

February 25, 2022

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

**Re: Proposed Operational Risk Management Framework in Rating and Underwriting of Automobile Insurance  
(No. AU0137INF)**

*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 framework and are guiding the transition to a principles-based regulatory 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.

*Enterprise or Operational Risk Management Framework Overview*

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. Our Enterprise Risk Management (ERM) vision and framework also support the overall mission.

At Co-operators, ERM is a structured and integrated process through which insurance, strategic, operational, reputation and other risks are identified, assessed, and managed to support and enable the achievement of our organization's strategic goals. Our ERM is dynamic and continuous, it is embedded within our culture across the organization and it forms the basis for our strategic decision making. It follows a robust approach used to identify, assess, measure, control, monitor and report significant and emerging risks faced by our organization and it is supervised by our Board of Directors, Board committees and senior management. We are confident that our ERM framework and practices will guide us through a smooth transition and ultimately to be successful in a principles-based regulatory environment with less regulatory oversight.

We believe that the Proposed Operational Risk Management (ORM) Framework in Rating and Underwriting of Automobile Insurance positions FSRA to make the same shift to a principles-based regulatory approach. The purpose of the guidance states that it “is intended to articulate foundational and sound practices for ORM in the rating and underwriting of automobile insurance.” We believe the guidance is largely successful in achieving its intention; it is a comprehensive guide of current best practices in ORM. That said, we do not recommend prescribing the proposed ORM framework to the industry. Insurers should have the flexibility to utilize their own risk management frameworks, while incorporating FSRA’s proposed ORM framework as a guide. Each insurer’s own risk management framework should fit its size, complexity and operational risk profile and remain within its Board-approved operational risk appetite.

### *Model Risk Management*

Is it our position that each of the model risk management practices in the proposed guidance do not need to be followed for every model. We support the application of the operational risk management cycle to managing model risk that begins with risk identification, including a model inventory, and risk assessment or model risk rating. Additionally, we are aligned with FSRA’s description of the model lifecycle and note that modifications to a model following validation and monitoring may be material (new parameters added to the model) or not (a simple data refresh.) We believe that a model’s risk rating, as well as the materiality of the modification, are the factors that should influence which model risk management practices are actioned. For example, a model assigned “medium risk” that is updated through a data refresh only does not require an independent model review. It is also our position that a model’s risk rating determines the frequency of validation. As another example, a “low risk” model does not require annual validation.

Once a model has been developed, we agree the model must be independently peer reviewed prior to approval and implementation. This is an important control to verify the model is performing as expected and is appropriate for use. However, the industry’s description of an independent peer review may not align with the description of an independent model review provided in FSRA’s ORM framework. Co-operators supports that a model review must be completed by an individual or team independent from the model developer and with the appropriate technical expertise, but we do not support that this review is the responsibility of the second line of defence. The role of the second line of defence is to provide independent oversight of risks, to provide guidance in their area of expertise and establishing appropriate risk controls. We do not expect the second line of defence to conduct technical reviews or have modelling expertise. Our position aligns with the role of the second line of defence as described in the body of FSRA’s ORM framework but the description in Appendix 1, specific to model risk management, offers a different view.

As a final point on this topic, we do not believe an independent model review by a standalone team should be prescribed to insurers. These teams may negatively impact speed-to-market and innovation and they add costs to the organization which are ultimately passed to policyholders. We support independent reviews and protecting Ontario drivers to achieve fair outcomes but we also believe Ontarians benefit from and deserve a responsive, competitive market place.

#### *Framework Consistency*

As FSRA is aware, insurers in Ontario are responsible to other regulators, such as the Office of the Superintendent of Financial Institutions (OSFI) at the federal level. We note that OSFI has operational risk guidelines for insurers but it does not prescribe specific model risk management practices. We are aware there is a plan to launch consultations on this subject matter in the near future. Prior to finalizing its ORM guidance, we recommend that FSRA aligns their guidance with OSFI's guidance, including the use of similar terminology. Co-operators ERM framework and model governance was designed at the enterprise level and there is a benefit, beginning with less risk, when a seamless approach uniformly applied across all lines of business and in all jurisdictions is in place. Designing a framework unique to Ontario Auto will present challenges, so we encourage the conversation with OSFI, and with other rate regulators across the country who are considering the implementation of an ORM framework, to promote consistency.

#### *Conclusion*

We would appreciate additional feedback from FSRA with respect to expected timelines, intentions for operationalizing the guidance, as well as plans to reduce rate filing requirements once the guidance is in effect. We recommend a transition period for all insurers after the guidance has been published.

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.

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](mailto:todd_saunders@cooperators.ca).



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

February 25, 2022

Date