

July 25, 2018

This letter was sent to provincial and territorial superintendents of insurance and chairs of automobile insurance rate boards.

Subject: Competitive automobile insurance rate regulation in Canada

The Canadian Institute of Actuaries (CIA) is the national, bilingual organization and voice of the actuarial profession in Canada. Its members are dedicated to providing actuarial services and advice of the highest quality. The Institute holds the duty of the profession to the public above the needs of the profession and its members.

CIA members are guided by actuarial [standards of practice](#) (SOP), as established by the independent Actuarial Standards Board (ASB). The ASB is overseen by the Actuarial Standards Oversight Council (ASOC), which is composed of seasoned professionals and business people with experience in the financial sector. Its mandate is to ensure that the ASB's standard-setting process is appropriate and responsive to the public interest. The SOP have been developed specifically to improve actuarial practice with the goal of protecting the public. They are principles-based rather than rules-based and all CIA members doing any kind of actuarial work must comply with the SOP.

One such standard of particular relevance to your interactions with our membership is section 2600 – Ratemaking: Property and Casualty Insurance. Another is part 1000 (section 1710) that requires actuaries to provide external users with a report on the result of their work.

Also of relevance is part 1000 (section 1530) “Review or repeat of another actuary’s work”, which encourages timely, open, and constructive dialogue, where permitted, between an actuary doing work and another actuary reviewing that work. Increased compliance with the principles-based guidance of this section in the regulation of rates would improve understanding between actuaries and strengthen the regulatory process.

This letter highlights a few areas of concern arising from interactions with auto rate regulators in competitive jurisdictions, which have been raised by our membership. Please note that our intention is to encourage discussions amongst professional actuaries, as the SOP are written on a principles-based manner.

The following topics are presented in no particular order, and individually may not be relevant to your particular jurisdiction.

Benchmark Assumptions

Published benchmark assumptions that are actuarial in nature should be prepared by an actuary following all Rules of Professional Conduct and relevant Standards, including section 2600 and the General Standards (part 1000). Release of such benchmarks into the public domain would then constitute an external user report, the requirements for which are addressed in part 1000 (section 1710). We suggest that full compliance in this regard would increase the transparency underlying those benchmarks and any regulatory decision relying on them. Providing the support for such assumptions, enabling other actuaries to understand the derivation and rationale behind those assumptions, and allowing for possible challenging dialogue around them would, in our opinion, better serve the public interest.

Rate Adequacy

Proper automobile insurance rates should not be excessive, but it is equally important that they be adequate. Inadequate rates can only lead to poor margins, a withdrawal of capacity, and ultimately, less choice and higher rates for consumers. Section 2600 of the SOP has been developed to ensure long-term fairness of the system for all participants. We encourage adherence to sound long-term principles rather than short fixes that ultimately distort the system. For example, we do not believe that temporary rate relief should be achieved through imposition of deviations from the SOP.

It has come to our attention that in some instances the discussions amongst regulatory and company actuaries focus on the company being required to systematically choose assumptions that will produce lower rates. We submit that these discussions should recognize that the ratemaking process is inherently uncertain, and that there can be reasonable alternative methodologies and/or a reasonable range for many assumptions. In addition, by choosing only optimistic assumptions, there is no buffer should one of them deviate adversely from the initial view. This fact is obvious when looking at the return on equity produced by automobile insurers over the last 10 years, which is well below the regulatory allowed return on equity.

It is our strong belief that the only way to keep automobile rates affordable is to work on eliminating fraud and inefficiencies from the system. In our opinion, public interest would be better served by letting competitive forces manage the overall automobile rate levels to ensure our customers are well protected.

Regulatory Guidelines That Conflict with Actuarial Standards of Practice

In a few instances, our members find that published rate filing guidelines/instructions contain language that is inconsistent with the intent of the SOP. We would welcome the opportunity to collaborate to resolve any such situations, preferably before being put in the public domain. This could be done through the CIA Property & Casualty Insurance Pricing Committee.

We trust that you will receive the above comments in the same spirit they were provided, which is to foster collaboration between regulators and the actuarial profession. We believe an ongoing dialogue between our two organizations would be beneficial to all, including consumers. Consequently, we are eager to meet with you at your earliest convenience to

discuss and resolve these issues and to establish an ongoing dialogue between our organizations to avoid future concerns.

Chris Fievoli, FCIA, the CIA's staff actuary, communications and public affairs, will follow up to arrange such a meeting.

Yours truly,

[insert original signature]

John Dark, FCIA
President

cc Pierre Dionne
Chris Fievoli

Document 218108