

# CONSUMER ADVISORY PANEL

**September 16, 2024**

*Delivered electronically*

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

## **Re: Comment on the "Ontario Private Passenger Vehicles Annual Review 2023"**

The Consumer Advisory Panel (CAP) welcomes the opportunity to provide comments on the "Ontario Private Passenger Vehicles Annual Review." While we understand that the report is designed to gather input to update the guidance on key actuarial assumptions FSRA uses when reviewing rate filings, we also view this as an opportunity to highlight aspects of auto insurance that directly impact consumers and to identify issues that FSRA staff should address in collaboration with CAP's Auto Insurance Working Group.

### **Executive Summary**

The report offers valuable insights into key topics affecting consumers and the insurance industry, including:

- **Impact of COVID-19 on Claims and Vehicle Usage:** The report notes a decline in claims frequency due to reduced vehicle usage during the COVID-19 pandemic, which has continued into 2022. This suggests a "new normal" of lower claims frequencies as remote and hybrid work arrangements become more prevalent. Insurers should account for these behavioral changes in their future rate filings.
- **Inflation and Its Impact on Claim Costs:** The report identifies a significant increase in physical damage claim costs since late 2021, driven by inflationary pressures on vehicle parts, replacement vehicles, and repair services. Insurers must consider these inflationary trends in future rate calculations to ensure fairness and stability in premium-setting.
- **Legislative Reforms Affecting Consumer Protection:** The report reviews legislative reforms, such as Bills 15 and 91, which have reduced certain benefits available to consumers, resulting in an estimated 20.1% decrease in accident benefits loss costs. These changes affect the level of coverage consumers receive, necessitating ongoing monitoring to ensure adequate consumer protection.

- **Economic Conditions and Consumer Behavior:** The report discusses economic uncertainties, including the potential for recession and ongoing inflationary pressures, which may influence consumer behavior and claims frequency. These factors should be carefully considered in the rate-setting process to avoid unduly burdening consumers.
- **Need for Enhanced Transparency in Rate Setting:** The report emphasizes the importance of transparency in rate-setting practices, noting that consumers often struggle to understand how their premiums are calculated, particularly when there are unexpected increases or discrepancies. Enhanced disclosure requirements and regular audits are recommended to ensure fairness and non-discrimination.
- **Absence of Discussion on Auto Theft:** The report does not address the growing concern of auto theft, which significantly impacts comprehensive coverage costs. Including this issue in future reports could improve understanding of all risks affecting Ontario consumers and support more targeted consumer protection strategies.

## Detailed Concerns and Recommendations

### 1. Affordability and Accessibility of Insurance

The report identifies rising premiums due to increased claim costs, particularly in light of inflation. These rising costs make insurance less affordable, especially for lower-income consumers or those with older vehicles. It is essential to consider measures that promote affordability and accessibility.

#### Recommendations:

- **Support for Usage-Based Insurance (UBI):** FSRA should promote the expansion of UBI programs that offer more affordable premiums based on actual driving behavior. This approach encourages safer driving and potentially lowers costs for consumers who drive less frequently.
- **Limit on Premium Increases:** FSRA should consider implementing regulations to limit the frequency and size of premium increases, such as setting minimum intervals between rate changes or capping annual rate increases. This would provide consumers with more stable and predictable insurance costs.

## 2. Transparency in Rate Setting

Greater transparency in rate-setting is crucial for maintaining consumer trust. The report highlights a lack of clarity in how premiums are determined, particularly when rates increase unexpectedly or differ significantly among similar profiles.

### Recommendations:

- **Enhanced Disclosure Requirements:** FSRA should mandate that insurers provide clear explanations of how premiums are calculated, including a breakdown of key factors and their weightings. This would help consumers understand their costs and make informed decisions.
- **Regular Audits of Rate-Setting Practices:** FSRA should conduct or commission regular audits of insurers' rate-setting practices to ensure they are fair, transparent, and non-discriminatory. Publicizing these findings would help build consumer confidence and accountability.

## 3. Impact of Legislative Reforms on Consumer Rights

Recent legislative changes, such as those under Bills 15 and 91, have reduced certain benefits available to consumers, impacting their level of coverage. Continuous monitoring is necessary to ensure these reforms do not adversely affect consumer rights.

### Recommendations:

- **Monitoring Framework for Legislative Changes:** FSRA should establish a framework to monitor the impact of these legislative changes on consumers, particularly vulnerable groups. This data should inform future policy recommendations to ensure consumer protection.
- **Accessible Dispute Resolution Processes:** FSRA should ensure that dispute resolution processes remain accessible and fair, with clear guidelines to help consumers navigate these systems effectively.

## 4. Addressing Fraud and Misuse

While fraud prevention is essential to keep premiums affordable, aggressive detection methods can lead to legitimate claims being denied or delayed. Additionally, advanced tools could inadvertently introduce biases against certain groups.

## **Recommendations:**

- **Standards for Fair Fraud Detection Practices:** FSRA should develop and enforce standards for fraud detection that ensure fairness, transparency, and non-discrimination.
- **Increased Oversight of Fraud Detection Programs:** FSRA should regularly review insurers' fraud detection programs and require corrective actions where patterns of unfair treatment or discrimination are identified.

## **5. Accessible Information for Consumers**

While the report provides insights and trends using industry-specific terminology, CAP suggests offering more accessible information for consumers.

### **Recommendations:**

- **Develop a Consumer-Focused Report:** FSRA should consider creating a report that provides insights for consumers about their auto insurance policies and industry trends. This report could use data from sources like Health Claims for Auto Insurance (HCAI) to provide information about claims experiences and costs relative to premiums paid by consumers.
- **Define Industry Terms:** FSRA should incorporate a definitions section to clarify professional terminology for all stakeholders, including consumers. This would prevent misinterpretation of data and ensure that information is easily understood by all.

## **6. Opportunities for Collaboration with CAP's Auto Insurance Working Group**

The findings of the report provide an excellent opportunity for FSRA staff to work closely with CAP's Auto Insurance Working Group to address the issues highlighted. By collaborating in the following areas, FSRA can ensure its regulatory approach remains aligned with consumer interests:

- **Briefings on Rate-Setting Assumptions:** CAP's Auto Insurance Working Group could be briefed on the actuarial assumptions FSRA uses or proposes to use in its reviews of rate filings to ensure they reflect current economic conditions and consumer behavior trends. This could involve a discussion with relevant FSRA stakeholder committees to incorporate perspectives from the industry, consumers, and regulators.

- **Developing Consumer-Centric Policy Recommendations:** Collaborate on policies that enhance transparency, affordability, and fairness in the insurance market.
- **Exploring New Risk Factors:** Work together to explore new risk factors, such as auto theft trends, and develop targeted strategies to mitigate their impact on premiums.
- **Helping Consumers Make Informed Decisions:** Identify gaps in consumer knowledge related to auto insurance and consider how best to address these gaps, including enhanced consumer-friendly disclosures and reports.

## **Conclusion**

While the "Ontario Private Passenger Vehicles Annual Review" provides valuable insights into the current market landscape, it also offers an opportunity to address areas such as auto theft, transparency, and affordability that directly impact consumers. By collaborating with CAP's Auto Insurance Working Group, FSRA can ensure a balanced regulatory approach that protects consumers and promotes a fair, transparent, and competitive insurance marketplace.

Thank you for considering these observations and recommendations. We look forward to further discussions and continued collaboration to achieve these objectives.

Sincerely,

**Consumer Advisory Panel**

Financial Services Regulatory Authority (FSRA)