FACILITY Association

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February 8, 2019

Financial Services Regulatory Authority of Ontario (FSRA)
130 Adelaide Street West, Suite 800
Toronto, ON, M5H 3P5

Attention: Mark White, CEO

RE: FSRA's Proposed FY 2019-20 Priorities and draft Budget

Dear Mr. White,

Please accept this letter as the Facility Association's written submission with respect to the Proposed FY 2019-20 FRSA Priorities and Budget consultation document released for comment on January 21, 2019.

FSRA has responsibilities for Facility Association as per the Compulsory Insurance Act, including but not limited to:

- prior approval of any changes to Facility Association's by-laws and Plan of Operation (section 7.10(2));
- rates (section 7.10(4));
- investigation of the Facility Association's activities (section 7.11); and
- filing an annual report to the Ministry of Finance on the Facility Association's affairs

As such, we consider the Facility Association to be a stakeholder in FSRA's consultative process.

Our comments are focused on the regulatory aspects of automobile insurance, given our mission and vision (please see the attached appendix). In general, our comments reflect our view that the public interest in general, and automobile insurance consumers (policyholders) in particular, are best served through a competitive market of insurers providing automobile insurance on a voluntary basis, and promoting such a market to exist involves two major components:

- pricing flexibility; and
- stability in underlying costs.

Pricing flexibility allows for insurers to establish pricing regimes that they believe appropriately differentiate among policyholders, and a competitive market place is, in our view, the best means of ensuring rates appropriately differentiate among policyholders in aggregate.

Stability in underlying costs (the largest being benefits paid to claimants under insurance policies) reduces uncertainty for companies establishing their rates, increasing their confidence in their rates and their appetite for providing insurance, and promoting a healthy and competitive voluntary market.

To this end, we support the targeted culture FSRA has identified on page 3 of the consultation document, particularly in relation to "*...expertise to monitor, understand and address changes in markets, sectors and public wants and needs...*" and "*... principles-based and flexible...*".

We note on page 8 of the consultation document that insurance is expected to account for 42% of FSRA's proposed budget, and, of this amount, 31% relates to "Auto Rates". As indicated on page 9 of the consultation document "*... a Director and a Senior Manager in the Auto subsector of Insurance were added to support improved auto rate regulation processes (e.g., implement risk classification approaches) and to support the development and implementation of auto insurance rate reform initiatives.*" Further, per page 10 of the consultation document, "streamline rate regulation process" is identified as a sector-specific targeted high-impact priority.

We support a review of the automobile rate regulation processes, and we also appreciate that changes cannot occur overnight. However, we would suggest that any such review start with an assessment of why a rate regulation process is needed at all for automobile insurance. That is, is there a market failure that needs to be addressed? If so, what is that market failure? Does it apply equally to all types of consumers / types of vehicles / uses of vehicles? Is rate regulation the only means of addressing that failure? Is it the most cost effective? There are jurisdictions in Canada (Quebec), America, and Europe that have no or very limited automobile insurance rate regulation, and we believe Ontario would be well served by at least considering the pros and cons of the wider spectrum of rate regulation form and substance, having taken a step back and ask that more fundamental question of "why".

We believe that consideration should be given, as we indicated in our opening, to allowing a much greater degree of pricing flexibility for automobile insurers, and, rather than focusing on a rate regulation process, instead focus on market conduct, monitoring costs, and making more data / information available to existing and potential insurers to promote competition.

We are always concerned about risks to the availability of automobile insurance in the competitive marketplace given that our mission calls for us to keep our market share as small as possible. The systemic risks to availability in a competitive marketplace of converging around a single "trend" are twofold: firstly, the immediate risk is that if automobile insurers competing voluntarily in the province perceive a "benchmark" assumption adverse relative to their own assessment, they may look for ways to reduce their appetite for automobile insurance in the province with relatively immediate consequences to availability. Secondly, because insurance pricing is an exercise in forecasting the future, even if automobile insurers all accept and use a consistent assumption (claims trend, as an example), if future events unfold in a way that is more negative than forecast (that is, if the entire industry finds itself to be inadequately priced), companies throughout the market may then at that time reduce their automobile writings as they work to restore profitability. By accepting a range of views about industry experience, a regulator can assume that companies have a degree of confidence in their rates and therefore a significant appetite for automobile insurance risk in the province. As well, if companies approach the marketplace with a range of views about how the future will unfold, the risks to future availability will be reduced, that is, individual companies will experience a range of profitability.

There is a significant focus on "rate" and "premium" levels, but it is important to acknowledge that the purchasing behaviours of Ontario owners and operators of automobiles suggest that they find value in the product. For example, while the minimum required liability limit in Ontario is $200 thousand, only 4 thousand private passenger vehicles purchase this level out of almost 7½ million such vehicles (i.e. only 0.1%) for 2017, according to GISA statistics. In fact, over 97% of private passenger vehicles are insured for $1 million or more of liability limit. As well, optional coverages, purchased to protect against loss or damage to the policyholder vehicle, were purchased for 88% of private passenger vehicles for collision and 94% of private passenger vehicles for fire/theft/hail type damages. That is, despite the "rate levels" in Ontario, consumers purchase a significant level of protection. We see this as indicating consumers see value in being able to transfer the risk of the financial impact of uncertain future events related to the ownership and/or operation of automobiles in Ontario to insurers.

Again, we appreciate the opportunity to provide feedback. As FSRA moves forward with the consultation process, we would be happy to participate as a stakeholder in relation to the automobile insurance sector.

Yours truly,

David Simpson,
President & CEO

Appendix: Facility Association Mission and Vision

Our Mission:

The Facility Association's mission is to administer automobile insurance residual market mechanisms, enhance market stability, and guarantee the availability of automobile insurance to those eligible to obtain it. We strive to keep the market share of the residual markets as small as possible, so consumers may benefit from the competitive marketplace to the greatest extent possible.

Our Vision:

Facility Association's vision is to be recognized and relied upon as a highly efficient and effective administrator of automobile insurance residual markets, whose objective opinion on residual markets and related issues is respected and sought by stakeholders.