



2024 PRE-BUDGET CONSULTATION

Submitted to the Honourable Peter Bethlenfalvy

Ontario Minister of Finance

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Submitted by:

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Introduction

The Canadian Association of Direct Relationship Insurers (CADRI) is the voice of insurance enterprises that offer automobile, home, and commercial insurance directly to Canadians. We advocate for flexible and evolving regulatory and legislative frameworks governing automobile, property, and commercial insurance to enable product and service innovation so that Canadians can easily choose insurance that serves their needs through the delivery channels of their choice.

CADRI's members include Allstate, Aviva, belairdirect, Co-operators, Desjardins Insurance, RBC Insurance, Sonnet Insurance, and TD Insurance.

CADRI appreciates the opportunity to contribute to the 2024 Ontario budget through the province's pre-budget consultation process.

We seek automobile insurance that is priced fairly for Ontario's drivers and a system that sustains competitive insurers to provide Ontario families with greater choice. To achieve these goals, we recommend a regulatory framework for auto insurance which is principle-based, outcome-focused and efficient.

CADRI recognizes that the Ministry of Finance and the Financial Services Regulatory Authority of Ontario (FSRA) have been working on means to provide Ontario drivers with fair and affordable auto insurance. In November's Fall Economic Statement, the Minister of Finance announced significant measures to combat auto theft to lower auto insurance. Since its inception, FSRA has been revising its portfolio of policies to ensure that they are well thought-out, consumer-centric, and transparent.

CADRI submits that to effectively lower the costs of auto insurance for Ontario drivers, substantial changes are needed to the structure of the mandatory auto insurance product and the health and property benefits it provides. Given our mandate, other stakeholders are better placed to outline opportunities for modernization.

CADRI continues to encourage the government to allow consumers to let insurance companies look at their credit score in calculating their auto insurance rates.

In its 2019 Budget, Ontario dedicated a chapter to a multi-year strategy called "Putting Drivers First: A Blueprint for Ontario's Auto Insurance Industry" (the Blueprint). It recommended that "drivers should have the choice to lower their premiums by allowing insurers to consider their credit history ..."¹ We support the Ontario government moving to the next stage in its strategy and providing Ontario drivers with this opportunity.

¹ "Putting Drivers First: A Blueprint for Ontario's Auto Insurance Industry" <https://budget.ontario.ca/2019/chapter-1b.html#section-3>

Many factors contribute to what drivers pay for insurance

Creating fairness for insurance consumers by matching their price to their risk is dependent upon the ability of insurers to use a range of rating factors. CADRI encourages the province and FSRA to take a principle-based approach to how an insurer makes these calculations – so long as they are fair and transparent.

CADRI is a long-time advocate for the benefits of allowing insurers to include one more variable: a customer's credit information – provided they agree – to calculate their auto insurance rates.

While use of credit scores is allowed in determining property insurance rates in Ontario, and has been for decades, it's prohibited for use in evaluating auto insurance rates in the province. Other provinces, including Nova Scotia, have modernized their rules, and allowed credit score to be among the many variables employed in the calculation of a driver's insurance.

Benefits of the change

Credit information benefits consumers by better matching price to risk. When more insurance rating factors are allowed for insurance pricing, less weight is placed on traditional factors such as age, gender and physical location, thereby increasing fairness, pricing competition and choice for consumers.

Most Ontarians have good credit histories and could benefit from a discount on their premiums.

Financial institutions agree that credit history is something people can control. In fact, those who responsibly manage their finances will benefit from better insurance premiums. Fortunately, consumers' awareness of credit history information has increased significantly over the years due to advertising, online resources, and media attention. Most citizens have a pretty good sense of where they stand. These days one can check one's credit history easily as it's often available free of charge online or from an individual's financial institution.

From the insurer's perspective, how an individual manages their finances is more predictive of whether they'll make an insurance claim than many traditional risk variables. Credit scores are widely recognized as valid tools to predict insurance claims.

A 2011 study² commissioned by CADRI, using Canadian data, concluded that better credit scores correlate to:

- Lower claim frequency,
- Lower claims cost,
- Lower premiums, and
- Lower loss ratios wherein premiums are more closely matched to costs.

With a more accurate risk assessment comes fairer premiums based on a consumer's risk profile.

Customers with the best driving records are estimated to save up to 29 per cent based on the 2011 study.

²Supporting Quantitative Analysis for the Use of Credit Information for Insurance Purposes, 2011
<https://cadri.com/resources/Documents/Supporting%20Quantitative%20Analysis%20for%20the%20Use%20of%20Credit%20Information%20for%20Insurance%20Purposes,%20May%202011.pdf>

Impact on newcomers and those with vulnerabilities

Policymakers have asked us about the impact of using credit scores on various categories of drivers.

A 2021 study by credit bureau TransUnion on consumer-driven data in the insurance industry found that trends in credit scores are consistent across age groups, geography, and socio-economic status. Also, newcomers take only two years to establish average credit scores.³ Thus, credit information as an insurance rating factor is a non-discriminatory and fair means of pricing auto insurance.

Studies have shown that vulnerable groups have similar credit score distributions as non-vulnerable groups. We don't foresee a need to mitigate negative impacts. However, should any arise, FSRA has the authority to request and review the impact of including credit scores in auto insurance.

Some people, particularly young adults, may not have as many entries in their file to create a credit score. Companies have different approaches to dealing with this situation.

CADRI members are adherents to the IBC Code of Conduct for Credit Information⁴ which provides guidelines for consumer protection and applicable federal and provincial laws. Among the protections is the review of requests for adjustments to credit scores when a consumer has experienced an extraordinary life event such as illness, unemployment, divorce, or loss of a family member.

Moreover, the province recently updated its Consumer Protection Act to make it easier for people who have experienced such disruptions to work with credit bureaus to ensure the disruptions don't affect their scores. Plus, FSRA is currently consulting on a proposed approach to strengthening the protection of vulnerable consumers across the financial sectors it regulates.

When a consumer does not consent

As a first step before requesting consent, an insurer explains the purpose and benefit of the use of the consumer's credit information to potentially lower the cost of insurance. If the consumer declines and expresses the reason, the agent may be able to provide additional information that alleviates the consumer's concern (e.g., credit checks do not negatively affect one's credit score, the credit information remains private and secure, etc.).

In CADRI members' experience with property insurance across the country and in provinces that allow credit information to be used in auto insurance pricing (e.g., Alberta and Nova Scotia) it is more common that a consumer provides their consent to use credit information.

When a consumer chooses not to provide consent for the use of their credit information, they are not denied insurance coverage. They are offered a quote, or their renewal offer. Ultimately, insurers will take different pricing approaches when there is a lack of consent for use. Other rating variables may be used to determine the customer's premium. This diversity adds to the competition and choices available to auto insurance consumers in the marketplace.

³ Fair, Accurate and Predictive: New Canadian Research Addresses Credit-Based Data in Insurance, <https://solutions.transunion.ca/ontario-credit-segments/resources/files/ontario-credit-segments-report.pdf>

⁴ Insurance Bureau of Canada, Code of Conduct for Insurers Use of Credit Information, <https://www.ibc.ca/insurance-basics/how-insurance-works/code-of-conduct-for-insurers-use-of-credit-information>

Our recommendations

- Ontario's Ministry of Finance should implement its commitment in the 2019 Blueprint and review Regulation 664, which sets out prohibited factors for rating classification in auto insurance. Credit score should be removed from this list of factors.
- Subsequently, FSRA should remove it from its Rule on Unfair or Deceptive Act or Practices enabling insurers to use credit score, when a customer consents, in addition to the other information insurers use to calculate prices.
- The use of credit information should be voluntary – at the discretion of the customer.

Conclusion

CADRI appreciates the opportunity to provide input to the Ministry's pre-budget consultation.

CADRI submits that offering a consumer the choice to use their credit score information as an auto insurance variable would better allow insurers to provide Ontario drivers with quotes for their car insurance that are rooted in the individual's risk profile.

We look forward to working with the Ministry of Finance and FSRA to provide Ontario families with affordable and fair automobile insurance now and in the future.