distributors. This diversity of market options has provided stability and safety for mutual policyholders and has been enabled through the innovative approach to both solvency and guarantee as noted above. This has allowed small mutuals to exist as viable market options.

Our support of FRSA's key deliverables include:

- Ongoing collaboration on modernizing the supervisory approach to align with international standards; The International Association of Insurance Supervisors (IAIS) has set the Insurance Core Principles, which have generally been implemented by Ontario. A few years ago, an audit by the International Monetary Fund was conducted on the regulatory authorities in Canada – OSFI, AMF and FSCO. The items noted as gaps in respect of Ontario were reviewed by FSCO and the FEC, with steps taken to adhere, as appropriate, to the ICP.
  In noting FSRA's intention to align with relevant international standards, we urge FSRA to ensure that a critical eye is applied to assessing both "relevancy", and benefit to insurance consumers. Our recent and lengthy experience with adopting international accounting standards has demonstrated that standards developed for international markets and contexts do not, in many cases, create a better outcome for stakeholders, and particularly policyholders.
- Implementing an Insurance Prudential framework – as with other major areas, a distinction must be made between the framework in place for the FMGF members and that which exists for other insurers. Although separate insurance companies, in the event of the insolvency of one of the companies, each member of the FMGF has a legal obligation to fund the liabilities of the failing company. This obligation extends to 100% of the unearned premiums and unpaid claims of the policyholders. Stress testing and ongoing supervision through the FEC have established the significant safety margin provided by the aggregate capital of the FMGF companies.
- Advocacy of a bilateral approach to an agreed upon workplan for sector guidance and rules to support effective regulation for mutual policyholders. This bilateral approach with the regulator should consider the incorporation of any new rules or frameworks within the context of a proven, grassroots governance and business model.

As an additional comment as it relates to regulatory risk, we strongly urge careful consideration of the cost of increased regulatory initiatives. Our experience has been that the cost of regulatory reporting and intervention has a significant cost structure to create, staff, and maintain at the insurer level. In addition to direct costs, there is a substantial opportunity cost to increased regulatory burden. This results in increased costs to mutual policyholders as both the consumer and the governing entity of the mutual.

Thank you for your continuing consultations. We appreciate the opportunity to provide our input to the 2022-2023 Statement of Priorities.

Yours truly,

John L. Taylor BBA, FCIP, FCLA, CHRL
President