

## Financial Services Commission of Ontario

### ***Private Passenger Automobile Filing Guidelines – CLEAR Simplified for Proposed Revisions to Automobile Insurance Rates and Risk Classification Systems***

#### **A. GENERAL INFORMATION**

Sections 410 to 417 of the *Insurance Act* (the *Act*), R.S.O. 1990, Chap. I.8, as amended, set out certain requirements pertaining to rates and risk classification systems for automobile insurance. The *Automobile Insurance Rate Stabilization Act, 2003*, as amended (AIRSA) applies to insurers and contracts of automobile insurance with respect to the Personal Vehicles — Private Passenger Automobile category of automobile insurance. As stated in Regulation 664, sections 410 to 417 of the *Act* apply to contracts and endorsements to contracts of automobile insurance on Ontario Automobile Policy (OAP) 1 or 2, but do not apply to contracts insuring "fleets". (Please refer to Regulation 664 for the definition of fleet.)

Section 7 of AIRSA allows the Superintendent to order an insurer to apply to the Superintendent for approval of the risk classification system, and the rates it intends to use for the Personal Vehicles — Private Passenger Automobile category of automobile insurance.

If an insurer is using the CLEAR (Canadian Loss Experience Automobile Rating) rate group system established by Insurance Bureau of Canada or a form of CLEAR for assigning vehicle rate groups as part of its risk classification system, the insurer must submit a filing within the time specified by FSCO following approval of the vehicle rate group tables by FSCO.

There is a natural rate group drift based on the CLEAR methodology which takes into consideration the annual changes in the vehicle rate groups that are assigned and the additional premium that is collected as a result of policyholders replacing older vehicles for newer vehicles.

All insurers are required to implement the 2015 CLEAR Vehicle Rate Group Table and adjust the base rates in the following steps:

1. Balance Accident Benefits coverage and Physical Damage coverages base rates uniformly across all rating territories so the rate level impact as a result of implementing the 2015 CLEAR table is balanced to 0.0% at the individual coverage level and overall level; and
2. Further adjust Accident Benefits coverage and Physical Damage coverages base rates uniformly across all rating territories by using IBC estimated rate group drifts.

The conditions for filing under this format are:

- Implement the 2015 CLEAR Vehicle Rate Group Table.
- No change to CLEAR Accident Benefits rate group assignments and no change to CLEAR Accident Benefits rate group differentials.
- Use CLEAR Physical Damage rate group assignments without changes to company current rate group differentials.
- Base rate changes to Accident Benefits and Physical Damage coverages to achieve rate level neutrality.

- Base rate changes to Accident Benefits and applicable Physical Damage coverages only to account for the IBC estimated rate group drifts.
- Overall rate level change must be less than or equal to 0.0%.
- No changes to differentials, discounts and surcharges, rating rules, rating algorithm, or any other risk classification elements.

In addition, companies may further reduce base rates for any coverage, uniform by territory, to contribute to the rate reduction target set out in AIRSA.

## Filing Process

The CLEAR Simplified filing must contain the following informational sections, in the order indicated below:

Section	Contents
1.	Table of Contents
2.	Summary of Information (Appendix A)
3.	Certificate of the Officer/Designate (Appendix B)
4.	Off-Balance and Rate Group Drift Calculation
5.	Rating algorithm
6.	Base rates, differentials and discounts/surcharges
7.	Dependent categories (if applicable)
8.	Proposed manual pages – Vehicle Rate Group tables
9.	Rating examples (Appendix C)

Filings must be submitted by using our web-based filing system called ARCTICS. If you require a password, please contact the “ARCTICS Main Contact” for your company who can arrange for access..

Upon receipt of a filing, the insurer will receive an electronic acknowledgement of receipt from FSCO. The filing will then be reviewed for completeness based on these Filing Guidelines and the insurer will be informed of any information required to complete the filing. Until such time as a filing is complete, the statutory time periods governing approval of filings do not begin to run.

Once a filing is complete, FSCO will review the technical components of the filing. FSCO may request further information from the insurer.

Once an insurer has received notification of approval from FSCO of its filing, it must:

- file one complete copy of its rate manual, containing the revised rates and risk classification system, if applicable, with FSCO in electronic format (or CD) **within 30 days** according to the [Filing Guidelines for Automobile Rate Manuals](#). The electronic copy of the rate manual submitted to FSCO must be identical to any hard copy or versions that are being distributed to anyone, including brokers, agents or other vendors.
- **The insurer may be subject to regulatory action by FSCO if it fails to provide the required information within this time frame.**

## Note

FSCO may receive access requests under the Freedom of Information and Protection of Privacy Act (FOIPOP Act) for any record in its custody or control. Section 17 of the FOIPOP Act recognizes that certain types of information supplied in confidence by third parties should be exempt from disclosure in the event of an access request if disclosure could result in the harms listed in Section 17. These types of information may include algorithms, base rates, differentials and any information included under Sections 4 through 7 of the filing requirements.

If you think that Section 17 of the FOIPOP Act might be applicable to a request for access to your rate filing, please list or stamp all of the pages of the filing that are confidential and give the reasons for the confidentiality. While this exercise does not guarantee that records will not be disclosed, it will be useful in assisting FSCO in responding to an access request.

## **B. GUIDELINES**

These guidelines are for the Private Passenger Automobile (PPA) category only. The format of the filing should be as follows:

### **SECTION 1: TABLE OF CONTENTS**

This section contains a listing of the contents of Sections 2 through 9 of the filing and should be in sufficient detail to serve as a reference, by page number, for the location of specific elements of the filing. We require that you use FSCO's Web Based filing system called "ARCTICS" to file your submissions electronically.

### **SECTION 2: SUMMARY OF INFORMATION**

The summary section contains certain key information on the nature of the proposed rate level. The form to be used is attached to this document as Appendix A.

### **SECTION 3: CERTIFICATE OF THE OFFICER/DESIGNATE**

Each filing must be accompanied by an original signed authorized Certificate of the Officer/Designate or alternatively the electronic Certificate in ARCTICS must be completed. A copy of the Officer/Designate form is attached as Appendix B. Authorized officers are the President, CEO, COO, CFO or Chief Agent for Canada. Alternatively, the President, CEO, COO, or CFO may authorize a designate to sign the Certificate of Officer/Designate. The Designate must be Vice-President rank or above. A copy of the authorization letter should be attached with the Certificate of Officer.

### **SECTION 4: OFF-BALANCE AND RATE GROUP DRIFT CALCULATION**

The aggregate premium may be increased or decreased through the introduction of a new CLEAR table on an insurer's own distribution of business. The filing must account for these through the use of off-balance procedures or by accounting for the premium change in its rate level. Companies are required to balance Accident Benefits coverage and Physical Damage coverages base rates uniformly across all rating territories so that the rate level impact as a result of implementing the 2015 CLEAR Vehicle Rate Group Table is balanced to 0.0% at individual coverage level and all coverages combined level.

The rate level impact calculation and the base rates balancing calculation should be based on the latest in-force premium. The company should provide a brief description of the in-force data used. If the latest in-force data is not available and an alternative dataset is used for the rate level impact calculation and base rates balancing calculation, the company should provide the reason and specify the source of the underlying data. All data used in the process of calculating the off-balance must be exhibited and labelled. The calculation of the off-balance amount must be shown. All judgments associated with the process of calculating the rate level impact and base rates balancing should be disclosed and supported. Base rate changes should be supported by off-balance factors.

In order for FSCO to review the reasonableness of the rate level impact and verify the accuracy of the balancing procedure as well as the required rate group drift adjustment, companies may be asked to provide the rate group distribution for each coverage and estimated rate level impact in EXCEL format.

The balancing calculations should make use of the insurer's own distribution of business. Should the insurer find it necessary to rely on outside data or a different source of internal data, the filing must identify the source of the data and provide an explanation of its applicability in the instant circumstance.

The base rate adjustment for reflecting the rate group drifts can only apply to Accident Benefits coverage and Physical Damage coverages uniformly across all rating territories. The estimated rate level impact as a result of reflecting this rate group drifts must be accounted for in the overall rate level change. IBC estimated rate group drifts are:

Standard Accident Benefits	-0.66%
Direct Compensation - Property Damage	4.32%
Comprehensive	4.08%
Collision	3.90%

Details of the base rate calculation and rate level change calculation must be provided in Appendix A Question 4.b. and 4.c.

The filing must clearly describe and show how current manual territorial base rates by coverage are transformed into proposed manual territorial base rates through the application of the proposed rate change in combination with any balancing. This section must also clearly describe and show how the rate level impact of changes to base rates, differentials, discounts and surcharges, and rating rule changes are used to calculate the current and proposed Average Rate on a per coverage basis. This calculation must reconcile with Question 4.c. under Appendix A.

## **SECTION 5: RATING ALGORITHM**

Each insurer is required to file its current rating algorithm for all coverages, including the application of discounts and surcharges, 6-month policy and Optional Accident Benefits calculations.

## **SECTION 6: BASE RATES, DIFFERENTIALS, AND DISCOUNTS/SURCHARGES**

### **a. Base Rates**

Each insurer must file current and proposed base rates or territorial differentials for all coverages.

*In order for FSCO to review the reasonableness of the rate level impact and verify the accuracy of the balancing procedure, companies may be asked to provide the current and proposed base rates or territorial differentials in EXCEL format.*

**b. Differentials**

Each insurer must file its current differentials for all coverages.

**c. Discounts and Surcharges**

Each insurer must file its current discounts and surcharges for all applicable coverages.

**SECTION 7: OTHER THAN PRIVATE PASSENGER AUTOMOBILE - DEPENDENT CATEGORIES**

For those categories of automobile insurance that are dependent on the rate filing submitted, please provide the following:

- (i) The rate level effects of the proposed changes.
- (ii) The calculations that validate the rate level effect of the proposed changes.
- (iii) A copy of the rating rule that stipulates the linkage to the category of automobile insurance.
- (iv) Rating examples must be completed for the dependent category of automobile insurance. Rating examples can be found as part of the Other than Private Passenger Automobile Filing Guidelines, Appendix C.

**SECTION 8: PROPOSED MANUAL PAGES – Vehicle Rate Group Tables**

A complete set of CLEAR vehicle rate group pages that the company wishes to adopt must be submitted with the filing. Otherwise, the **filing will not be considered complete**. A final and complete set of manual pages in electronic format containing the approved rates and risk classification system must be submitted through ARCTICS within 30 days after the rate filing has been approved. The electronic copy of the complete rate manual submitted to FSCO must be identical to any hard copy or versions that are being distributed to anyone, including brokers, agents or other vendors. The insurer is required to include a copy of the most current vehicle rate group tables in the complete manual. Refer to the [Filing Guidelines for Automobile Rate Manuals](#) for instructions. The insurer may be subject to regulatory action by FSCO if it fails to provide the required information within this time frame.

**SECTION 9: RATING EXAMPLES**

Appendix C to the [Private Passenger Automobile Filing Guidelines - Major](#) sets out the rating examples for completion. Please refer to those guidelines for instructions.

Company Name: \_\_\_\_\_

Group Name: \_\_\_\_\_

**SUMMARY OF INFORMATION**

1.a. Confirm which of the following are being implemented: (Steps i, ii and iii are required steps)

- (i) Implement the 2015 CLEAR Vehicle Rate Group Table; and
- (ii) Balance Accident Benefits coverage and Physical Damage coverages base rates uniformly across all rating territories so the rate level impact as a result of implementing the 2015 CLEAR Vehicle Rate Group Table is balanced to 0.0% at the individual coverage level and overall level; and
- (iii) Further adjust Accident Benefits coverage and Physical Damage coverages base rates uniformly across all rating territories by using the IBC estimated rate group drifts.
- (iv) Base rate reductions, not due to off-balancing differential or discount changes, to contribute to the rate reduction target set out in AIRSA.

1.b. Which CLEAR table are you proposing to use:

- (i) 2015 CLEAR Canada (AB Ontario) by Extended Vehicle Code and 21 Model Years (Table VRGCA-E)
- (ii) 2015 CLEAR Canada (AB Ontario) Combined (Coll & DCPD) by Extended Vehicle Code and 21 Model Years (Table VRGCA-CDE)
- (iii) 2015 CLEAR Canada (AB Ontario) Combined (Coll & Comp) by Extended Vehicle Code and 21 Model Years (Table VRGCA-CCE)
- (iv) 2015 CLEAR Canada (AB Ontario) Combined (Coll, Comp & DCPD) by Extended Vehicle Code and 21 Model Years (Table VRGCA-CE)
- (v) 2015 CLEAR Table with approved modifications from prior filings (please describe modifications in detail)

\_\_\_\_\_  
\_\_\_\_\_

1.c. Indicate the year and version of the CLEAR table that is currently in use.

Current Table Year: \_\_\_\_\_

Current Table Version: \_\_\_\_\_

1.d. Indicate if the published IBC CLEAR rate group differentials without any modification are currently used in rating and if any other vehicle-related rating variables are currently used in the rating algorithm.

(i) Published IBC CLEAR rate group differentials without any modification are used for Accident Benefits.

- Yes
- No

(ii) Published IBC CLEAR rate group differentials without any modification are used for Physical Damage coverages.

- Yes
- No

(iii) Additional Vehicle Related rating variables are used in the current rating algorithm (e.g., Vehicle Age).

- Yes
- No

If "Yes", provide a list of such vehicle-related rating variables.

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2. Proposed effective date for **new** policies: \_\_\_\_\_

Proposed effective date for **renewal** policies: \_\_\_\_\_

***(Insurers should take into consideration the 45 day notice period to brokers and 30 day notice period to insureds required under section 236 of the Insurance Act in determining effective dates.)***

3. Indicate the distribution of risks by policy term:

3 month	_____	%
6 month	_____	%
12 month	_____	%
Other	_____	%
Total	_____	%

- 4.a.  Confirm that the following rate group drift factors are used to adjust the coverage base rates for implementing the 2015 CLEAR Vehicle Rate Group Table, by placing a checkmark (✓) in the box:

Coverage	(A) Rate Group Drift
Standard Accident Benefits	-0.66%
Direct Compensation – Property Damage	4.32%
Comprehensive	4.08%
Collision or Upset	3.90%

- 4.b. Provide the information in 4.b. and 4.c. using recent in-force data. (If in-force data is not available, specify the type of data used). The exposure, premium and estimated rate level impact should be stated based on a twelve-month policy term.

Indicate which type of data is used by placing a checkmark (✓) in the appropriate box, and state the source and date of data.

***In-force Data***
                         
  ***Other – please specify***

**Source of Data:** \_\_\_\_\_ **Date of Data:** \_\_\_\_\_



Appendix A

Coverage	(B) Premium Based on Current CLEAR Table (\$000's)	(C) Premium Based on 2015 CLEAR Table (\$000's)	(D) Base Rate Change for Impact as a result of Implementing 2015 CLEAR Table (B)/(C)-1	(E) Base Rate Change for Rate Group Drift $1/[1+(A)]-1$	(F) Additional Base Rate Reduction in respect of AIRSA	(G) Overall Base Rate Change $[1+(D)] \times [1+(E)] \times [1+(F)] - 1$	(H) Overall Rate Level Impact $[1+(E)] \times [1+(F)] - 1$	(J) Premium Weight (B)/[(B) All Coverages Combined]
Liability - Bodily Injury	\$	\$	%		%	%	%	%
Liability - Property Damage	\$	\$	%		%	%	%	%
Standard Accident Benefits	\$	\$	%	%	%	%	%	%
Uninsured Automobile	\$	\$	%		%	%	%	%
Direct Compensation-Property Damage	\$	\$	%	%	%	%	%	%
<b>All Compulsory Coverages</b>	\$	\$	%	%	%	%	%	%
Specified Perils	\$	\$	%	%	%	%	%	%
Comprehensive	\$	\$	%	%	%	%	%	%
Collision or Upset	\$	\$	%	%	%	%	%	%
All Perils	\$	\$	%	%	%	%	%	%
OPCF 44R	\$	\$	%		%	%	%	%
<b>All Optional Coverages</b>	\$	\$	%	%	%	%	%	%
<b>All Coverages Combined</b>	\$	\$	%	%	%	%	%	%

4.c. The All Coverages Combined “Proposed Average Rate Level Change” in Question 4.c. should reasonably reconcile to the All Coverages Combined “Overall Rate Level Impact” in Question 4.b. above.

Coverage	(K) Current Average Rate (rounded to two decimals)	(L) Proposed Average Rate (rounded to two decimals)	(M) Proposed Average Rate Level Change	(N) # of Insured Vehicles	(P) Exposure Weight [Based on Bodily Injury Exposure]
Liability - Bodily Injury	\$	\$	%		%
Liability - Property Damage	\$	\$	%		%
Standard Accident Benefits	\$	\$	%		%
Uninsured Automobile	\$	\$	%		%
Direct Compensation – Property Damage	\$	\$	%		%
<b>All Compulsory Coverages</b>	\$	\$	%		
Specified Perils	\$	\$	%		%
Comprehensive	\$	\$	%		%
Collision or Upset	\$	\$	%		%
All Perils	\$	\$	%		%
OPCF 44R	\$	\$	%		%
<b>All Optional Coverages</b>	\$	\$	%		
<b>All Coverages Combined</b>	\$	\$	%		

- 5.a. State the dates and approved Average Rate level change percentages that were effective for renewal policies in the last 12 months (please round the figures to two decimals):

<b>Effective Date for Renewal Policies</b>				
<b>Coverage</b>	<b>1st Prior Change</b>	<b>2nd Prior Change</b>	<b>3rd Prior Change</b>	<b>4th Prior Change</b>
Liability - Bodily Injury	%	%	%	%
Liability - Property Damage	%	%	%	%
Standard Accident Benefits	%	%	%	%
Uninsured Automobile	%	%	%	%
Direct Compensation - Property Damage	%	%	%	%
<b>All Compulsory Coverages</b>	%	%	%	%
Specified Perils	%	%	%	%
Comprehensive	%	%	%	%
Collision or Upset	%	%	%	%
All Perils	%	%	%	%
OPCF 44R	%	%	%	%
<b>All Optional Coverages</b>	%	%	%	%
<b>All Coverages Combined</b>	%	%	%	%

- 5.b. State the *Average Cumulative Rate Change* for all coverages. It is based on the *All Coverages Combined Proposed Average Rate Level Change* (as stated in the response to question 4) and the *All Coverages Combined Average Rate Level Change(s)* (as stated in the response to question 5.a), that occurred within the 12 months before the proposed rate change is expected to be effective for renewal policies.

The *Average Cumulative Rate Change* for all coverages is: \_\_\_\_\_%.

5.c. Provide the undeveloped Earned Incurred Loss Ratio for the coverages below for the latest three accident years.

Source: \_\_\_\_\_

<u>Coverage</u>	<b>Accident Year (please insert years)</b>		
Standard Accident Benefits	%	%	%
Direct Compensation - Property Damage	%	%	%
Specified Perils	%	%	%
Comprehensive	%	%	%
Collision or Upset	%	%	%
All Perils	%	%	%

6.a. Provide an estimate of the number and percentage of exposures that fall within the following ranges for risks with **compulsory and any physical damage coverages** not taking into account any previous rate changes that would affect renewal policies:

Range of Rate Change	Exposures Affected		Range of Rate Change	Exposures Affected	
	#	%		#	%
Decrease of more than 20%	#	%	Increase of 0.1% to 5%	#	%
Decrease of 15.1% to 20%	#	%	Increase of 5.1% to 10%	#	%
Decrease of 10.1% to 15%	#	%	Increase of 10.1% to 15%	#	%
Decrease of 5.1% to 10%	#	%	Increase of 15.1% to 20%	#	%
Decrease of 0.1% to 5%	#	%	Increase of more than 20%	#	%
No Change	#	%	<b>Total</b>	#	<b>100%</b>

6.b. State the type of data used, the date and source of data, and the method used to estimate the answers to question 6.a.

Type of data: \_\_\_\_\_

Date of data: \_\_\_\_\_

Source of data: \_\_\_\_\_

Method used to estimate the answer to question 6.a:

\_\_\_\_\_

7. State other categories of automobile insurance that are affected by the proposed rate change (if applicable) for private passenger automobile insurance (e.g., motorhome rates that are dependent on private passenger rates), and the rate level change percentage (as per section 7 of the *Private Passenger Automobile Filing Guidelines - CLEAR Simplified*). All changes must be based solely on the changes associated with the dependent category.

Dependent Category (check where applicable)	Filing included with this submission	If not included - state the expected filing date	Rate Level Change impact for each category (%)
Personal Vehicles - Motorcycles	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Personal Vehicles - Motorhomes	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Personal Vehicles - Trailers and Camper Units	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Personal Vehicles - Off-Road Vehicles	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Personal Vehicles - Motorized Snow Vehicles	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Personal Vehicles - Historic Vehicles	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Commercial Vehicles	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Public Vehicles - Taxis and Limousines	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
Public Vehicles - Other Than Taxis and Limousines	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %
	<input type="checkbox"/> Yes <input type="checkbox"/> No	_____	_____ %

## CERTIFICATE OF THE OFFICER/DESIGNATE

I, \_\_\_\_\_, \_\_\_\_\_  
 (Name of Officer) (Office held: President, CEO, COO, CFO, or Chief Agent for  
 Canada)

of \_\_\_\_\_ (the "Insurer")  
 (Official Name of Company)

CERTIFY THAT:

1. The filing has been prepared for the Personal Vehicles - Private Passenger Automobile category of insurance to be effective as of  
 \_\_\_\_\_ for new business and  
 (Date of Implementation)  
 \_\_\_\_\_ for renewal business.  
 (Date of Implementation)
2. I have knowledge of the matters that are the subject of this certificate.
3. The changes requested are in compliance with the requirements of the *Private Passenger Automobile Filing Guidelines – CLEAR Simplified*.
4. The information and each document contained in the filing accompanying this certificate are complete and accurate in all material respects.
5. I have satisfied myself that the proposed rates are just and reasonable, do not impair the solvency of the Insurer, and are not excessive in relation to the financial circumstances of the Insurer.
6. If the filing is approved, all premiums (including all fees, discounts, surcharges and other components comprising such premiums) quoted and charged by the Insurer will at all times and in all material respects accurately reflect and conform to the filing as approved, whether such premiums are calculated manually or otherwise.
7. I have informed myself as to the Insurer's business systems and processes and confirm that:
  - (a) any system or process changes that may be required to enable the Insurer to comply with paragraph 6 above will be adequately tested in advance and fully communicated to staff and intermediaries and implemented by the Insurer in a timely manner;
  - (b) if the Insurer is an affiliated insurer as defined in section 0.1 of Ont. Reg. 7/00 (Unfair or Deceptive Acts or Practices Regulation), the Insurer's business systems and processes do not and will at no time permit the Insurer to act in the manner described in paragraph 8 of subsection 2 (1) of Ont. Reg. 7/00;

- (c) the Insurer's business systems and processes do not and will at no time permit the Insurer to use any circumstances or factors prohibited by section 16 of Ont. Reg. 664 (Automobile Insurance) as elements of its risk classification system except as permitted by that section.

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*Signature of Officer*

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*Date, Location*