

November 10, 2022

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

Dear Sir/Madame;

Proposed FY2023-2024 Statement of Priorities as published October 13, 2022

Thank you for the opportunity to provide comments on the 2023-2024 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 37 mutual companies in Ontario; our members write farm, home, automobile, and commercial business. Each of our mutuals is 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 small insurers in a larger 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.

Environmental Scan

The Environmental Scan Summary provided in the Statement of Priorities is particularly relevant this year as there has been a fundamental shift in economic conditions, and it appears that some of Canada's economic challenges will extend out over a longer term period than has been in the past number of cycles where economic setbacks such as the financial crisis of 2009 and the pandemic of 2020 were followed by sharp economic recoveries.

We specifically note the comments in the economic outlook which refers to the economy threatening consumers financial resilience and increasing their vulnerability.

We believe this will be a difficult period for consumers who are faced with cost-of-living increases across the board. As property casualty insurers the cost of repairs following losses are also at an all-time high as it relates to the cost and availability of materials and labor. Inevitably, this increase in loss costs will find its way through to increased premiums. We believe it will be particularly

important that FSRA's market conduct and rate regulation activities are sufficiently flexible enough to allow for accurate and timely market pricing to recover increased costs. Given FSRA's mandate this is particularly important in the automobile insurance sector.

The Environmental Scan references this where FSRA notes "Ontario's average auto insurance rates are increasing due to a range of factors including rising interest rates, inflation, higher physical damage costs, return to pre-pandemic driving patterns."

We believe that FSRA has attempted to address some of the challenges associated with rate filing approvals and we believe this will be particularly important in the period ahead.

Strengthen Customer Focus

Under this strategic priority a key deliverable is to "work with insurance regulators across Canada to evaluate the sectors external dispute resolution framework."

If this deliverable relates to the legal or tribunal system in resolving claims this has long been problematic, particularly as it relates to claims arising from automobile accidents both on a first party basis and third-party basis. We believe that any regulatory focus placed on improving that type of dispute resolution would be welcomed by all parties to those disputes.

If in fact the deliverable relates to a complaints dispute resolution framework, we believe that greater cost benefit detail would be needed on any large-scale changes to an area that we believe is functioning well at present.

Modernize System and Processes

Under this strategic priority a key deliverable is to *"enable data analytics for each of the regulated sectors to empower FSRA policy and supervisory activities. Across the sectors, enhance infrastructure, establish new data interfaces (both new sources and approved exchanges), and implement advanced analytics and reporting systems to enable more efficient decision-making."*

We believe that assessing the regulator's need for increased data analytics requires a disciplined cost benefit process. The cost of the regulator's own data infrastructure is in all likelihood the smaller part of the "cost" and the cost to insurers of reporting data can be a significant expense line item. Inevitably, these costs must be passed on to the policyholders and as such there should be a clear financial rationale for this to accompany any policy rationale.

Property and Casualty (Auto) Priorities

Under this strategic priority a key deliverable is to *"develop legal framework changes based on consultation feedback to define fairness in rates and underrating."*

There is already a significant amount of guidance and regulatory initiative on the fair treatment of consumers. Much of this is still evolving in terms of implementation of regulatory oversight and assessment. We believe that this work needs to have the time, context, and reflection to bring together any gaps in understanding and expectations on fairness between policyholders, insurers, and regulators. Moving to a "legal framework" on fairness in the early stages of this process may not create additional clarity or empathy between stakeholders.

Another key deliverable is to *“explore the development of consumer satisfaction benchmarking in support of informed decision making and increased transparency.”* As small enterprises, we believe that there is an abundant awareness of an attention to consumer satisfaction. In smaller enterprises there is no alternative. And in small enterprises, that does not necessarily require customer satisfaction analytics or formal benchmarking. Any concerns we express here are not on the principle of customer satisfaction, but on the potential for the requirement to create expensive frameworks and reporting that do not necessarily provide any greater insight to the insurer and policyholder. Additional costs, as always, must be recovered through an increase in premiums. As this deliverable falls under an automobile insurance priority, and that automobile insurance already suffers from concerns on affordability, we believe this could have an unintended consequence of reducing affordability.

We also note a planned outcome under this priority on *“... providing resources to enhance the understanding of auto insurance.”* It is a long-standing concern among all stakeholders that automobile insurance is exceedingly complex. We believe that improving consumers’ knowledge of the fundamentals of automobile insurance is a worthy outcome. We believe that FSRA needs to look at opportunities to influence having this put into school curriculums or enhancing consumer understanding at an early stage in the consumer life cycle. Currently, consumers have access to resources that would enhance their understanding of automobile insurance but often the appetite and incentive to use them is not there.

Another strategy is to *“develop recommendations and act on reforms of the auto insurance system”* and a deliverable includes *“work with the Ministry of Finance to develop and implement initiatives to reduce fraud and abuse in the system.”*

It cannot be stated strongly enough that a reduction in fraud and abuse needs to include enforcement and appropriate deterrents. We do not believe there are currently sufficient public enforcement resources or processes at the investigation and prosecution stage.

Another key deliverable is to *“Complete the implementation of legislative amendments that will allow consumers to opt out of direct compensation-property damage coverage...”*

From an implementation standpoint FSRA should ensure that insurers have all the statutory, regulatory, and administrative materials required to meet the effective date. The materials referred to are the “mandatory” language and procedures that must be adopted by insurers. Unfortunately, previous changes to automobile insurance wordings, even when minor, have created significant disruption and anxiety because the required information is delivered to insurers too late in the process.

Another priority is to *“achieve supervisory excellence for the Ontario incorporated insurance companies and reciprocals sector.”* A key deliverable is to *“..... work with stakeholders including the Ontario Mutual Insurance Association implementing the RBSF-I tailored proportionately to the characteristics of the various segments of the insurance sector including farm mutuals and reciprocals.”*

Much work has already begun on this and more will be required to fully understand proportionality and to ensure that the new framework takes reflects a reasonable level of cost to policyholders, as they ultimately bear these costs.

As it relates to some more general areas of comment, we believe that FSRA’s role in proactively addressing automobile insurance product reform with the appropriate government ministries is

critical. Premium affordability will only follow with appropriate support by way of automobile reform. This reform needs to incorporate fundamental changes, many of which have been identified in previous reform research initiatives that remove complexity from the automobile insurance product and process and remove the disproportionate amount of money spent in dispute resolution.

In closing we thank you for the opportunity to provide comments on the work you have identified for the year ahead and we anticipate further consultations on the specific deliverables and outcomes identified in the priorities.

Yours truly,

A handwritten signature in blue ink, appearing to read "J L Taylor". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

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