

# **MARKET CONDUCT ASSESSMENT REPORT**

## **PART 1**

### **STATUTORY ACCIDENT BENEFITS SCHEDULE (SABS)**

## **PART 2**

### **RATE VERIFICATION PROCESS**

#### **Phase 1 (2012)**

**Financial Services Commission of Ontario (FSCO)  
Market Regulation Branch (MRB)**

**March 2013**

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**PART 1 – Statutory Accident Benefits Schedule**

**1. EXECUTIVE SUMMARY**

The Financial Services Commission of Ontario (FSCO), a regulatory agency of the Ministry of Finance, regulates Ontario insurance companies. Part of FSCO's mandate is to enhance consumer confidence in the insurance sector. FSCO works to ensure companies are treating insurance claimants fairly by complying with the *Statutory Accident Benefits Schedule (SABS)*, a regulation under the *Insurance Act*.

In November 2005, FSCO implemented a risk-based approach to regulate the market conduct of companies offering accident benefits coverage. FSCO designed and sent a self-assessment questionnaire to all companies licensed to write automobile insurance business in Ontario.

FSCO's increased oversight of automobile insurers has resulted in an enhanced scope of 2012 risk-based activities and include:

- annual filings of attestations by automobile insurers for SABS claims;
- completion of the SABS questionnaire over a four-year period starting in 2012; and
- on-site examinations of SABS claims handling and compliance activities starting in 2012.

The 2005 SABS Risk-Based Market Conduct Assessment Questionnaire (questionnaire) was updated in 2012 to reflect:

- current requirements following changes to the SABS;
- the Unfair or Deceptive Acts or Practices (UDAP) Regulation applicable to the adjustment and handling of SABS claims; and
- the impact of recent auto reforms.

FSCO is deploying the updated questionnaire to all automobile insurers in Ontario in four phases over a span of four years. In April 2012, FSCO began the first phase and received responses from a total of 34 companies which represented approximately 65 per cent of the Ontario private passenger automobile market share. A risk-based approach was used to select these companies.

In phase one, based on preliminary risk ratings assigned to each company, FSCO selected 14 companies (representing approximately 46 per cent of the Ontario private passenger automobile market share) for on-site field visits to verify response accuracies before arriving at a final risk rating level for them.

The scope of the SABS questionnaire and on-site reviews consisted of four key governance areas: policies and procedures, management monitoring controls, independent reviews, and outsourcing. FSCO also considered it important to assess the outcomes from the September 1, 2010 automobile insurance reforms.

All findings and recommendations regarding each of the five areas are provided later in this report. However, notable findings from the questionnaire and on-site reviews include:

- companies should maintain statistics on their assessment of possible fraudulent or suspicious claims;

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- companies should monitor and report on specific SABS requirements which were introduced as a result of automobile reform; and
- companies should have formal service level agreements when outsourcing to third parties.

In summary, phase one results showed that the questionnaire was a useful and efficient tool. It identified individual companies with a higher risk of non-compliance. It provided assurances that most companies have sufficient policies and procedures in place over their SABS claims handling operations to ensure compliance with regulatory requirements.

Phase two is scheduled for 2013.

## **2. BACKGROUND**

From 1998 to 2004, FSCO used transactional review audits to ensure that insurance companies were in compliance with the SABS. These audits only allowed FSCO to review a limited number of randomly selected claim files handled by a company. FSCO then extrapolated the audit results to determine the level of compliance for the company as a whole. While this provided a high level of assurance that the audited claim files were handled in accordance with the SABS, this approach was limited in scope, costly, and typically did not represent a statistically sound sample.

In 2004, FSCO took steps to address the limitations of the transaction audit approach. FSCO decided on a risk-based approach that examined and rated the quality of a company's governance system over its entire SABS claim handling operations. This approach considered whether a company:

- had policies that dealt with defined risks;
- monitored their policies for compliance; and
- had a process for corrective action if policies were inadequate or in non-compliance.

To implement the risk-based governance approach in 2004, FSCO held discussions with industry representatives. FSCO developed a self-assessment questionnaire - SABS Risk-Based Market Conduct Assessment Questionnaire (questionnaire) - to assess a company's governance over its SABS claims handling operations. In 2005, FSCO sent the questionnaire to all licensed automobile insurance companies in Ontario. The questionnaire relied on the premise that every company was responsible for good market conduct standards and practices and the absence of such standards and practices resulted in an increased risk of regulatory non-compliance. This approach promoted the effectiveness of consumer protection at three levels:

1. Companies can individually set appropriate standards and practices of conduct and governance to contribute to public confidence.
2. Industry associations can develop consensus around industry-wide standards of practice for their members; these standards are typically not mandatory.

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3. Ontario legislation stipulates the minimum standards and practices that insurance companies are required to implement.

The 2012 SABS questionnaire was updated from 2005 to reflect current requirements following the 2006 and 2010 changes to the SABS, the Unfair or Deceptive Acts or Practices (UDAP) Regulation applicable to the adjustment and handling of SABS claims, the requirements as they relate to the Disputes Between Insurers regulation, and the impact of other reforms. In particular, the questionnaire requested further information on the SABS controls and details of the measures in place to minimize fraud and abuse in the SABS claims process while protecting the rights of claimants.

Since 2005, FSCO's increased oversight of automobile insurers has resulted in an enhanced scope of the 2012 risk-based activities and include:

- annual filings of attestations by automobile insurers for SABS claims which also addresses compliance controls as an anti-fraud measure;
- completion of an updated SABS control questionnaire by the majority of automobile insurers over a four year period for SABS claims starting in 2012; and
- on-site examinations of SABS claims handling and compliance activities by insurance companies starting in 2012.

After further industry consultations in 2011, collection of the initial SABS attestation was completed in October 2011. FSCO launched a revised SABS questionnaire on April 20, 2012 and filings were due June 1, 2012.

### **3. FSCO'S REVIEW**

FSCO is conducting its review in four phases over a four year cycle. Phase one started in 2012, and consists of three stages:

#### **Phase One**

##### ***Stage One - Attestation***

After stakeholder consultations, in the summer of 2011 FSCO updated its risk-based market conduct review for SABS and started an annual attestation process for all automobile insurers in Ontario. The objective was to encourage good governance, identify areas for improvement and direct the regulatory focus in a risk-based manner in accordance with recent automobile reforms.

The 2011 Ontario Budget outlined the government's commitment to address auto insurance abuse and fraud which increase costs and lead to higher premiums. The government also stated it would take immediate anti-fraud measures, including introducing a requirement that insurers attest annually to the effectiveness of their SABS controls.

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The annual attestation process will reinforce the need for automobile insurers to confirm that the company has SABS cost controls in place to address fraud and abuse and that these are effective, reviewed regularly, and treat legitimate claimants fairly and in accordance with the law.

The attestation was finalized after receiving input from automobile insurers in Ontario. The attestation had to be signed by the President, CEO or most senior officer responsible for the insurer's operations in Ontario, and the signed original was required to be returned to FSCO by October 15, 2011.

***Stage Two – SABS Questionnaire***

After receiving the attestations, and consistent with FSCO's risk based approach to regulation, FSCO held further stakeholder consultations regarding an updated SABS questionnaire. This requested additional information on the SABS controls, including details of the measures to minimize fraud and abuse in the SABS claims process and to protect the rights of claimants.

The updated SABS questionnaire was sent in April 2012, to 25 automobile insurers across the province on a random, and in some cases on a targeted selection basis. FSCO also received responses from 9 additional companies as part of group insurance filings. These 34 companies represented approximately 65 per cent of the Ontario private passenger automobile market share.

The targeted companies were selected through a risk-based approach using market conduct data including market share, number of SABS complaints, number of mediations, and the risk ratings from the 2005 SABS review. All insurers were required to return the completed questionnaire electronically by June 1, 2012.

Eventually, over a four-year cycle, the majority of automobile insurers in Ontario will be required to complete the questionnaire. FSCO will select insurers for follow-up on-site examinations to verify their responses and to review their controls.

***Stage Three – Risk Assessments and On-site Reviews***

FSCO Senior Compliance Officers (SCOs) conducted desk reviews of all completed questionnaires, including a risk assessment summary for each company. Preliminary risk rating levels were assigned to each of the 34 companies based on these reviews.

FSCO used the results of the desk reviews and other market conduct data to select a sample of 14 companies for further on-site reviews, to confirm that it could rely on each company's responses. The selected sample visited in phase one represented approximately 46 per cent of the market share in terms of direct private passenger auto written premiums in Ontario.

During the on-site review of the 14 companies, FSCO SCOs established whether the answers were supported by appropriate documentation. The SCOs also evaluated each company's governance over its SABS claims handling by looking at four key governance areas: policies and procedures, management monitoring controls, independent reviews, and outsourcing. The benefits observed from the September 1, 2010 automobile insurance reforms were also within the scope of the review.

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Risk rating levels were assigned to each key governance area to arrive at an overall risk rating level for the company.

FSCO also gathered information to determine if claims handled by companies in their capacity as servicing carriers for the Facility Association are treated with the same due diligence and care as the companies' own claims. Further, FSCO assessed the level of development and use of preferred health care networks.

The on-site reviews were intended only to validate the companies' responses to the questionnaire and not to approve or endorse specific policies. Detailed transactional audits of claim files were not conducted.

Each company received the on-site review results which contained a summary of the findings and corresponding recommendations. Companies were required to provide FSCO with timely responses on the steps they were taking to address the recommendations. SCOs conducted peer reviews of the findings and reports to achieve consistency in methodology, evaluation and risk rating levels of the reviews.

**Phases Two, Three and Four**

The attestation in phase two was issued to automobile insurers on August 17, 2012, with a return date of October 15, 2012. An updated SABS questionnaire will follow in the winter of 2013.

Phases three and four are scheduled for subsequent years.

**4. RISK RATING LEVELS AND SCOPE OF REVIEW**

Consistent with FSCO's risk-based approach to regulation, the objectives were:

- determine if FSCO can rely on insurer attestations and questionnaires;
- assess compliance with the amended SABS and UDAP regulation and recommend regulatory action when warranted; and
- assess if there are acceptable SABS compliance and anti-fraud controls to indicate potential non-compliance with the SABS.

FSCO designed the questionnaire to determine if the responding company had adequate governance controls. This had to include documented policies and procedures for appropriate governance over SABS claims handling and compliance with legislative requirements. A company's risk of non-compliance with SABS requirements ranged from low risk to high risk and were defined as:

<b><i>Low Risk</i></b>	<ul style="list-style-type: none"><li>• well documented policies and procedures</li><li>• adequate monitoring systems and strong board/senior official oversight</li></ul>
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<b>Medium Risk</b>	<ul style="list-style-type: none"> <li>• written policies are adequate</li> <li>• monitoring is inadequate</li> <li>• not all procedures are documented</li> </ul>
<b>High Risk</b>	<ul style="list-style-type: none"> <li>• policies and procedures are inadequate</li> <li>• issues with statutory compliance</li> </ul>

A desk review of the questionnaires included assigning a risk assessment rating to each company's four governance areas. The risk rating for a governance area was then used to assign an overall preliminary risk rating to each company, as follows:

<b>Preliminary Risk Level</b>	<b>Total Number of Companies</b>
High Risk	0
Medium Risk	4
Low Risk	30
<b>Total</b>	<b>34</b>

FSCO selected a sample of 14 companies for further on-site reviews, based on the results of the desk reviews and other market conduct data. This included market share, number of SABS complaints, number of mediations, and the risk ratings from the 2005 SABS review. FSCO's initial objective in phase one was to visit companies rated as high risk and select a further sample rated as medium or low risk. As no high risk companies were identified and the majority were low risk, most companies selected for on-site reviews were in the low risk category. The reviews therefore took on a primary assurance assessment function: to ensure that FSCO could rely on the responses to the questionnaire and to observe best practices to assist in future on-site reviews. Three companies identified as medium risk were not visited in phase one. They have been designated for an on-site review in phase two, before FSCO assigns them a final risk rating level.

FSCO SCOs visited the offices of the sample companies and met with senior officials to review their responses and corresponding supporting documentation. The reviews confirmed that the responses were for the most part completed accurately and that risk rating levels assigned during the desk review stage were appropriate. Only a few changes to the responses resulted from observations and interviews during the reviews. These changes were made after discussion and concurrence from the companies and led to one company's preliminary risk rating decreasing from medium to low risk.

FSCO SCOs also evaluated each company's governance over its SABS claims handling through four key areas:

- development, documentation and content of SABS claims handling policies and procedures;
- existence of other controls, monitoring and management reporting of SABS claims handling;
- reliance on any independent review; and
- management of any SABS claims handling functions outsourced to third parties.



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It was also important for FSCO to assess the benefits companies have observed as a result of the automobile insurance reforms effective September 1, 2010 (not in questionnaire).

FSCO SCOs conducted on-site market conduct examinations in phase one, to assess the effectiveness of those controls and, where necessary, made recommendations for improvements or for further regulatory action. The examinations also included checking that claims handled as a servicing carrier for the Facility Association were treated with the same diligence and care as the company's own claims.

This process would also determine if changes were needed to the 2012 attestation and subsequent questionnaires in phases two, three and four.

## **5. SUMMARY OF OBSERVATIONS**

This aggregate report has been prepared using both the questionnaire responses and observations from on-site reviews. The results cover responses from 34 companies that write automobile insurance policies in Ontario. A high level summary of the key observations follows. The headings in the results match those in the questionnaire. The aggregate results for each question are in Appendix I.

The responses were rated as low, medium or high risk as follows:

<b>Risk Level</b>	<b>Insurers that had desired process or control in place</b>
Low	90 per cent or more
Medium	75 to 89 per cent or more
High	Less than 75 per cent

If the majority of the responses in a particular section were high, medium or low risk, the section was ranked accordingly, suggesting a corresponding risk of non-compliance with requirements under those sections.

### ***1) Development, Content and Approval of Policy***

There are two questions under "development of policy" that cover the existence, review for compliance, and approval of policies. There are eight questions under "content of policy" that cover the claims handling process, SABS compliance controls, SABS cost, fraud and abuse controls, and performance benchmarks.

#### ***Questionnaire Results***

All the companies have documented policies and procedures; most have also reviewed them for compliance with statutory requirements.

Some companies use a committee composed of operational managers, senior managers and senior executive management to develop and approve any changes to the policies and

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procedures. The majority of companies approve their policies and procedures at senior management level or higher.

Most of the companies have:

- demonstrated that the content of their policies and procedures sufficiently addresses the SABS requirements by covering areas such as confirming whether a claimant has accident benefits coverage, loss responsibility, fraudulent claims, timelines for payments, mediation, arbitration, disputes between insurers, and providing information and forms to claimants;
- established performance benchmarks that evaluate claims handling performance; and
- some documented procedures to protect personal information in accordance with *Personal Information Protection and Electronic Documents Act* (PIPEDA) requirements.

To ensure consistency with regulation, specifically for disputes between insurers, some companies reviewed policies for the applicable regulation and FSCO's website, and made the required amendments.

Despite varying practices around staff training and feedback, most companies have sufficient policies and procedures training to ensure that staff are handling SABS claims files in accordance with legislative requirements. All companies with documented policies and procedures have made them readily available to their claims staff.

Since most questions had responses in the low risk category, this section was rated low risk. However, within individual questions, the following issues were identified:

- companies documenting updates and amendments (82 per cent positive response);
- companies maintaining statistics for potential fraudulent or suspicious claims (71 per cent positive response); and
- companies analyzing and summarizing information from surveys, complaints or other feedback from claimants and employees (71 per cent positive response).

*On-site Reviews*

The on-site reviews validated FSCO's observations of the questionnaire results, as most of the companies had well documented SABS claims handling policies and procedures. The policies and procedures were in electronic format, dictated adherence to the SABS and UDAP regulation, and were updated to reflect the latest changes in the legislation effective September 2010.

However, two issues were noted as follows:

- policy approvals and approval dates were not clearly documented; and
- lack of statistics for potential fraudulent or suspicious claims.

FSCO has recommended appropriate corrective action.

*Recommendations*

As a best practice, FSCO recommends that companies make an added effort to document updates and amendments to their policies and procedures, with supporting records of review and approval dates.

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Companies should also maintain and regularly review statistics for potential fraudulent or suspicious claims to ensure that there are suitable indicators to identify such claims and to take appropriate action. In addition, companies should have a formalized process for exception reporting of potential fraudulent or suspicious claims.

Lastly, companies should implement a process whereby information from employee/customer surveys, complaints, or other feedback is analyzed for possible trends or pervasive issues which may require remedial action.

*Overall*

This section was rated as a low risk of non-compliance.

**2) Other Controls, Monitoring and Management Reporting**

There are 10 questions on compliance monitoring of open and closed claim files, comparison of actual results with performance benchmarks, standards to evaluate and monitor the efficiency and effectiveness of claims handling, monitoring changes in the SABS from recent auto insurance reform, management reporting, and a process to take corrective action for non-compliance.

*Questionnaire Results*

Most companies reported some form of controls over monitoring and management reporting to ensure compliance with SABS requirements.

Most companies have performance benchmarks to evaluate how efficiently staff handle claims. These benchmarks comply with SABS requirements at a minimum. A majority of the companies gather statistical information on claims handling for benchmark comparison. Some companies reported that the benchmark evaluation is done at the operational level on a regular basis through management reports that measure performance for key SABS related metrics and through annual reviews performed by an independent unit within the company.

Largely, companies also analyze and review open and closed claims. They look at adjuster case load levels, the length of time SABS claims files are open, claims staff experience, claims staff turnover, and overall claims staff performance. The majority of companies follow the same process and have the same review criteria when assessing compliance of open and closed claim files.

Some companies indicated they also monitor reserves, inactive files, files with a significant change in claim amount, files which have been open for more than 12 months, response time to key activities, and late payments.

With respect to monitoring the effectiveness of its SABS claims handling policies, the majority of companies indicated that employee, intermediary and consumer surveys are utilized, as well as arbitration and court decisions and internal audit reviews.

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Most companies indicated a process of reporting results to senior management level or higher on an annual or more frequent basis, and taking corrective action for non-compliance. However, FSCO observed that management monitoring and reporting on the recent SABS reforms was not adequate and did not sufficiently address changes such as the Minor Injury Guideline, assessment expenses, and specific benefits. FSCO considered this deficiency critical, which could have potentially resulted in a medium risk rating for this governance area.

Since the majority of responses were in the low risk category, this section had a final low risk rating. However, within individual questions, the following issues with respect to monitoring were identified:

- companies comparing actual results with performance benchmarks (88 per cent positive response);
- companies monitoring and reporting SABS changes from recent auto reforms
  - Minor Injury Guideline (82 per cent positive response);
  - \$2,000 limit on assessment expenses (62 per cent positive response); and
  - elimination of certain benefits such as housekeeping (82 per cent positive response).

*On-site Reviews*

The on-site reviews validated FSCO's observations of the results. Most companies had adequate controls, performance benchmarks, and a monitoring process to ensure compliance with SABS requirements and management reporting systems. Most companies also had processes to evaluate potential fraudulent or suspicious claims, and all companies had special investigations units to refer potential fraudulent or suspicious claims. However, the following three issues were noted:

- some specific SABS requirements were not always clearly documented in the compliance monitoring process, such as timelines, assessment expenses, insurer examinations, and disputes between insurers;
- monitoring and reporting on the Minor Injury Guideline and assessment expenses was not always performed by claims staff and management to ensure files do not exceed prescribed thresholds; and
- lack of statistical information in some cases, to compare actual results with performance benchmarks.

FSCO has recommended the companies take appropriate corrective action for the above issues.

*Recommendations*

FSCO recommends that statistical information on actual results be compared to benchmarks to ensure areas requiring improvement are appropriately flagged and addressed.

It is also highly recommended that companies monitor specific SABS and Dispute Between Insurers requirements including such as timelines, assessment expenses and insurer examinations. The companies should clearly document the SABS requirements and monitor them for compliance to ensure prescribed thresholds are not exceeded with respect to all claim files.

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Further, insurers should monitor and report to senior management the impact of specific SABS reforms and how this is influencing management of the company's open claims.

*Overall*

This section was rated as a low risk of non-compliance.

**3) Independent Review**

Three questions cover details of independent reviews conducted on the claims handling process, reports to management and corrective action plans.

*Questionnaire Results*

The majority of companies have some form of independent review of the claims handling process. While results varied between companies, the survey revealed that most companies used internal auditors, external consultants or supervisors to perform the reviews. Most companies included SABS compliance controls as well as SABS cost, fraud and abuse controls within the scope of the reviews.

Most companies ensured that results were reported to senior management level or higher, and have implemented the review recommendations.

Since the majority of responses were in the low risk category, this section was rated low risk. However, the following issue was identified within the individual questions:

- implementing the recommendations from the independent reviews and confirming through follow up reviews (82 per cent positive response).

*On-site Reviews*

The on-site reviews generally validated FSCO's observations of the results, as most companies had adequate independent reviews of the SABS claims handling process. The timing varied: quarterly, annually, and every three years. The scope generally included SABS compliance, fraud management and recent auto reforms. The review findings and recommendations were conveyed to claims management and remedial action plans were developed to address identified weaknesses. FSCO did not note any significant issues during the on-site reviews.

*Recommendations*

FSCO suggests that the recommendations or action plans from independent reviews be implemented in a timely manner. Follow-up reviews should be conducted to ensure recommendations or action plans have been appropriately applied.

*Overall*

This section was rated as a low risk of non-compliance.

**4) Outsourcing**

One question covers outsourcing SABS claims handling to third parties, including contractual arrangements and monitoring for compliance with company policies. Outsourcing has been

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categorized as a high risk function. However, FSCO noted that companies have mitigating controls to reduce the risk level from high to medium for this section.

*Questionnaire Results*

The majority of companies retained full claims file responsibility, but outsourced some functions to third parties. These are usually for specific task assignments such as investigations, mediations, initial meetings with claimants, assistance with claim forms/information gathering, and for special programs. Most companies that outsource have some form of outsourcing contract and monitoring to ensure adequate third party claims handling.

Since the majority of responses were in the medium risk category, this section was rated medium risk. The three issues within the individual questions were as follows:

- outsourcing functions documented in a written agreement or contract (76 per cent positive response);
- outsourcing contract requiring the provider to follow company policies (79 per cent positive response); and
- company monitoring the performance of outsourced functions for compliance with company policies (85 per cent positive response).

*On-site Reviews*

The on-site reviews generally validated FSCO's observations of the results. Most companies use outsourcing on a limited task basis although there was some full outsourcing of claims adjusting. Several companies that previously outsourced claims adjusting have discontinued the practice and brought this back in-house. Companies that outsource full claims adjusting have written agreements with the providers to ensure adherence to company policies. They monitor outsourcing performance for compliance with their policies through management and independent reviews. However, for companies that outsource SABS claims on a limited scale for specific tasks only, the following two issues were noted:

- a formal written agreement is not usually in place; and
- there is limited monitoring of performance of task-oriented outsourced functions.

FSCO has recommended that companies take appropriate corrective action for these issues.

*Recommendations*

FSCO strongly recommends that companies have written agreements with third party outsourcing companies, even if tasks are not considered material or are only limited or specific. Such agreements will encourage consistent application of company policies and procedures. Further, FSCO urges companies to monitor the performance of those outsourced functions and/or activities to ensure performance is consistent with their quality standards.

*Overall*

This section was rated as a medium risk of non-compliance.

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***5) Benefits Observed as a Result of Automobile Reforms***

This was not originally part of the SABS questionnaire, therefore a risk assessment was not performed. However, information was gathered during the on-site reviews to determine if companies were documenting the benefits and cost savings as a result of automobile insurance reforms effective September 1, 2010.

*On-site Reviews*

FSCO observed that approximately half the companies are monitoring cost containment of SABS claims costs and the improvement of overall financial results since the reforms, for management reporting purposes. However, several companies do not monitor at the operational level the benefits of the reforms, and thus the impact of the reforms could not be explicitly measured. Companies indicated that the majority of new claims fall within the Minor Injury Guideline, with percentages ranging between 60 per cent and 88 per cent; the majority being 75 per cent and above. Compared to pre-reforms, companies indicated that accident benefit loss cost per vehicle has experienced considerable improvement, though percentages varied significantly from 18 per cent to 68 per cent.

Due to the long term nature of the business, companies indicated that their experience is not necessarily indicative of what the ultimate results will be. FSCO noted a lack of consistency in the level, methods and time periods of monitoring.

*Recommendations*

FSCO recommends that companies consider monitoring the benefits resulting from the auto insurance reforms and the associated savings.

***Facility Association Business***

This was not originally part of the SABS questionnaire, therefore a risk assessment was not performed. However, information was gathered during the on-site reviews at servicing carriers to determine if claims handled as servicing carriers for the Facility Association (FA) are treated with the same due diligence and care as the companies' own claims.

*On-site Reviews*

Servicing carriers that were examined have the same standards and processes for FA claims as for regular business and perform the same review procedures for both. During compliance monitoring, companies made no distinction between claim files as regular market business or FA business.

Overall, company staff and management make no differentiation in claims handling, monitoring, oversight controls and independent audits between regular policyholders and FA policyholders.

***Preferred Health Care Networks***

As this was not part of the SABS questionnaire, a risk assessment was not performed. At least 64

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per cent of the companies visited were using such networks. FSCO therefore gathered some high level information on the use of preferred health care networks.

*On-site Reviews*

Some companies were in the process of establishing preferred health care networks for their claimants. Companies that have already established networks have set them up primarily for soft tissue injuries with approximately 10 per cent to 28 per cent of claimants using clinics within the network.

***Company Risk Ratings Summary***

After the on-site reviews, the following final risk rating levels were observed:

<b>Final Risk Level</b>	<b>Total No. of Companies</b>
High Risk	0
Medium Risk	3
Low Risk	31
<b>Total</b>	<b>34</b>

**6. CONCLUSIONS AND RECOMMENDATIONS**

Based on the selected sample, most companies writing automobile insurance business in Ontario have sufficient policies to ensure sound business practices of good governance over SABS claims handling.

The risk-based self-assessment questionnaire approach focusing on governance over SABS was a useful tool to evaluate the risk of non-compliance and to identify areas for improvement.

All companies should be able to use this approach to identify gaps or deficiencies in their SABS claims handling operations.

FSCO encourages insurers' Boards of Directors and senior management to benchmark themselves against the aggregate results in this report and implement the recommendations in each of the five areas. This would allow insurers to evaluate their own risk of non-compliance and to identify areas for improvement.

This risk-based approach focusing on governance, as opposed to a transaction audit approach, allowed FSCO to obtain a higher level of assurance regarding SABS compliance for automobile insurance companies.

FSCO is satisfied through the risk-based self-assessment questionnaire approach that company governance over SABS claims handling is at a fairly high standard. This review may promote similar standards of practice over all business lines in the industry, such as general claims handling.



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**APPENDICES**

I. Risk Ratings Summary of SABS Questionnaire Responses

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**PART 2 – Rate Verification Process**

**1. EXECUTIVE SUMMARY**

In January 2005 and in May 2007, FSCO sent a market conduct questionnaire to all automobile insurance companies in Ontario on rates, risk classification systems and underwriting rules, as part of a compliance risk assessment in the auto insurance sector.

Since then, FSCO has increased its oversight of automobile insurers, resulting in an expanded scope of risk-based activities that now includes:

- enhanced attestation from an officer with a rate or underwriting rule filing;
- annual filings of attestations by automobile insurers on the use of approved rates, risk classification systems and underwriting rules, which started in 2011; and
- on-site examinations on the use of approved rates starting in 2012.

To obtain additional assurance that companies are implementing only approved automobile insurance rates (rates), FSCO performed a review of the rate verification process in conjunction with on-site SABS examinations in 2012. FSCO reviewed six key governance areas: policies and procedures, manual adjustments, rate changes, independent audits, identification and process over rating errors, and discrepancies between quoted and issued premiums. FSCO also randomly sampled policies to validate that only approved rates are being applied at the transaction level.

In 2013, FSCO will deploy an updated questionnaire on implementing approved auto insurance rates, risk classifications systems, and underwriting rules in conjunction with the SABS questionnaire. This is phase two of the SABS and rate verification process review, currently underway in four phases over a span of four years. In 2012, FSCO deployed the first phase and conducted on-site reviews of 14 companies which represented approximately 46 per cent of the Ontario private passenger automobile market share. A risk-based approach was used to select the companies. Findings and recommendations regarding the rate verification process areas reviewed are provided later in this report.

In summary, in phase one FSCO found that on-site visits were a useful and efficient exercise. It identified higher risk non-compliance areas and gained assurances that companies have policies and procedures over their approved rate verification processes, to ensure compliance with regulatory requirements. However, insurers need to enhance their governance practices to address identified risks.

This indicates the need for an updated risk-based market conduct self-assessment questionnaire to be deployed by FSCO in phase two, scheduled for 2013. It will help identify individual companies with a higher risk of non-compliance and provide more accurate industry wide conclusions.

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## **2. BACKGROUND**

FSCO is responsible for regulating the market conduct of insurance companies doing business in Ontario. The legislation prescribes the rules of conduct for automobile insurance businesses in Ontario, specifically to file their rates and have them approved by FSCO.

In May 2007, FSCO sent all automobile insurance companies in Ontario a market conduct questionnaire on implementing approved auto insurance rates, risk classification systems and underwriting rules. It was part of FSCO's continued assessment of compliance risk in the auto insurance sector, after the initial assessment of insurer practices that was conducted in 2005.

The objectives of the 2007 questionnaire were to:

- establish a common benchmark on insurer practices and procedures to implement approved automobile insurance rates, risk classification systems (RCS) and underwriting rules; and
- survey insurers' status of compliance and risk management systems to appropriately identify, manage and respond to compliance risks.

FSCO met with the Insurance Bureau of Canada's Ontario Committee and FSCO's Rating and Underwriting Technical Advisory Committee (RUTAC) before issuing the 2007 questionnaire, for industry awareness and input. FSCO provided them with a presentation of its findings in the latter half of 2007.

Insurers expressed interest in the questionnaire findings. Since individual responses contained confidential information on trade secrets, commercial, technical or financial information, FSCO prepared a report summarizing the results at an aggregate level. It showed a strong indication of an appropriate risk management culture at all insurers. Examples of best practices were provided for insurers looking to improve their existing compliance and risk management systems. Key areas that required continued vigilance from insurers and FSCO were also identified.

Since then, FSCO has increased its oversight of automobile insurers. The current scope of risk-based activities now includes the annual filing of attestations by all companies and on-site examinations comprising a review of six key governance areas as well as policy sampling at the transactional level.

To enhance its risk-based governance approach, FSCO will deploy an updated market conduct questionnaire on the approved rate verification process in conjunction with the SABS questionnaire. Companies will have to provide responses on implementing approved auto insurance rates, risk classifications systems and underwriting rules to automobile insurers in Ontario starting in 2013.

## **3. FSCO'S REVIEW**

FSCO's approved rate verification review was conducted in conjunction with the SABS controls review. The 2012 review was phase one of four, over a four year cycle.

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In June 2012, FSCO deployed the first phase and conducted on-site reviews of 14 companies. It represented approximately 46 per cent of the Ontario private passenger automobile market share. During this review, FSCO Senior Compliance Officers (SCOs) evaluated each company's governance over its rate verification process by looking at six key governance areas: policies and procedures, manual adjustments, rate changes, independent audits, identification and process over rating errors, and discrepancies between quoted and issued premiums. FSCO also randomly sampled policies to ensure only approved rates were being applied.

Risk rating levels were not assigned to each of the key governance areas and there was no overall risk rating level assigned for the company as a whole in phase one, as there was no formal questionnaire sent to insurers in 2012.

Each company received the on-site review results which contained a summary of findings FSCO observed during visits, and corresponding recommendations.

The reviews were not to approve or endorse insurers' policies but intended to assess if they had processes to verify or obtain assurance that they charge only FSCO approved rates.

In phase two, starting in 2013, FSCO will enhance its risk-based governance approach by deploying an updated questionnaire on implementing approved auto insurance rates, risk classifications systems and underwriting rules to automobile insurers. Eventually, over a four-year cycle consistent with the SABS questionnaire, the majority of automobile insurers in Ontario will be required to complete the rate verification questionnaire. FSCO will select insurers for follow-up on-site examinations to verify the information in their responses and to review their controls.

The annual attestation process for SABS controls which started in 2011 was updated in 2012, to include underwriting rules, rates, and risk classification systems. This was to demonstrate FSCO's commitment to establish processes for verifying that insurers only charge approved rates. The annual attestation process reinforces the need for automobile insurers to ensure that they charge only FSCO approved rates. In addition, the cover letter to the 2012 attestation states that FSCO also requires additional assurance on the use of approved rates as part of the on-site examinations currently underway for SABS controls. The 2012 attestation had to be signed by the President, CEO or most senior officer responsible for the insurer's operations in Ontario, and the signed original was required to be returned to FSCO by October 15, 2012.

#### **4. RISK RATING LEVELS AND SCOPE OF REVIEW**

Consistent with FSCO's risk-based approach to regulation, the objectives were to:

- assess compliance with the *Insurance Act* and the *Automobile Insurance Rate Stabilization Act, 2003* regarding the use of FSCO approved rates and recommend regulatory action if warranted; and
- assess if the insurer has acceptable rate verification controls which serve as an indicator of potential non-compliance with the *Insurance Act*.

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FSCO designed an examination program to determine whether the companies visited in 2012 had adequate governance controls over their approved rate verification process. FSCO evaluated each company's governance over the process by looking at six key governance areas:

- development and documentation of a company's policies and procedures over rate verification including the content of those policies and procedures;
- the process over manual adjustments to premiums including controls and monitoring to ensure compliance with approved rates;
- the rate change process including pre- and post-rate implementation controls;
- the reliance on any independent review;
- the process over identifying and addressing rating errors; and
- monitoring of discrepancies between quoted and issued premiums.

It also reviewed policy samples for new and renewal business to confirm that rates charged match with the rates filed with and approved by FSCO.

During the SABS review, 14 companies were selected for on-site reviews. The selection was based on the desk review results and other market conduct data including market share, number of SABS complaints, number of mediations, and the risk ratings from the 2005 SABS review. On-site rate verification reviews were combined with the SABS review.

FSCO SCOs visited the offices of the 14 companies and met with senior officials to review the governance areas over the rate verification process.

In phase one, SCOs conducted on-site market conduct examinations to assess the effectiveness of rate verification controls and where necessary, made recommendations for control improvements or for further regulatory action.

This process also helped determine the changes that were needed to the 2012 attestation and to subsequent questionnaires in phases two, three and four.

## **5. SUMMARY OF OBSERVATIONS**

This aggregate report is based on observations and information obtained during the on-site reviews of the 14 companies, all of which write automobile insurance in Ontario. A high level summary of the key observations for the six governance areas follows.

Risk rating levels were not assigned to these governance areas and there was no overall risk rating level assigned for companies as a whole in phase one, as a formal questionnaire was not sent in 2012. FSCO plans to deploy a questionnaire on implementing approved auto insurance rates, risk classification systems and underwriting rules starting in 2013.

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***1) Development, Content and Approval of Policy***

All the companies provided written rate verification policies and procedures to ensure that only approved auto rates and risk classifications systems are used.

All the companies have demonstrated that the content of their policies and procedures sufficiently addresses legislative requirements, by documenting that auto rates need to be filed with and approved by FSCO. However, 50 per cent of the companies did not have clear documentation of preparation dates, policy approvals and updates.

FSCO has recommended that individual companies take appropriate corrective action for identified issues.

*Risk Identified*

There may be an increased risk of non-compliance if policies and procedures are not kept up to date and/or there is no management approval.

*Recommendations*

As a best practice, FSCO recommends that companies document updates and amendments to their policies and procedures. Company officials should clearly document the approval process for these updates.

***2) Manual Adjustments***

All companies indicated their ability to manually adjust premiums on their computers. While an unusual event would trigger a manual adjustment, most companies would require, at a minimum, an underwriting manager's approval.

Twenty-nine per cent indicated an audit trail was not being maintained for manually adjusted rates. Given the higher risk associated with manual adjustments, review procedures were not as robust as FSCO would expect for compliance with approved rates.

FSCO has recommended that companies take appropriate corrective action for identified issues.

*Risk Identified*

There may be an increased risk of non-compliance if an audit trail is not maintained for manually adjusted rates and if the adjustments are not appropriately reviewed by management at a suitable level.

*Recommendations*

As a best practice, FSCO recommends that companies be diligent in ensuring that manual intervention occurs only to comply with approved rates, an appropriate audit trail is maintained, and management performs more thorough reviews and approves the adjustments.

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### **3) Rate Changes**

All companies had well documented policies and procedures that dictate the process of a rate change. Each company also maintained detailed documentation regarding the most recent rate change to demonstrate the process, controls and review procedures when a rate change occurs. Most companies had a number of pre-rate implementation controls that included documenting the rate filing implementation process (usually flow-charted), rate change checklists, involvement of the pricing actuary, the systems department and IT support, details of policies tested, and specialized target sampling of new changes.

However, the following observations were made:

- pre-rate implementation controls of 29 per cent did not include a formalized policy sampling protocol;
- 50 per cent did not have post-rate implementation controls that include live sampling of policies issued immediately after rate changes are made;
- 79 per cent that conducted live sampling of policies after a rate change (during the post-implementation phase), did not have a formalized sampling protocol; and
- 43 per cent did not have independent testing of their underwriting systems to ensure they were operating without data integrity issues.

FSCO has recommended companies take appropriate corrective action for identified issues.

#### *Risks Identified*

There may be increased risks of non-compliance if pre- and post-rate implementation controls do not include a formalized policy sampling protocol and if underwriting systems are not independently tested.

#### *Recommendations*

As a best practice, FSCO recommends that companies ensure there are adequate pre- and post-rate implementation controls that include a formalized policy sampling protocol. In addition, companies should consider having independent testing on their underwriting systems to ensure they are operating correctly with no data integrity concerns.

### **4) Independent Audits**

Most companies had an internal or external independent audit process confirming the verification of approved auto rates. However, for 43 per cent of the companies, the audit did not include any testing on the underwriting systems or rating models. Also, only 57 per cent had regular or annual independent audits while 35 per cent had independent audits every two years. In most cases, management addressed any issues raised by the audits.

FSCO has recommended companies take appropriate corrective action for identified issues.

#### *Risks Identified*

There may be increased risks of non-compliance if independent audits are not conducted at least annually and if the scope of the review does not include any testing of systems or rating models.

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*Recommendations*

As a best practice, FSCO recommends that companies prepare for the upcoming FSCO requirement that insurers have an independent audit process. Also, companies should consider expanding the scope of independent audits to include underwriting systems and rating models to test they are operating correctly with no data integrity concerns.

**5) Identification and Process over Rating Errors**

Most companies had an inquiry management process to identify potential rating errors during the review of complaints and inquiries. They used it to identify compliance risks or rating errors promptly, and to remedy any issues of non-compliance. However, it was observed that 14 per cent of the companies did not have such a process in place. Also, 64 per cent did not have a formalized process or protocol that would require FSCO to be notified of any rating errors.

FSCO has recommended companies take appropriate corrective action for identified issues.

*Risks Identified*

There may be an increased risk of rating errors or non-compliance if companies do not have an effective inquiry and complaint management process to identify rating errors. This would hinder companies from reporting these results on an aggregate basis, and prevent analysis/observation of common issues or trends of inquiries and complaints. Also, there is an increased risk of prolonged rating errors or non-compliance if companies do not notify FSCO of all rating errors.

*Recommendations*

As a best practice, FSCO recommends that companies ensure they have effective inquiry and complaint management processes to identify compliance risks or rating errors immediately, to allow for prompt remedy of any non-compliance issues. Companies should have a formalized documented procedure to notify FSCO of any rating errors in a timely manner.

**6) Monitoring of Discrepancies Between Quoted and Issued Premiums**

Seventy-one per cent of the companies have a process in place to monitor discrepancies between quoted and issued premiums. In most companies this occurs when potential consumers provide inaccurate information at the time of the quote, or additional/new information arises before a new policy is issued.

Approximately 57 per cent of the companies use a third party quoting service to provide quotes while others use their own websites for quoting purposes. Fourteen per cent did not test the accuracy of the rates used by a third party quoting service. Lastly, 7 per cent advised of delays in providing rate updates to their internet quoting services.

For discrepancies between quoted and issued premiums, approximately 21 per cent did not provide written explanations to agents, brokers or policyholders.

FSCO has recommended companies take appropriate corrective action for identified issues.



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*Risks Identified*

Given that 29 per cent of the companies did not monitor discrepancies between quoted and issued premiums, there may be an increased risk of rating errors or non-compliance. In keeping with the principle of treating customers fairly, there is also the increased risk that agents, brokers or policyholders will not receive appropriate explanations for discrepancies.

In particular, since not all companies tested the accuracy of rates used by third party quoting services, there is an elevated risk of rating errors. Further, when a third party quoting service is utilized, there is a risk that the company's underwriting rules may not be followed or applied correctly when quotes are issued to consumers.

*Recommendations*

As a best practice, FSCO recommends that companies:

- monitor discrepancies between quoted and issued premiums;
- test for the accuracy of rates used by third party quoting services;
- review website quoting practices; and
- provide agents, brokers or policyholders with written explanations for any differences between quoted and issued rates.

***Review of Policy Samples For New and Renewal Business***

FSCO obtained a random sample of new and renewal private passenger auto insurance policies from all the companies visited. FSCO senior rate analysts reviewed these policies to determine if the rates charged were in accordance with the rates filed with and approved by FSCO, and then followed up on discrepancies resulting from the review.

**6. CONCLUSIONS AND RECOMMENDATIONS**

The on-site visits to insurers focusing on governance over their rate verification processes was a useful exercise in identifying areas for improvement to address identified risks.

In summary, in phase one, FSCO found that the on-site visits to insurers were valuable in identifying higher risk areas of non-compliance. It provided assurances that companies have policies and procedures over their approved rate verification processes to ensure compliance with regulatory requirements. However, insurers need to enhance their governance practices to address identified risks.

In spite of these controls and the expectation of a reduced non-compliance risk, some companies continue to report rating errors to FSCO. It is unclear at this point if the nature of self-reported errors is a result of earlier detection and effective compliance systems. FSCO's future questionnaires will be structured to assess this issue.

Key risk areas identified in this report will require continued vigilance from insurers and FSCO.

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The 2012 on-site visits indicate the need for an updated, risk-based market conduct self-assessment questionnaire on the approved rate verification process. FSCO will deploy this in phase two, scheduled for 2013. It will identify individual companies with a higher risk of non-compliance and provide more accurate, industry-wide conclusions.






FSCO encourages insurers' Boards of Directors and senior management to review this report and the recommendations made within each of the governance areas. This will allow them to evaluate their own risk of non-compliance and identify areas for improvement to ensure good governance and sound business practices for their rate verification processes.




FSCO appreciates the cooperation from insurers and their active interest in working with the regulator on risk-based compliance initiatives.

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**APPENDIX I  
 RISK RATINGS SUMMARY OF SABS QUESTIONNAIRE RESPONSES**













The table below provides risk ratings for each section of the questionnaire  
 (Risk ratings for each question are on the next page)

QUESTIONNAIRE SECTIONS	RISK RATING	
<b>Development of Policy</b>	Low	
<b>Content of Policy</b>	Low	
<b>Other Controls, Monitoring and Management Reporting</b>	Low	
<b>Independent Review</b>	Low	
<b>Outsourcing</b>	Medium	
<b>Comments</b>	N/A	
















Risk Ratings Definitions:		
<ul style="list-style-type: none"> <li>Low Risk – 90 per cent or more of insurers had a positive response</li> </ul>	Low Risk	
<ul style="list-style-type: none"> <li>Medium Risk – between 75 and 89 per cent of insurers had a positive response</li> </ul>	Medium Risk	
<ul style="list-style-type: none"> <li>High Risk – less than 75 per cent of insurers had a positive response</li> </ul>	High Risk	

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
The table below provides risk ratings for each question.

Questions	Number (Percentage)	Risk Ratings	
<b>DEVELOPMENT OF POLICY</b>			
<b>Question 3</b>			
a) Are there documented SABS claims handling <i>policies</i> in place?	34 (100%)	Low	
b) Have the SABS <i>policies</i> been reviewed for compliance with statutory requirements and Superintendent's Guidelines?	34 (100%)	Low	
c) Were these <i>policies</i> reviewed with reference to FSCO's Bulletins?	34 (100%)	Low	
d) Were these <i>policies</i> reviewed with reference to the UDAP Regulation applicable to the adjustment and handling of SABS claims?	34 (100%)	Low	
<b>Question 4</b>			
a) What position or committee in the company approved the SABS claims handling <i>policies</i> ?	Not Applicable: Open-ended Question		
b) Were the <i>policies</i> reviewed subsequent to the latest changes in the Regulations governing SABS and UDAP effective September 1, 2010?	33 (97%)	Low	
c) When were the <i>policies</i> last reviewed (specify date)?	Not Applicable: Open-ended Question		
d) Was the review documented?	33 (97%)	Low	
e) Were the <i>policies</i> amended as necessary?	34 (100%)	Low	
f) What date were the <i>policies</i> amended?	Not Applicable: Open-ended Question		
g) Was the amendment or update documented?	28 (82%)	Medium	
<b>CONTENT OF POLICY</b>			
<b>Question 5</b>			
Do the SABS claims handling <i>policies</i> define a process for:			
a) Confirmation of coverage?	34 (100%)	Low	
b) Establishing responsibility for the loss?	33 (97%)	Low	
c) Identification of potential fraudulent or suspicious claims?	33 (97%)	Low	
d) Ensuring that appropriate reserves are set up by coverage line/claim code?	34 (100%)	Low	
<b>Question 6</b>			
Have the SABS claims handling <i>policies</i> been reviewed to ensure that they are consistent with SABS requirements regarding:			














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Questions	Number (Percentage)	Risk Ratings	
a) Information that a claimant should receive on notice of intention to apply for benefits?	33 (97%)	Low	
If <b>Yes</b> , does this include election of benefits?	32 (94%)	Low	
b) Information that a claimant should receive when a benefit is first paid or the amount of a benefit is subsequently changed?	33 (97%)	Low	
If <b>Yes</b> , does this include an explanation how the amount of the benefit was determined and the delivery of benefit statements to the insured?	33 (97%)	Low	
c) Information that a claimant should receive when a claim is refused, reduced or stopped?	33 (97%)	Low	
(i) If <b>Yes</b> , does this include an explanation of the right to dispute the company's decision?	33 (97%)	Low	
(ii) If <b>Yes</b> , does the company use the approved SABS claim forms for this information where required by the SABS?	33 (97%)	Low	
d) Timelines for:			
(i) Providing information required?	33 (97%)	Low	
(ii) Acknowledgment of receipt of claims documentation from the claimant?	33 (97%)	Low	
(iii) Payment of benefits?	33 (97%)	Low	
e) Procedures for a claimant's appeal process?	33 (97%)	Low	
(i) If <b>Yes</b> , is there a procedure for informing claimants of the appeal process?	33 (97%)	Low	
f) Procedures for insurer examinations?	33 (97%)	Low	
<b>Question 7</b>			
Do the SABS claims handling <i>policies</i> define internal performance benchmarks, standards or other measurable performance expectations set by the company for the evaluation of how efficiently SABS claims are handled?	31 (91%)	Low	
<b>Question 8</b>			
(i) Do the SABS claims handling <i>policies</i> have compliance controls in connection with the adjustment and handling of SABS claims and provisions for the prevention of UDAPs (collectively referred to as "SABS Compliance Controls")?	32 (94%)	Low	







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Questions	Number (Percentage)	Risk Ratings	
If <b>Yes</b> , provide details of the SABS compliance controls.	Not Applicable: Open-ended Question		
(ii) Do the SABS claims handling <i>policies</i> have claim cost controls including those intended to address fraud and abuse in connection with the adjustment and handling of SABS claims and the provisions of the UDAP Regulation (collectively referred to as “SABS Cost, Fraud and Abuse Controls”)?	32 (94%)	Low	
<b>If Yes:</b>			
a) Is there an escalation procedure for dealing with suspected fraud or suspicious claims?	33 (97%)	Low	
b) Is there a Special Investigations Unit to deal with suspected fraud or suspicious claims?	31 (91%)	Low	
c) Do the <i>policies</i> cover the use of outside investigators?	33 (97%)	Low	
d) Does the company participate in a process where information is shared within the industry for questionable claims?	30 (88%)	Medium	
e) Does the company maintain statistics for potential fraudulent or suspicious claims?	24 (71%)	High	
f) Does the company have a process to ensure that potential fraudulent or suspicious claims are handled efficiently?	32 (94%)	Low	
g) Do the <i>policies</i> include verification procedures for costs incurred by the claimant?	33 (97%)	Low	
h) Other procedures, methods or tools used for identifying potential fraudulent or suspicious claims:			
(i) Analysis?	30 (88%)	Medium	
(ii) Exception Reporting?	24 (71%)	High	
(iii) Other (Please specify)?	32 (94%)	Low	
<b>Question 9</b>			
Do the SABS claims handling <i>policies</i> have a SABS complaint handling protocol?	33 (97%)	Low	
(i) If <b>Yes</b> , does the complaint protocol specify in which cases claims should be:			
a) Reassigned to or reviewed by a supervisor, manager or more senior person?	33 (97%)	Low	
b) Referred to company ombudsman or similar position?	33 (97%)	Low	
c) Referred to outside consultants?	22 (64%)	High	

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











Questions	Number (Percentage)	Risk Ratings	
(ii) If <b>Yes</b> , does the complaint protocol require:			
d) Regular reviews and updates of the protocol to ensure best practices are maintained?	29 (85%)	Medium	
e) All complaints to be documented and/or maintained in a register?	32 (94%)	Low	
If <b>Yes</b> , is the register maintained in paper or electronic form?	Not Applicable: Open-ended Question		
<b>Question 10</b>			
Are the SABS claims handling <i>policies</i> consistent with the regulatory requirements for:			
a) Mediation of disputes?	33 (97%)	Low	
b) Arbitration of disputes?	33 (97%)	Low	
c) Disputes between insurers? If <b>Yes</b> , how do you ensure that your policies are consistent with the Regulation?	33 (97%)	Low	
<b>Question 11</b>			
a) Do the SABS claims handling <i>policies</i> cover handling of <i>personal information</i> in accordance with the Personal Information Protection and Electronic Documents Act (PIPEDA)?	33 (97%)	Low	
b) Are they linked to your company's Privacy Code and does the code conform to PIPEDA?	33 (97%)	Low	
c) Are there processes in place to ensure that the company is in compliance with the requirements of PIPEDA?	33 (97%)	Low	
d) Is there a Privacy Officer or another person who is responsible for ensuring that the <i>policies</i> are in accordance with PIPEDA?  If <b>Yes</b> , specify name and title	33 (97%)  N/A	Low	
e) When was this part of the Privacy Code last reviewed?	Not Applicable: Open-ended Question		
f) Was the review documented?	32 (94%)	Low	
<b>Question 12</b>			
Do the SABS claims handling <i>policies</i> require:			
a) Claims handling staff be formally trained in handling SABS claims?	32 (94%)	Low	
b) A process to advise and train all appropriate areas within the company of all pertinent legislative changes to SABS and UDAP?	33 (97%)	Low	
c) A process to advise and train staff on new Superintendent Guidelines and FSCO	33 (97%)	Low	

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



Questions	Number (Percentage)	Risk Ratings	
Bulletins related to SABS and UDAP?			
d) The <i>policies</i> be reviewed periodically to make changes in practices based on the results of complaints, complaint handling surveys, or other feedback from claimants?	30 (88%)	Medium	
e) The <i>policies</i> be reviewed periodically taking into account information derived from the internal claims handling process and employee feedback?	31 (91%)	Low	
f) Information be summarized and analyzed from surveys, complaints or other feedback from claimants and employees?	24 (71%)	High	
<b>OTHER CONTROLS, MONITORING AND MANAGEMENT REPORTING</b>			
<b>Question 13</b>			
a) If the company has established performance benchmarks, as referred to in Question 7, for the evaluation of how efficiently SABS claims are handled, please provide details.	Not Applicable: Open-ended Question		
b) If the company has a process as referred to in Question 8, for the evaluation of how efficiently potential fraudulent or suspicious claims are handled, please provide details.	Not Applicable: Open-ended Question		
c) Do these benchmarks in (a) above correspond/comply with SABS and UDAP requirements as a minimum? If <b>No</b> , why not?	32 (94%) N/A	Low	
d) Is appropriate statistical information gathered to allow comparison of actual results with performance benchmarks?	30 (88%)	Medium	
e) What position is responsible for reviewing the results? <input type="checkbox"/> senior claims executive <input type="checkbox"/> senior claims manager <input type="checkbox"/> a committee (Please specify, and if board or non-board) <input type="checkbox"/> other (Please specify)	Not Applicable: Open-ended Question		
f) Are the company's results within its established benchmarks? If <b>No</b> , provide details on corrective actions taken.	29 (85%) N/A	Medium	
<b>Question 14</b>			



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Questions	Number (Percentage)	Risk Ratings	
Is there a process in place to monitor outstanding claims to determine whether open SABS claims are being adjusted in accordance with statutory requirements?	34 (100%)	Low	
If <b>Yes</b> , please provide details.	Not Applicable: Open-ended Question		
<b>If Yes:</b> Does the company use this process to monitor:			
(i) Adjusters' caseloads?	34 (100%)	Low	
(ii) The length of time SABS claims files are open?	33 (97%)	Low	
(iii) Arbitration and court decisions?	32 (94%)	Low	
(iv) Other (Please specify)?	19 (56%)	High	
<b>Question 15</b> Has the company established standards/procedures to deal with the efficient handling of SABS claims relating to the following:			
a) Experience required by SABS adjusters?	34 (100%)	Low	
b) Training required by SABS adjusters?	34 (100%)	Low	
c) The number of files which could be capably handled by an adjuster?	34 (100%)	Low	
d) Turnover of staff adjusters?	33 (97%)	Low	
e) Short term help?	33 (97%)	Low	
f) Consistent standards/procedures at branch offices?	29 (85%)	Medium	
g) Verifying costs incurred by the claimant?	33 (97%)	Low	
h) Outsourcing?	31 (91%)	Low	
<b>Question 16</b>			
Is there a process in place to monitor closed claims to determine whether the SABS claims were adjusted in accordance with statutory requirements?	31 (91%)	Low	
If <b>Yes</b> , please provide details.	N/A		
<b>If Yes:</b>			
a) By whom?	Not Applicable: Open-ended Question		
b) How often?	Not Applicable: Open-ended Question		
c) When was last review?	Not Applicable: Open-ended Question		
d) Does the process include a review and analysis of claims paid in excess of statutory timelines?	31 (91%)	Low	
<b>Question 17</b>			
a) Are the SABS claims handling <i>policies</i> made readily available to all individuals handling claims?	34 (100%)	Low	














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Questions	Number (Percentage)	Risk Ratings	
b) How are they made available (e.g., manuals, memoranda, bulletins, etc., in paper form or electronically)?	Not Applicable: Open-ended Question		
<b>Question 18</b>			
What position has operational responsibility for ensuring that the SABS claims handling <i>policies</i> are followed?	Not Applicable: Open-ended Question		
<input type="checkbox"/> senior claims executive <input type="checkbox"/> senior claims manager <input type="checkbox"/> a committee (Please specify and if board or non-board) <input type="checkbox"/> other (Please specify)	Not Applicable: Open-ended Question		
<b>Question 19</b>			
a) Does the company have a process in place to monitor the effectiveness of its SABS claims handling <i>policies</i> ?	33 (97%)	Low	
If <b>Yes</b> , what methods or tools does the company use to assess the quality of its SABS claims handling <i>policies</i> :			
(i) Past results?	33 (97%)	Low	
(ii) Employee feedback?	32 (94%)	Low	
(iii) Arbitration decisions?	33 (97%)	Low	
(iv) Consumer complaints?	32 (94%)	Low	
(v) Consumer satisfaction surveys	23 (68%)	High	
(vi) Other (Please specify)?	24 (71%)	High	
b) Does the company have a process in place to monitor the effectiveness of changes to its SABS claims handling policies and modifications to compliance monitoring systems as a result of new SABS requirements introduced through regulatory change or the issuance of FSCO guidelines or bulletins?	33 (97%)	Low	
<b>Question 20</b>	31 (91%)	Low	
Are reports prepared of the monitoring findings?	Not Applicable: Open-ended Question		
If <b>Yes</b> , who are the reports provided to?	Not Applicable: Open-ended Question		
<input type="checkbox"/> the board of directors <input type="checkbox"/> a committee (Please specify and if board or non-board)	Not Applicable: Open-ended Question		

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Questions	Number (Percentage)	Risk Ratings	
<input type="checkbox"/> a senior executive of the company <input type="checkbox"/> a senior management group <input type="checkbox"/> other (Please specify)			
If <b>Yes</b> , what areas are covered (provide brief comments on topics)?	Not Applicable: Open-ended Question		
If <b>Yes</b> , do the reports monitor the changes in the SABS and report on the impact of recent reforms, including: (i) Changes to the minor injury guideline? (ii) Introduction of the \$2,000 limit on assessment expenses? (iii) Elimination of certain benefits such as housekeeping? (iv) Other (Please specify)?	28 (82%) 21 (62%) 28 (82%) 19 (56%)	Medium High Medium High	   
<b>Question 21</b>			
If <b>Yes</b> to question 20, how often does the company prepare such reports? <input type="checkbox"/> twice or more a year <input type="checkbox"/> annually <input type="checkbox"/> other (Please specify)	Not Applicable: Open-ended Question		
If <b>Yes</b> to question 20, what was the date of the last report?	Not Applicable: Open-ended Question		
<b>Question 22</b>			
Is there a process to take corrective action where there has been non-compliance with the SABS claims handling policies or with statutory requirements?  If <b>Yes</b> , briefly describe the process and who is responsible for ensuring that the necessary changes have been implemented.	34 (100%)  N/A	Low	
<b>INDEPENDENT REVIEW</b>			
<b>Question 23</b>			
Is an <i>independent review</i> of the SABS claims handling processes conducted periodically? a) If <b>Yes</b> , by whom: (i) Internal audit? (ii) Supervisory reviews? (iii) Other (e.g., external consultants, auditors)? b) If <b>Yes</b> , when and by whom were the last two reviews conducted (Please provide names and dates)?	33 (97%)       28 (82%) 29 (85%) 22 (64%)	Low       Medium Medium High	         
	Not Applicable: Open-ended Question		

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Questions	Number (Percentage)	Risk Ratings	
c) If <b>Yes</b> , does this include a review of SABS Compliance Controls as well as SABS Cost, Fraud and Abuse Controls? If <b>No</b> , please explain why?	31 (91%) N/A	Low	
<b>Question 24</b>			
Are the results of this <i>independent review</i> reported? If <b>Yes</b> , to which positions or committees are the reports provided?	33 (97%) N/A	Low	
<b>Question 25</b>			
a) Did any recommendations emanate from the:			
(i) Independent review?	28 (82%)	Medium	
(ii) Supervisory reviews?	28 (82%)	Medium	
(iii) Other (Please specify)?	13 (38%)	High	
b) If <b>Yes</b> , have the recommendations been implemented? If the recommendations have not been implemented, please explain why?	28 (82%) N/A	Medium	
c) Was there any follow up to confirm that the review recommendations have been implemented? If <b>No</b> , please explain why?	28 (82%) N/A	Medium	
d) Has a follow up review been scheduled? If <b>Yes</b> , when?	27 (79%) N/A	Medium	
<b>OUTSOURCING</b>			
<b>Question 26</b>			
Does the company <i>outsource</i> any of its SABS claims handling to third parties?	32 (94%)	High	
<b>If Yes:</b>			
a) Which functions are outsourced?	Not Applicable: Open-ended Question		
b) Are the outsourced functions documented in a written agreement or contract?	26 (76%)	Medium	
c) Does the <i>outsourcing</i> contract require the provider to follow the company's <i>policies</i> ?	27 (79%)	Medium	
d) Does the company monitor the performance of the outsourced functions for compliance with company's <i>policies</i> ?	29 (85%)	Medium	
<b>If Yes:</b>			
(i) How often?	Not Applicable: Open-ended Question		
(ii) When was it last done?	Not Applicable: Open-ended Question		
(iii) Was a report prepared?	26 (76%)	Medium	
(iv) What were the findings?	Not Applicable: Open-ended Question		

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Questions	Number (Percentage)	Risk Ratings	
(v) If applicable, how were the issues dealt with?	Not Applicable: Open-ended Question		
<b>COMMENTS</b>			
<b>Question 27</b>			
Is the company planning any other significant changes in its SABS claims handling processes?	16 (47%)		N/A
If <b>Yes</b> , please provide details with associated timelines.	Not Applicable: Open-ended Question		
<b>Question 28</b>			
How does the company evaluate its own performance regarding SABS claims (e.g., expected vs. actual results)?	Not Applicable: Open-ended Question		
<b>Question 29</b> Any other general comments not listed above?	Not Applicable: Open-ended Question		