February 25, 2022

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

Re: Proposed Guidance for Reporting and Resolution of Rating and Underwriting Errors (No. AU0136APP)

Introduction

The Co-operators Group Limited ("Co-operators") is a leading Canadian, diversified, integrated, multi-line insurance and financial services organization. As a co-operative, our 46 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians.

Our footprint in Ontario is strong: we insure approximately 704,000 private passenger vehicles, 363,200 homes, 10,200 farms and 45,000 businesses, and employ over 3,700 staff. The insurance and financial products and services provided by Co-operators are delivered primarily through our independently contracted but exclusive financial advisor channel. We have independent distribution contracts with 250 financial advisors in the province who operate agencies in 310 locations. In turn, these independent financial advisors hire their own office staff and employ or independently contract with over 1,028 associate insurance and financial advisors.

We are proud to provide insurance and financial services to more than two million Canadians. We are even prouder that we provide financial security to Canadians in their communities while staying true to our co-operative values.

We appreciate the collaborative approach FSRA has followed throughout their journey to reform the regulation of insurance rates and underwriting, which has provided us with the opportunity to review this specific guidance and share our feedback through a public consultation. We support FSRA's automobile insurance rate regulation principles which underscore the proposed guidance and direct the transition to a principles-based approach which will reduce regulatory burden and create better outcomes for consumers. We endorse a rate regulation framework that is flexible and allows for innovation, as these elements will create a more competitive automobile insurance market and ultimately increased choice for Ontario drivers.

Fair Treatment of Consumers

Co-operators is committed to the fair treatment of consumers. This is embedded in our organization's co-operative values, culture and ethics. We value integrity, treating our members and clients with respect, giving life to the co-operative principles and balancing our economic goals with concern for the environment and the welfare of Canadians. Our clients are at the core of our business and the forefront of our strategy, service and decision-making. Our commitments and what we value support the overall mission of Co-operators which is to provide financial security for Canadians and their communities. Fair treatment of consumers is at the centre of every process, every decision and all recommendations we share with respect to the management of rating and underwriting errors.

Error Reporting and Types of Errors

Insurers have a legal obligation to ensure that only the rates approved by FSRA are implemented into their systems and ultimately charged to their clients. For Co-operators, the obligation also extends to our clients, which is why the quality and accuracy of our rating system is foundational for our organization. Our clients place their trust in us to deliver quality service, to charge accurate premiums and to be treated fairly in all aspects of our service and products. In the unlikely event of a rating error that leads to incorrect premiums charged, our clients expect and deserve transparent communication and corrective action, both in a timely manner. Earning and maintaining our clients trust and meeting these expectations are fundamental to Co-operators and its employees.

In a separate submission, in response to the *Proposed Operational Risk Management Framework in Rating and Underwriting of Automobile Insurance,* we shared details of our robust enterprise risk management framework. We have processes in place to direct the investigation and corrective action with respect to rating and underwriting errors and to direct the remediation efforts with our clients. Our recommendation to FSRA is a less prescriptive approach to the proposed guidance for reporting and resolving of rating and underwriting errors. We recommend a more principles-based approach, equipped with a set of expectations or guidelines for the industry. We believe this would allow a corresponding shift in FSRA's role to oversight, evaluating the systems, controls and processes insurers have in place, through the lens of the guidance, with a focus on those insurers presenting the highest risk.

The rating and underwriting error thresholds section is the one area of the proposed guidance where we support a deviation from the principles-based approach. We believe the industry will benefit from clear expectations for error reporting. That said, it is our view that the rating error thresholds for major errors, set at 0.02% of the insurer's total written premiums and 0.5% of the insurer's total written exposures for the category affected, are appropriate for larger insurers and the private passenger automobile category only. For smaller carriers or for recreational vehicle categories where premium and exposure volumes are small for most carriers, low severity and low frequency rating errors may be classified and reported as major errors. It is our understanding that this does not align the intent of the guidance. We recommend that FSRA apply the rating error thresholds from the draft guidance to the total written premium and total written exposures across all vehicle categories. Managing different thresholds for each vehicle category adds unnecessary complexity. We also recommend setting minimum values within the major error thresholds for smaller insurers. To add to this, we see an opportunity to clarify this section of guidance by stating whether both the written premium <u>and</u> written exposure thresholds must be met to qualify an error as major or if only 1 of the 2 thresholds must be met to qualify an error as major. It is also not clear whether the thresholds apply at the group level or for individual insurers. We support the underwriting error threshold of 100 policies to determine the type of error. We also support the need for transparency and accountability, to our clients and FSRA, but we want to balance those responsibilities with our commitment to providing quality service and adding value for our clients. We acknowledge that our recommendations will result in fewer major errors reported to FSRA through the reporting mechanism for major errors. However, we would like to remind FSRA that we will still correct, complete the remediation with our clients and learn from and improve from all errors. And we will still report all non-major errors through the annual process. Our goal is simply to reduce the number of errors that FSRA closely monitors, throughout the lifecycle of the error, to those errors that are truly significant and material.

Reporting Timelines

In general, the proposed timelines for reporting errors to FSRA will be difficult for many insurers to meet, for most errors. We believe these timelines are too prescriptive and this view extends to the timelines for insurers to resolve errors (error correction and client remediation.) We recommend a principles-based approach that allows insurers to submit an action plan to FSRA, using the timelines in the proposed guidance as targets. Timelines within an action plan deemed unreasonable by FSRA would be subject to further discussion and challenge. If FSRA decides to keep the prescribed timelines in the final guidance, we see an opportunity to address some of the timeline concerns by clarifying what it means to "identify" an error. Some insurers will classify an error as "identified" once it has been reported internally. Other insurers will classify an error as "identified" after it has been investigated and confirmed; it is important to note that some of these investigations are complex and time-consuming. We believe it is reasonable to report an error within 25 business days from the time the error is first confirmed. It is expected this this report would include a description of the root cause of the error. We also believe it is reasonable to correct the error in our systems within 45 business days from the time the error is first confirmed, measured by the system implementation date, and to complete remediation with our clients within 12 months from the time the error is first confirmed. We recommend that FSRA allow insurers to request exceptions from these timelines when unique circumstances are present. Finally, when self-reporting errors to FSRA, we prefer to balance timely reporting with completeness in a single disclosure. However, the mix of timelines provided in the draft guidance will lead to staggered reporting. To explain this further, there is a level of complexity attached to the analysis followed to identify impacted clients and calculate potential premium refunds. If initial efforts are focused on confirming the error and identifying the root cause, information that must be understood before impacted clients can be identified, the latter details will be communicated after the initial reporting.

With respect to reporting errors classified as minor, we recommend setting a specific reporting date each year for the previous calendar year. This will provide insurers with adequate time to review and finalize their documentation, which is much needed for errors confirmed near the end of the calendar year. We do not support reporting "near miss" events with minor errors or at all. By definition, these events do not impact clients. In many cases, the errors do not materialize because processes or tools designed to eliminate client impacts are in place. Also, when an effective risk management framework is in place for insurers, these "near miss" events are reported to the second line of defence for review and new controls are established as needed. The additional step of reporting "near misses" to FSRA requires time that should instead be used to better serve our clients.

Remediation to Consumers

After a rating or underwriting error has been confirmed, whether it is classified as major or minor, and premium overpayment has occurred, we strongly believe in transparency with our clients and making them whole through refunding. That said, we recommend allowing insurers to set principles to guide their decisions with respect to communicating with their clients and refunding. Insurers hold the relationship with their clients and are in the best position to determine when and how to communicate an error with them. In terms of refunding, we have received feedback from clients in the past that do not wish to receive a refund for a minimal amount. Additionally, in a low interest rate environment, we believe many consumers would choose to receive their principal refund amount quickly, as opposed to waiting additional time for a nominal interest amount to be applied. This is particularly true if the interest calculation or the application of interest to the refund payment requires an extra step or process. For these reasons, we recommend flexibility with respect to refunding. We do not, however, believe an insurer should benefit financially from an error. Therefore, if the insurer has flexibility to determine when or if minimal refunds and/or interest payments are made, the aggregate amount of all non-refunded amount should be donated to charity.

Publishing of Errors

We support FSRA's principles of transparency and disclosure with respect to the regulatory body but recommend a principles-based publishing approach for rating and underwriting errors, both major and minor. We believe an insurer's recent history of errors, the degree of intent, the speed with which the correction and remediation to clients are carried out and any extenuating circumstances (ie. a major technological change) should all be considerations in the decision to publish the error details or not. Co-operators' service commitment to our clients, our commitment to system integrity and quality and our ERM framework create strong accountability within our organization. Publishing errors without full context may result in unnecessary reputational harm to the insurer, the regulator and the industry as a whole without achieving FSRA's perceived goal of strengthening accountability.

Conclusion

Co-operators supports FSRA's rate regulation principles and ongoing transition towards a principles-based approach to regulating automobile insurance. We are confident in the effectiveness of our continuously improving ERM framework and our ability to minimize risk, and therefore protect our clients, in an environment with less regulatory oversight. Additionally, we appreciate FSRA's effort to add guidance and clarity to the process of reporting rating and underwriting errors. We trust that you'll find our feedback helpful and give thoughtful consideration to our recommendations to add more principles-based elements to this guidance.

If you would like to discuss our feedback or recommendations, please do not hesitate to reach out to our Associate Vice President of Regulatory Affairs & Rating Systems, Todd Saunders, at todd_saunders@cooperators.ca.

___________________________________ February 25, 2022 ____________________

Amélie Beauregard
VP, Home and Auto Pricing
The Co-operators

Date