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Mr. Willie Handler
Senior Manager, Automobile Insurance Policy Unit
Financial Services Commission of Ontario
5160 Yonge St
15th Floor, Box 85
Toronto, ON M2N 6L9

Dear Mr. Handler:

On behalf of the Allstate Canada Group of Companies (ACG), which includes Allstate Insurance Company of Canada, Pembroke Insurance Company and Pafco Insurance Company, ACG appreciates the opportunity to provide input and recommendations for consideration as part of the review of the *Insurance Act*. ACG is committed to ensuring that consumers have access to affordable products in a stable marketplace. It is our position that if the following recommendations were implemented it would improve and enhance the efficiency of the automobile insurance system in Ontario and consumers and insurers would continue to benefit from a competitive and stable marketplace.

The review of Part VI of the *Insurance Act* currently underway is very timely because the leading indicators, namely claim costs, strongly suggest that the market has become increasingly unstable. The industry has been working diligently since the last round of reforms to keep costs in check in order to maintain a healthy, stable and competitive marketplace for Ontario consumers, however, the recent escalation in costs can no longer be afforded at current rate levels.

In the early period following the last round of reforms, companies were able to reduce rates for consumers as a result of cost containments from the reforms, as well as historically unprecedented low claims frequency. Unfortunately, that is no longer the situation. For example, since 2005, ACG's loss ratio has increased by **15.5%**. The two most important factors that have contributed to this increase are medical and disability costs which have risen a staggering **55.5%** for medical costs, and **29.2%** for disability in the same period. These substantial increases are unsustainable today and into the future. It is ACG's submission that rates will need to increase substantially in the next months unless immediate steps are taken to stem the significant rise in costs within the system that have occurred over past three years.

The Insurance Bureau of Canada (IBC) has submitted a comprehensive list of recommendations that address a wide arrangement of issues that insurers are currently managing on a day-to-day basis. ACG has been an active participant and contributor in the development of IBC's

submission and wholeheartedly supports all of the recommendations being put forward. That said ACG believes that the following recommendations would have most immediate and positive impact on consumers and more broadly the insurance system in Ontario.

The most profound impact on rate stability and soaring claims would be derived from sweeping changes to the Med Rehab system. Specifically, recommendations 2 and 4 in the IBC submission paper, in whole or in part must be implemented in order to achieve cost containment. These recommendations will still provide comprehensive coverage and choice for the consumer while reigning in the potential for abuse by various interested parties in the process.

The second most important recommendation for cost containment in claims will be derived by the maintenance of the tort threshold. Recommendations 13 and 15 put forth by the IBC for changes in tort will expedite the process and disallow any potential for extra billing outside of the SABS on claims that do not meet the verbal threshold. Any erosion of the threshold will offset any potential anticipated savings from reforms under Med Rehab. It is also extremely important to clarify the intent of the policy as it relates to punitive damages.

Finally, ACG strongly supports IBC Recommendation 8. These housekeeping issues under the SABS will certainly alleviate many unnecessary costs and make the claim-handling process more efficient.

While the preceding recommendations regarding reforms to the claims system are most urgent, ACG would like to take the opportunity to provide some suggestions that we believe will also work towards improving and enhancing the insurance system in Ontario.

ACG firmly believes that while ensuring that consumers are charged a reasonable and appropriate auto insurance rate is important, it is equally important that companies have the flexibility to operate in a competitive market. Enabling companies to respond and react to market factors such as claims experience with appropriate and measured rate decreases or increases helps create a marketplace that can achieve the long-term sustainability that insurers and government want and that consumers deserve. Another important factor that should be taken into consideration during the deliberations is that the only commonality between companies is that no two companies' experiences are the same. What is happening to one in the marketplace might not be happening to another and vice versa.

Along with the product itself, a number of other aspects of the legislation and the surrounding regulations stifle industry innovation and create inequities for customers. It is ACG's submission that customers and the public are best served when there is a healthy, vibrant, and competitive market where companies are free to introduce new features and benefits for customers. The current regulatory environment places a number of barriers in the path of company innovation. We note the three most critical in our submission.

Insurance Scoring

FSCO currently prohibits the use of credit history, credit card possession, bankruptcy status, residence stability, employment stability and employment status as a factor for determining auto insurance rates. It is our understanding that FSCO's position is based on a premise that these

indicators are proxies for wealth, and as such are not indicators of driving capability. However, the use of credit history has been studied extensively in a number of jurisdictions, and it has been consistently demonstrated that there is a strong correlation between an individual's financial management and the potential risk for experiencing future insurance losses. Credit history is a reliable indicator of risk and accident frequency.

An insurance score is a rating element over which a customer has complete control, as it reflects personal circumstances. Insurance scoring, in combination with a number of other rating factors, is a tool currently used by many insurers including Allstate, to determine the appropriate rate for home insurance policy. In fact, insurance scoring has not only allowed Allstate to provide coverage to more homeowners but it has benefited consumers by offering lower premiums and discounts as a result of a good insurance score. Finally, allowing companies to use an insurance score would create a more level playing field with those companies currently using this variable indirectly through the credit-card-only payment options, which have been approved by FSCO.

Therefore, ACG respectfully recommends that insurance companies be permitted to use Insurance Scoring as another rating tool when determining the appropriate auto rate for a customer.

Greater transparency of underwriting rules used by FSCO

It is ACG's position that the best guarantee to customers of a stable insurance market and affordable prices is an open and competitive market. As such, it is imperative that where regulation exists, it must be transparent and applied equally to all companies. In the case of underwriting regulations, this is unfortunately not the case. The Underwriting guidelines were put in place over a number of years, and never consolidated. While there are technical notes regarding Underwriting restrictions, this list is not comprehensive as prohibitions and regulation on underwriting are dispersed in both regulations and bulletins as well as in correspondence making it difficult to locate a comprehensive list.

As a result, there is no single source for underwriting restrictions or guidelines. Different companies are therefore working in different environments, some without knowledge of specific limitations, and others with access to individual interpretations. In addition, the Underwriting guidelines need to be updated to reflect the changing insurance climate.

Therefore, ACG respectfully recommends that technical notes on Underwriting Guidelines should be revisited and redrafted to include all underwriting requirements in a single source document. The current underwriting rules should be reconsidered and redrafted to allow companies greater flexibility in underwriting which reflect a constantly changing insurance climate.

Electronic Commerce

Electronic communications are playing an increasingly important role as more customers become accustomed to using internet and technology as a means of effecting business transactions. ACG

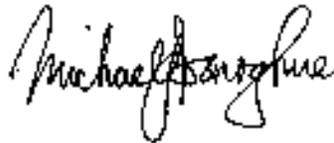
commends FSCO for setting a priority to conduct a review of the use of electronic communications and transactions in the Statement of Priorities for 2008.

ACG submits that electronic commerce is far ahead of the regulations currently in place for the insurance industry, and consumers are impatient for options and progress. Consumers should be able to conduct any aspect of their insurance transaction on their own terms. Consumers are already receiving documents by e-mail, paying bills online, conducting banking transactions and purchasing goods online, including insurance.

ACG respectfully recommends that current regulations regarding applications, policies, endorsements and renewals should be reviewed and updated to provide consumers with greater flexibility in use of electronic communication.

In closing, ACG appreciates every opportunity to have an open and frank dialogue with government in an effort to create the most functional, efficient, affordable and sustainable insurance marketplace for consumers and insurers. The Allstate Canada Group of Companies are committed to working with the government to achieve our mutual long term goal of lowering auto rates for consumers who deserve it, and creating a healthy and stable insurance market for all.

Yours truly,

A handwritten signature in black ink, appearing to read "Michael A. Siroglu". The signature is written in a cursive style with a large initial 'M' and 'S'.