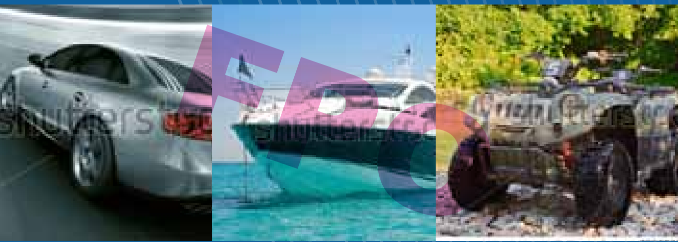
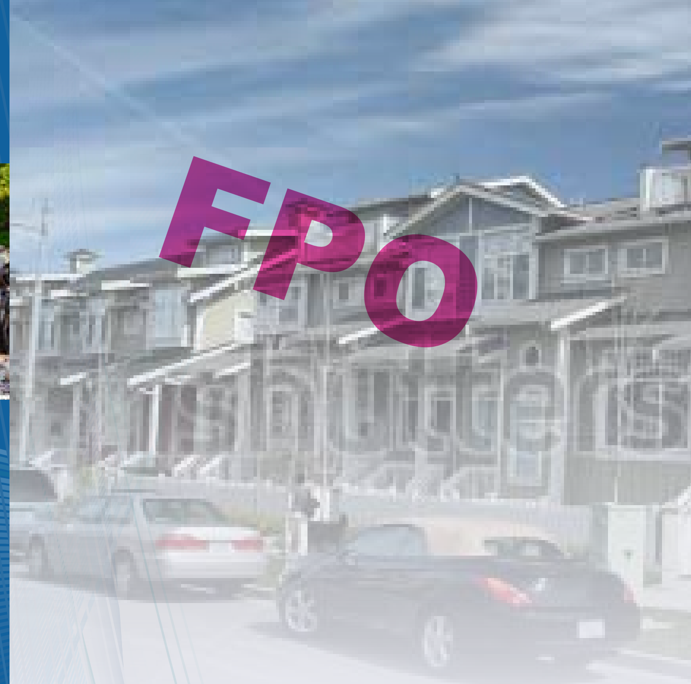


Consumers are best served in a healthy and competitive insurance market with a regulatory framework that focuses on ensuring positive consumer outcomes. CADRI believes that consumer protection rules should result in the following outcomes:

- **Consumers understand the features of the product and it meets their essential needs.**
- **Consumers can access affordable products at a fair price in a competitive market.**
- **Appropriate information and advice is available to help make informed decisions.**
- **Information and advice can be accessed online, in person or over the phone.**
- **Individual privacy is protected.**
- **All communication is clear and transparent.**



CANADIAN ASSOCIATION OF DIRECT RELATIONSHIP INSURERS (CADRI)

250 Consumers Road, Suite 301
Toronto, Ontario M2J 4V6

Tel: 416-773-0101
Fax: 416-495-8723
Email: cadri@cadri.com

CADRI
CANADIAN ASSOCIATION
OF DIRECT RELATIONSHIP
INSURERS

CANADIAN ASSOCIATION OF DIRECT RELATIONSHIP INSURERS (CADRI)

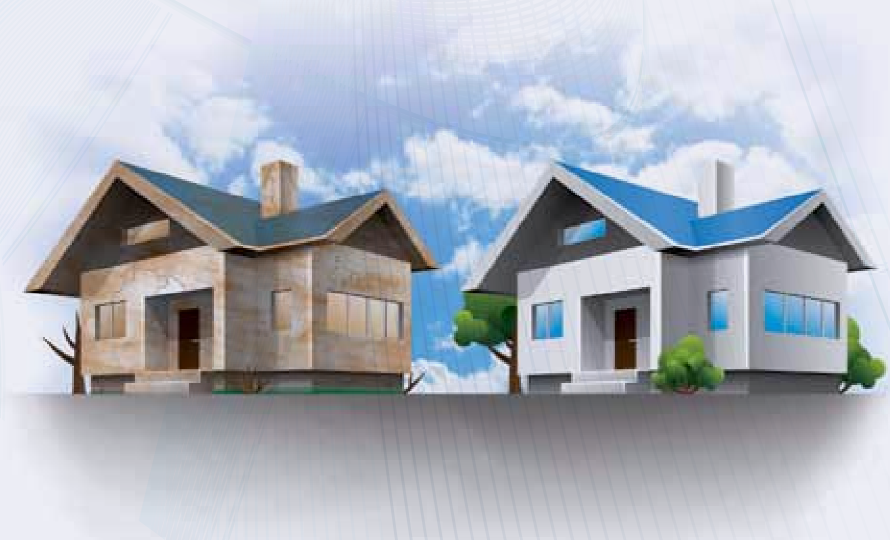
CADRI
CANADIAN ASSOCIATION
OF DIRECT RELATIONSHIP
INSURERS

HOW ARE INSURANCE PREMIUMS SET?

Insurance is important to protect individuals and families when an **unexpected event** occurs such as water damage in a home or an automobile accident. Insurance premiums are collectively used to pay for claims. That means that those people who do not have to make a claim pay for those that do. To make premiums **fair**, insurers set premiums based on the likelihood that an individual will make a claim. Insurers use a variety of sophisticated and objective tools to help them determine this risk. These are called **risk classification tools** and in property insurance may include:

- **Location of the house -** For example, is the house in an area where water damage is likely?
- **Age of the roof -** Can help determine the condition and the probability that the roof might leak.
- **Responsible Personal Credit Management -** How an individual manages their finances can tell insurers a lot about the likelihood that an individual may make an insurance claim.

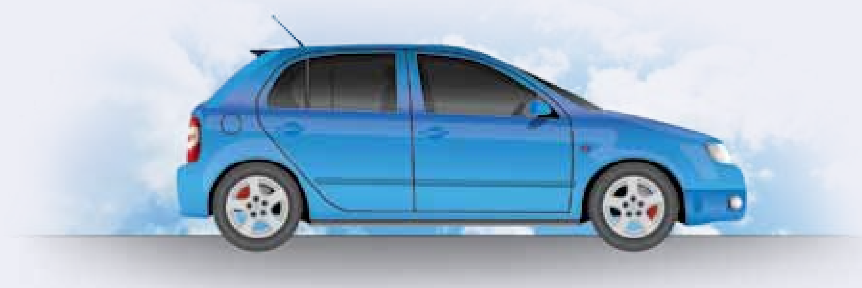
The more tools an insurer can use to help assess risk, the more personalized and the fairer the price.



Automobile insurance premiums are set using similar tools. The likelihood that someone will make a claim can be assessed using factors such as:

- **Driver behaviour -** How people drive is linked to their likelihood of making a claim.
- **Age and gender of the driver -** For example, younger males are more likely to be involved in an accident.
- **Where the driver lives -** Statistics show that there are more accidents or claims in certain areas.

Those who pay more for insurance due to poor driving behavior have incentive to change their driving behaviour.



Today, insurers are finding **innovative** ways to assess the likelihood that someone will make a claim. As new risk classification tools are developed, insurers are better able to paint the picture of an individual's behavior behind the wheel. With innovation, consumers will pay a premium that more accurately reflects their risk.

The more innovation insurers use to classify risk, the better solutions we can provide for consumers.

For more information on risk classification or other topics contact CADRI:

cadri@cadri.com