



**2023 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.

According to the Conference Board of Canada, the property and casualty (P&C) industry plays a significant role in the province's economy. P&C insurance directly contributed \$9.1 billion to Ontario's real gross domestic product in 2020, down from \$9.6 billion a year earlier due to the pandemic. For every \$1 in economic activity within the industry, another 54 cents are generated in other industries – resulting in a total footprint of \$14 billion. In 2020, the Ontario P&C industry directly contributed \$2.8 billion in sales tax revenues to the province. Moreover, the insurance industry directly supported over 51,200 jobs in Ontario and for every 100 jobs, another 97 were supported in other industries. Including this spinoff activity, the P&C industry supported just under 101,000 jobs in Ontario.<sup>1</sup>

CADRI appreciates the opportunity to contribute to the 2023 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.

In 2022, Ontario's Auditor General noted several shortcomings with the current regulatory regime in its Value for Money Audit of the Financial Services Regulatory Authority of Ontario (FSRA)<sup>2</sup>. The Auditor General noted that despite Ontario having a rate of automobile injuries per 1 billion kilometres that was lower than most provinces, Ontario's average private passenger automobile insurance rate is the highest in the country. Historically, Ontarians have paid the most for private passenger automobile insurance in Canada, and average premiums increased by almost 14% to \$1,642 between 2017 and 2021, double inflation.<sup>3</sup>

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<sup>1</sup> <https://www.conferenceboard.ca/product/ontarios-property-and-casualty-insurance-economy-the-economic-contribution-of-the-property-and-casualty-insurance-industry-in-2019-20/>

<sup>2</sup> [Value-for-Money Audit: Financial Services Regulatory Authority: Regulation of Private Passenger Automobile Insurance, Credit Unions and Pension Plans \(2022\)](#)

<sup>3</sup> [Value for Money Audit](#), p. 2 Summary

CADRI submits that three specific regulatory changes leading to the modernization of pricing will substantially improve fairness, choice and competition for Ontario drivers by:

1. Offering the consumer the choice to use their credit score information as an auto insurance variable,
2. Removing arbitrary insurance rating territory design rules that prevent fair and accurate prices for drivers, and
3. Enabling more timely and moderate pricing adjustments through a Use and File rate approval approach.

### **Modernizing Auto Insurance Pricing**

#### **1. Credit score**

One easy step to lower the rates of many Ontario drivers would be to allow consumers the right to choose to have their credit information used by their insurance company to calculate their auto insurance rates.

While use of credit scores is allowed in calculating property insurance coverage 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 moved ahead, and allowed credit score to be among the many variables employed in the calculation of a driver's insurance.

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<sup>4</sup>..." We support the Ontario government moving to the next stage in its strategy and providing Ontario drivers with this opportunity.

#### **Benefits of the change**

Most Ontarians have good credit histories and could benefit from a discount on their premiums. Credit history is something people can control and those who responsibly manage their finances will benefit from better insurance premiums. Most citizens have a pretty good sense of where they would stand. These days one can check one's credit history 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.

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<sup>4</sup> "Putting Drivers First: A Blueprint for Ontario's Auto Insurance Industry", <https://budget.ontario.ca/2019/chapter-1b.html#section-3>

A 2011 study<sup>5</sup> commissioned by CADRI, using Canadian data, concluded that better credit scores correlate to:

- Lower claim frequency,
- Lower claims cost,
- Lower premium, and
- Lower loss ratio's wherein premiums are more closely matched to costs.

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

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, socio-economic status and with newcomers.<sup>6</sup>

Thus, credit information as an insurance rating factor is a non-discriminatory and fair means of pricing auto insurance.

### **Recommendation #1**

We urge Ontario's Ministry of Finance to complete the commitment made in the 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.

### **2. Territories**

Ontarians' driving environment consists of factors which may influence how much a driver pays for insurance. The driving environment provides information about factors that can influence the costs of a claim such as:

- Traffic density,
- Infrastructure,
- Weather,
- Public transit, and
- Theft and vandalism.

The more information that is available to help insurers predict risk, the better the market operates to keep premiums as low as possible. Unfortunately, the current rules restrict risk-based pricing.

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<sup>5</sup>Supporting 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>

<sup>6</sup> 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>

CADRI appreciates that the Minister of Finance directed FSRA to review its territorial ratings framework in 2022: to enable lower costs for many Ontario families. Recently FSRA published a study it had commissioned from Pinnacle Research<sup>7</sup> to review the current territory definition guidelines and bulletins and to provide recommendations and assist FSRA with building a principles-based framework for future territory rating guidance. That study endorsed eliminating existing restrictions on territories.

As the Auditor General's 2022 Value for Money audit observed, the current rules on territories, haven't been changed or updated in Ontario since 2005 when it set out 55 territories and limited the Greater Toronto Area to 10.<sup>8</sup> Yet the province's population and transport infrastructure have significantly evolved since then.

With the current restrictive choices available to insurance companies, lower risk drivers may be lumped in with higher risk ones when a rate is calculated: leading to unfair cross-subsidization.

The Auditor General also notes that Alberta recently implemented an updated method of using territories in the calculation of insurance premiums, whereby there is not a contiguity requirement and the cap on the number of territories was removed, leaving it up to the insurance companies' actuarial data to determine how many territories are necessary.<sup>9</sup>

Alberta's approach seeks to protect consumers by establishing some minimums relative to the number of cars covered and maximums relating to rate changes within a territory year over year.<sup>10</sup>

The Auditor General also recommended that FSRA should establish an updated territory framework for greater equity in insurance rates in Ontario.<sup>11</sup>

More specifically, the Auditor General said that FSRA should:

- complete its review of its territory-based framework, and if necessary, update current territory definitions, identify the impact to average premiums of having fewer or more territories in Ontario and make related recommendations;
- provide the results of the above reviews to the Ministry of Finance;
- publicly report on the results of the reviews, and
- implement the recommended changes to how automobile insurance companies can determine and charge insurance premiums.<sup>12</sup>

FSRA's recently-published a study from Pinnacle Research<sup>13</sup> notes that only five jurisdictions in the United States and Canada regulate territories.

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<sup>7</sup> FSRA Private Passenger Automobile Annual Review - Pinnacle Report  
<https://www.fsrao.ca/media/15146/download>

<sup>8</sup> Value for Money Audit, p. 39

<sup>9</sup> Value for Money Audit, p.39

<sup>10</sup> AIRB Technical Guidance, <https://albertaairb.ca/wp-content/uploads/2022/11/AIRB-Technical-Guidance-2022-11.pdf>

<sup>11</sup> Value for Money Audit, p. 2 of summary

<sup>12</sup> Value for Money Audit, p. 41

<sup>13</sup> FSRA Private Passenger Automobile Annual Review - Pinnacle Report  
<https://www.fsrao.ca/media/15146/download>

The report demonstrates that eliminating many of the current restrictions would meet FSRA's then-principles of:

- Consumer focus,
- Sustainability,
- Transparency and disclosure,
- Simplicity,
- Responsiveness, and
- Innovation,

and additionally lead to increased innovation, competition and evidence-based or fairer and less discriminatory rates.

### **Recommendation #2**

CADRI calls on FSRA to move ahead with removing arbitrary insurance rating territory design rules that prevent fair and accurate prices for drivers.

### **Benefits of the change**

By allowing insurance companies to define their own territories for all coverages, drivers could be confident that the complexity of the province and breadth of driving habits is reflected in their rate. Such a change would allow insurers to better recognize different driving environments and account for the risk in the rates they offer. Thus, reducing the current instance of policy holders with a lower risk of having a claim being lumped in with higher-risk policy holders who happen to inhabit the same territory.

The change would illustrate the province's commitment to flexible, accessible and affordable auto insurance and provide confidence to Ontario drivers that there is fairness in auto insurance pricing.

### **3. Use and file rate approval**

We encourage the Minister of Finance to continue to support FSRA in its modernization of the auto insurance system and transition to principle-based regulation.

Since its inception, FSRA has committed to moving the regulation of its entities to a principle-based, outcome focused regulatory regime. The transition from current to future state is a challenge for any organization, as it must be for a regulatory agency with a broad portfolio of financial services affecting millions of Ontarians and significant sectors of the Ontario economy.

In 2022, FSRA set out a proposed framework to move away from "prescriptive checklists" and encourage entities to internalize regulatory requirements and work towards achieving desired regulatory outcomes based on their size, complexity, and risk profile.

As it implements change in the auto insurance sector, CADRI notes that recent FSRA guidance on

- Operational Risk Management,
- Reporting and Resolution of Rating and Underwriting errors, and adoption of
- the CCIR-CISRO Guidance – Conduct of Insurance Business and Fair Treatment of Customers,<sup>14</sup>

set the table for FSRA to move beyond existing prescriptive checklists to hold insurers accountable for the fair treatment of customers including the setting of rates. Moreover, we appreciate that FSRA committed to allow companies that comply with its guidance on operational risk management to proceed to a yet-to-be-developed, streamlined filing process. This streamlined process would replace prior approval of rates for these companies. This would go a long way to enhancing fairness, choice and competition to the benefit of Ontario drivers.

We believe our members share common goals with the province to:

- Mitigate premium spikes with timely rate adjustments,
- Provide transparency as a foundation of premiums,
- Support a strong marketplace with consistent rates,
- Foster consumer confidence in the rate regulator, insurers, and system, and
- Focus resources on high-risk areas.

In this context, CADRI calls on the province to move ahead with outcome-driven approach to rate regulation which would lead to greater product choices, fair pricing and easier access to insurance.

### **Recommendation #3**

Specifically, we call on the regulator to adopt a Use and File approval approach.

### **Benefits of the change**

The benefits would be plentiful: the industry would be able to respond to subtle changes in the competitive environment in a timelier fashion and offer Ontario drivers more choice.

With its guidance and fair treatment code in place, the regulator would retain authority and oversight to ensure fairness in the system.

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<sup>14</sup> <https://www.ccir-ccrra.org/Documents/View/3450>

## **Conclusion**

CADRI appreciates the opportunity to contribute to the 2023 Ontario budget through the province's pre-budget consultation process.

Given that the cost of automobile insurance is highest in Ontario, CADRI submits that three specific regulatory changes leading to the modernization of pricing will substantially improve fairness for Ontario drivers by:

1. Giving consumers the choice to use their credit information to help determine their auto insurance rate,
2. Removing arbitrary insurance rating territory design rules that prevent fair and accurate prices for drivers, and
3. Adopting a Use & File rate approval approach.

These advancements, whether taken individually or together, will allow insurers to provide Ontario drivers with quotes for their car insurance that are rooted in the individual's risk profile. In increasing the efficiency of the rate review process at the regulator, the insurer and its customer will benefit from lower administrative costs.

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.