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**CADRI**

CANADIAN ASSOCIATION  
OF DIRECT RELATIONSHIP  
INSURERS

The **Canadian Association of Direct Relationship Insurers** (CADRI) is a trade association representing insurance companies who offer automobile, home and commercial insurance products to Canadians on a direct basis. Whether through the web, on the phone or face-to-face, CADRI members provide end-to-end service and are in direct relationships with their customers through all steps of the sales and service process. CADRI monitors the insurance regulatory environment in all Provinces and Territories and supports regulation that encourages distribution accessibility and efficiency, technological innovation and other measures necessary for a healthy and competitive insurance market for the benefit of all Canadians.

Because of their involvement as both distributors and underwriters of insurance products, CADRI members have developed a comprehensive understanding of all facets of the insurance business and are in a unique position to offer valuable input in the development of a Canadian insurance market regulatory framework that is responsive to customers' needs.

The members of CADRI are:

Belair Insurance Company Inc.  
Canadian Direct Insurance Incorporated  
CAA South Central Ontario  
Desjardins General Insurance Group  
HB Group Insurance Management Limited  
RBC Insurance  
TD Insurance  
State Farm Insurance

**CADRI** supports and represents the common interests of direct relationship insurers to ensure an innovative, dynamic and competitive marketplace so that consumers can benefit fully from direct marketing and distribution of property and casualty insurance products and services.

Alberta Treasury Board and Finance have asked CADRI for comments on a draft framework that would apply to existing and new rating factors in automobile insurance. The draft framework sets out eight considerations as well as questions that relate to those considerations. The Superintendent has asked the industry to reflect on the following questions:

- Do you believe that a rating factor framework would add value and transparency to the process of considering existing and proposed new rating factors for automobile insurance rating programs in Alberta?
- Do you agree with the broad considerations set out in the framework?
- Do you agree with the specific questions that would need to be addressed with respect to each consideration?
- Do you agree with the proposed method of application of the framework, as set out in the explanatory notes?

### ***A stable and competitive insurance market for Albertans***

CADRI members are strong proponents of a healthy and competitive insurance marketplace where consumers have the ability to compare products and choose the product that best meets their needs. A healthy and competitive marketplace can only exist when there is a balanced regulatory framework that provides appropriate protection for the consumer as well as the environment to foster innovation and competition within the industry.

CADRI members believe that Alberta's auto insurance environment offers strong protection for Albertans. The Grid and the provisions of the Fair Practices regulation combined with other consumer protection measures ensure positive outcomes for Albertans.

CADRI members support the Superintendent's intention to provide transparency to the decision making process. CADRI members agree that a framework will allow the insurance industry to be aware of the considerations that the Superintendent will take into account when reviewing the use of rating factors. This transparency will help allow the industry to prepare appropriate documentation. While we support clarity and transparency we also believe that for competitive reasons proprietary information should be kept confidential by the regulator to allow companies to refine and improve their own methodologies.

We welcome the opportunity to comment on the draft framework and acknowledge that it will be challenging for the Superintendent to establish a framework that will be flexible enough to allow innovation and at the same time set out a clear decision making process.

### ***Use of variables in automobile insurance***

Rating factors allow insurance companies to price risk more accurately, which helps to build a healthy and competitive industry. With increased access to information and new technologies insurance companies are developing more sophisticated rating algorithms which is resulting in greater precision in pricing. As a consequence, consumers have benefitted from enhanced product choice and competition between insurance companies.

CADRI recognizes the need for improved financial literacy in the general public, especially with respect to what factors influence an individual's insurance premiums. Through innovation and new technologies, direct insurers are able to offer competitive premiums and enhanced product information to consumers.

CADRI members are constantly improving the information provided to consumers whether it is online, in person or face to face, resulting in positive outcomes for consumers. As such, CADRI members are working to build online systems that offer consumers dynamic information about products and services.

Today's online technology allows the consumer to go beyond static information. A consumer can be engaged through comparison charts, scenario building, simulations and reflective questions throughout the process. This type of information is very useful and is intended to help the consumer understand the product and their own needs. Online information and advice can be an effective and consistent way to present product information to the consumer and can even provide some enhancements to other types of interaction. This approach can be used to help consumers understand how rating factors are used by companies to price risk. CADRI members are open to discussing ways to help improve consumer understanding of rating factors whether on the phone, in person or online.

### ***Proposed Framework***

The Superintendent has set out eight broad criteria to be used in assessing new or existing rating factors. While CADRI members agree that flexibility will be essential for the long-term sustainability of the framework, we believe that the proposed criteria and considerations are so broad that they do not provide adequate guidance to the industry as to how to prepare a submission. While the screening criteria set out in the draft framework do include several criteria that can be supported with data and information, they also include some criteria that are subjective in nature and difficult to document and measure.

As such, CADRI members suggest that the Superintendent use fewer criteria in the framework and focus on objective and measurable information. We suggest the following criteria and considerations for the framework:

### **1. Legal Considerations**

We agree that legal considerations are a crucial component of any discussion about use of rating factors. Insurance companies need to consider all applicable laws and regulations before approaching the Superintendent about a potential change. The review can be documented and clearly outlined for the Superintendent.

### **2. Evidence to Support**

CADRI members agree that quantitative evidence is crucial for the Superintendent in the decision making process. With respect to the focus on actuarial analysis, it should be noted that there may be rating factors under consideration by an insurance company that make sense intuitively but for which solid actuarial evidence is not yet available. Innovation does require experimentation and flexibility should be built into the framework to allow time to gather actuarial evidence.

As well there are some variables that result in positive outcomes for consumers that are not entirely supported by actuarial evidence. For example, variables such as driver training certificates or hybrid car discounts does contribute to good public policy and positive outcomes. The Framework should allow for continued use of those rating criteria.

### **3. Auto Insurance Premiums Regulatory Core Principles**

The auto insurance premiums regulatory core principles are crucial to the framework. CADRI members support the outcomes based nature of the principles and find that the criteria that we will suggest the Superintendent drop from the framework overlap with these principles.

### **4. Other considerations**

CADRI members understand and support the concept of sharing research, if available, from other jurisdictions to help in the decision making process. There may be several forums that the Superintendent can access for additional information such as the Canadian Council of Insurance Regulators (CCIR) and the Association of Rate Boards among others. The industry may be able to share research or information from other jurisdictions as well that may add value to the decision making process.

CADRI members suggest that the Superintendent consider including an additional consideration in this section that might also be applicable: does the variable promote competition and choice? This consideration focuses on an outcome that is important to the principles of affordability and accessibility. Insurance companies may be able to provide data to demonstrate that a particular rating factor may contribute to competition and enhanced consumer choice.

## 5. Screening criteria to be removed

CADRI members find the following screening criteria to be generally too subjective and difficult to quantify to be included in the framework.

- Controllable and independent

This item can be addressed through the automobile insurance premiums and regulations core principles and in our view does not need to be addressed separately.

- Duplication or overlap

Duplication in rating factors does not necessarily result in a negative outcome for the consumer. In rating structures, there may be a high degree of correlation between rating variables. However, modern ratemaking techniques such as Generalized Linear Models account and correct for this correlation so that there is no double-counting. Therefore, duplication is unlikely to impact negatively on an individual.

- Consumer education and understanding; and
- Consumer impacts and perceptions

As stated earlier in this document, CADRI recognizes the need for improved financial literacy in the general public. CADRI members suggest that the Superintendent adopt an outcomes based approach to consumer education and impacts. The recent CCIR consultation on electronic commerce outlines consumer protection outcomes that are appropriate in this context.

### **Conclusion**

CADRI has been pleased to participate in this consultation and hope that our views will be of assistance to the Superintendent in developing this framework. As you work to finalize the framework, it will be important for the industry to know whether you will apply weighting to the criteria and considerations. The current explanations for how the framework will be applied are fairly general and broad and more information will be helpful.

As mentioned earlier in this submission, CADRI members will also need to understand what aspects of the framework and the information provided by the insurance company will be in the public domain.

CADRI is interested in working with the Superintendent to find ways to help inform consumers about insurance products and how pricing is determined. Direct insurers are developing innovative methods of informing consumers about products online and would be pleased to discuss how to improve outcomes in this regard.

Alain Thibault, Chair and CEO  
Canadian Association of Direct Relationship Insurers