



February 24, 2022

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

**Re: Consultations on Proposed Guidance for Operational Risk Management Framework in Rating and Underwriting of Automobile Insurance, for Reporting and Resolution of Automobile Insurance Rating and Underwriting Errors, and for Automobile Insurance Non-Standard Forms, Endorsements, and Certificates of Insurance Approval Process**

Thank you for the opportunity to review these draft auto insurance rate and underwriting guidance documents. We support the management-led regulatory approach that FSRA is implementing in the auto insurance market. By having insurers internalize defined principles, FSRA can achieve the desired customer outcomes in a more flexible, innovative, and cost-effective way than through the micro-compliance forms for regulation that have been in place in Ontario for decades.

Three principles guided our review of FSRA's draft guidance documents:

1. **Consumers** should be treated fairly, have a choice of product offerings, and be able to purchase insurance at an affordable price
2. **Insurers** should be able to compete and innovate based on business strategies as well as underwriting, risk management, and actuarial best practices
3. **Regulation** should focus on protecting consumers and be cost effective, flexible, and proportionate to the risk that it is designed to address.

**Operational Risk Management Framework in Rating and Underwriting**

The operational risk management guidance provides clear and practical expectations of insurers that aligns with general risk management and model risk management practices. While we support the management-led regulatory approach behind the operational risk management guidance, a shift towards it should correspond with a shift away from micro-compliance forms of regulation, such as the file and approval processes for rates, risk classification systems, and underwriting rules. The main risk of taking a management-led regulatory approach without corresponding change to the micro-compliance forms of regulation is redundant regulation and added compliance costs without customers benefiting from a more dynamic market with insurers competing more on price, product, and service.

Recommendation

- An approach to supervising insurers that emphasizes insurer accountability through appropriate risk management practices, governance, and controls does not need a prior approval process for rates, risk classification systems, and underwriting rules. For this reason, we recommend that FSRA engage stakeholders to help design a streamlined filing process and implement it with the operational risk management guidance.

The Canadian Institute of Actuaries (CIA) is preparing a paper to help actuaries better manage bias and fairness when segmenting risks, using predictive analytics, among other practices. Much of what the CIA is trying to accomplish with this paper aligns with FSRA's draft guidance's expectations on model risk management. The CIA intends to complete the paper within the year.

Recommendation

- As the self-regulatory body for professional actuaries, the CIA is well positioned to influence insurer model risk management practices and achieve fair treatment of customers outcomes.

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Accordingly, we recommend that as FSRA finalizes the draft guidance, it consults with the CIA to ensure that the regulatory expectations complement (and are not inconsistent with) the CIA's professional guidance.

### **Reporting of Rating and Underwriting Errors**

We understand FSRA's objective with the draft guidance that insurers treat consumers fairly when resolving rating and underwriting errors. However, we believe that there are more efficient ways of achieving that objective. FSRA's proposed thresholds for reporting errors are so low, in our view, that they could add an unwarranted regulatory burden. The timelines for remediating errors could also be unrealistic in some instances. Releasing such information publicly, without the full context of an insurer's operations and service levels, could distort consumers' views of certain companies and cause confusion on the part of consumers when making an important financial decision, such as buying auto insurance.

Consumers and brokers want a seamless quote and bind process. The systems and coding supporting this process are complex, which increases the likelihood of errors after systems and coding enhancements to accommodate product, rate, or underwriting changes. What is important is that insurers have controls to reduce the frequency and severity of errors as well as to discover and remediate them and compensate any affected customers in a reasonable timeframe.

### Recommendations

- We recommend that FSRA consider the prevailing practices in other rate-regulated industries in Canada for the handling of billing errors with respect to rate-regulated products if it has not yet done so. We believe that best practices in terms of regulators' expectations in those other industries could provide FSRA with important reference points to consider before imposing new requirements of this type on auto insurers in Ontario.
- We also recommend that FSRA set expectations for discovering and remediating rating and underwriting errors and direct insurers to build these expectations into their operational risk management frameworks.

These expectations could include insurers reporting details to FSRA of errors discovered and their plans for remediating them. If so, the errors insurers report should only be material ones, based on the size of the group of companies, and insurers should have 45 days to report the remediation plan.

FSRA can assess the adequacy of insurers' associated policies and procedures when examining their operational risk management frameworks as part of its regular supervisory efforts.

### **Form and Endorsement Approval Process**

We support the professional, transparent, and collaborative approach that FSRA takes to working with insurers on forms, endorsements, and other product changes. Formalizing this approach with a streamlined approval process with service standards is a welcome development.

We hope FSRA finds these comments helpful as it proceeds with finalizing the guidance documents and improving the province's regulatory environment. We would be pleased to discuss our comments further.

Sincerely,

*Ryan Stein*

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