

How are my car insurance rates set?

Your car insurance rates are determined by a combination of factors as outlined below.

Your Personal Profile

This includes:

The type of vehicle you drive: Many insurance companies rate makes/models of vehicles according to their actual claims experience, such as the cost of repairs, the rate of injury, and the likelihood that a particular vehicle may be stolen or involved in an accident. The Insurance Bureau of Canada (IBC) has a brochure called *How Cars Measure Up* available at www.ibc.ca.

Your driving record: The premium you pay also depends on your driving record. This includes at-fault accidents, the length of time you have been licensed to drive, whether or not you have taken a driver-training course that your insurance company recognizes, and driving convictions.

How much you drive: Your automobile insurance premium will also be affected by how much you drive. This is because the more time you spend on the road, the higher the chances of becoming involved in an automobile accident. In urban areas, driving to work may include driving to a subway, bus, or train station. If you live close to work, you will probably have a lower premium than someone who lives far from work or who needs to use his or her vehicle for business.

Where you live: Automobile insurance rates are generally higher in larger urban centres. This is because there are a greater number of vehicles on the road, and the chances of getting into an accident are higher. Also, more vehicles are stolen in urban areas.

Your age: In general, mature drivers have fewer accidents than younger drivers, particularly teenagers. Drivers who are 25 years of age and over can generally buy insurance at a considerably lower cost than younger drivers.

The Amount of Coverage You Purchase

Many people buy additional protection beyond the mandatory coverage. For example, if you buy optional Collision coverage, which protects you for damage to your vehicle regardless of who caused the accident, or Comprehensive coverage, which protects you against theft, vandalism, hail, or explosion, your vehicle will, be covered against any such incidences, but you will pay more. There are also other options, such as increasing your Third-Party Liability protection. All of these optional coverages will have an effect on the cost of your policy.

If you have an older vehicle, you may choose to reduce your premium further by dropping Collision or Upset and Comprehensive coverages entirely.

Discuss your options and costs with HUNTERS.

Your Deductible

Your deductible is the portion of a loss that you are required to pay. Your deductible can vary, depending on the type of coverage you have and the percentage of fault you are assigned in the event of an accident. There are deductibles for Collision or Upset, Comprehensive, All Perils, and Specified Perils coverages.

You can also pay a lower premium by having a deductible on Direct Compensation-Property Damage (DC-PD) coverage or raising the deductible on the other coverages.

These savings are due to the fact that higher deductibles mean you pay more towards the cost of repairing your vehicle, while your insurance company pays less toward the total cost of repair. As a result, your premium will be lower.

If you'd rather have lower deductibles, you may be able to do so if you meet certain conditions and if your company offers them, but your premium will be higher.



The Insurance Company You Choose

Car insurance premiums for the exact same coverage can vary substantially from insurance company to insurance company. Financial factors unique to each insurance company will contribute to the amount each company will charge you for automobile insurance. This is why it is important for HUNTERS to obtain quotations from a number of insurance companies for you.

Insurance works according to a "pooling" concept. You are one member of the risk group in the company you select as your insurer. Your company charges premiums based on the claims experience of the entire group. If an insurance company's claims experience for a particular risk group is significantly higher than another insurance company's, its insurance premiums will be higher.

Consider the following example:

Several people (we'll call them Risk Pool A), purchase individual automobile insurance policies from Insurance Company A.

Insurance Company A then charges each policyholder in Risk Pool A an annual insurance premium and "pools" the money collected.

In the event that an individual from Risk Pool A is injured in automobile accident, Insurance Company A will provide him or her with supplementary medical, rehabilitation, attendant care, caregiver, non-earner, and income replacement benefits.

Some individuals in Risk Pool A may receive insurance benefits that total far more money than they have ever paid to Insurance Company A. Others will pay their premium annually, but never make a claim.

To establish individual premiums for policyholders in Risk Pool A, Insurance Company A's insurance actuaries will estimate the number and cost of future claims for Risk Pool A. Insurance Company A will then predict the cost to administer these claims and use this information, along with each individual's personal profile, the amount of coverage they purchased, and their deductibles, to set individual premiums.

What Insurance Companies Can't Use to Determine Rates

Your insurance company cannot use the following rating criteria to determine how much you should pay for automobile insurance:

- credit history,
- bankruptcy,
- employment status,
- whether you own a credit card,
- how long you have lived in your current home,
- not-at-fault accidents,
- whether your vehicle is owned or leased, and
- whether there was a period of time where you had no car insurance.

Changes in rates must be approved

All automobile insurance companies operating in Ontario are required to file rate change requests with Financial Services Commission of Ontario (the government regulatory body). FSCO must, by law, approve each insurance company's automobile insurance rates - either upwards or downwards.

FSCO has a team of analysts to determine whether the proposed rates are reasonable and justified. The rate filing application is a projection of what will be needed to meet future claims costs. These projections are based on the company's current financial data, such as premiums collected, claims paid out, and administrative expenses. Special attention is given to balancing rates with the company's long-term ability to meet claims costs.

FSCO also reviews and approves each company's criteria for setting rates, and its underwriting rules — the grounds the company uses to refuse to sell automobile insurance to a consumer.

Courtesy of the Financial Services Commission of Ontario – see more at www.ontarioinsurance.com

