

February 15, 2022

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

Dear Sir/Madame.

RE: ***2021-023 AU0137INF – Proposed Operational Risk Management Framework in Rating and Underwriting of Automobile Insurance***

Thank you for the opportunity to review the proposed guidance for Operational Risk Management Framework in Rating and Underwriting of Automobile Insurance including the appendix on Model Risk Management.

We are providing input as the trade association of the provincially incorporated farm mutual insurers who provide automobile insurance to many policyholders across the province.

Traditionally the mutuals have operated on a very straightforward automobile business model and have increasingly noted the impact that complexity and analytics have added to automobile insurance. We have also made note of the conceptual business frameworks put forward by potential new entrants to the automobile insurance product which are more data based and digitally driven concepts.

We believe that many of these concepts lack many of the traditional risk management controls and relatively conservative business practices that have served property casualty insurance well throughout the years.

Having said that, the details shared in the proposed guidance on potential risk management to frameworks is welcomed. We believe that some of the most important information in the guidance includes the rationale and background as noted on Page 3. We believe these are relatively straightforward objectives and should be endorsed by all insurers.

As FSRA continues to work through guidance and its thinking on how it will interact with the industry, we urge that the concept of proportionality be maintained. Assessing the necessity for some elements of the proposed frameworks must take into consideration factors such as size, ownership structure, complexity of operations, corporate strategy, and risk profile. An individual organization looking at the proposed guidance might see an overly complex and potentially academic exercise. We believe that the approach that the industry and regulator should always reflect is that highly documented operational risk frameworks are no replacement for the “spirit” of customer fairness and transparency.

We believe that FSRA and the industry will need to proactively share some of the approaches and best practices which are grounded in effective risk management. While some organizations will have multiple levels of corporate and management structures to work through others may in fact have a much closer connection between and blurring of the 3 lines of defense.

We also believe that FSRA can take a role at the forefront of ensuring that models remain open, transparent, and explainable to insurers. While we recognize that principles-based regulation expects and allows organizations to create these frameworks themselves, we believe that since we are in the early stages of widespread adoption of analytics models, machine learning and artificial intelligence there is an opportunity for FSRA to lead in developing a common vocabulary and understanding of what is implicit in these developing areas.

As an example, there is reference in the Model Risk Management Appendix to unfair discrimination. Models by their very nature are intended to discriminate. The term unfair discrimination in the automobile insurance environment considers both the prescribed regulatory prohibitions on rating factors, but also opens the door to other more qualitative issues on fairness that are typically found in the Human Rights Code and other legislation.

In summary, our primary recommendation is that FSRA continue to maintain its support for proportionality and common-sense approach to the development of these types of operational risk management frameworks and in doing so continue to be an important conduit towards greater alignment in the industry and in the consumer arena on automobile insurance.

Thank you for the opportunity to provide comments.

Yours truly,

A handwritten signature in blue ink that reads "John L. Taylor". The signature is written in a cursive style with a large initial "J" and "T".

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