Frequently Asked Questions

Revised Deficiency Fee Framework

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Revised Deficiency Fee System - Frequently Asked Questions

***Q1:** What is the reason for the changes in the current Deficiency Fee System (DFS)?*

A1: Although on an annual basis, companies achieve very high accuracy levels for their reported transactions – more than 99.75% in Auto and CL and 98.5% in OSAB at the transactional level, the initial reporting accuracy is lower.

At the aggregate level however, company data is still frequently being excluded from the exhibits due to unusual reporting anomalies. There has been an effort to address ongoing company-specific deficiencies and a significant progress has been made through the implementation of the Early Warning System that monitors incoming data at the aggregate level. Currently there are no DFS charges applied at an aggregate level or on data exclusions from the exhibits.

In this context, starting in late 2009 GISA, undertook a review of the current Deficiency Fees System to assess opportunities for creating a culture of timely and quality statistical data that would ensure timeliness of reporting, high quality of information at initial reporting time and importantly high accuracy at an aggregate view and when data is used for industry exhibits.

***Q2:** How will the money collected in fees be spent? Will these be used to benefit the insurance industry?*

A2: Deficiency fees do not constitute anticipated revenue for GISA. Every September, subsequent to the preparation of the financial statements, a cashflow reconciliation is prepared that includes a reconciliation of revenue generated (through assessments, authorized investments, deficiency charges) against expenditures. Any unexpended funds are promptly applied to reduce industry assessments - generally the Q3 and Q4 assessments.

***Q3:** What are the main changes in the Revised Deficiency Fee System model?*

A3: The Revised Deficiency Fee Framework will address the following:

Late fee structure will differentiate between:

- Initial late submissions

- Timely submissions followed by minor adjustments to original data submission
- Timely submissions followed by a resubmission to address accuracy issues

1. Late fees will take into consideration the volume of data being submitted and its subsequent inclusion for timely industry reporting.
2. Error and outstanding error fee structure is simplified, i.e. fee rates merged so there is a single rate for error correction and outstanding errors.
3. Error correction fee amounts are designed to encourage more accurate initial data submissions. This component will be monitored and analyzed to determine if error corrections are being made only on-line or at source.

Q4: *What was the process for coming up with the revised framework and was industry represented in its development?*

A4: To achieve the DFS review mandate, the following activities were undertaken:

- an Environmental Scan – research related to comparable fee models (GAA, OSFI) and comparison to GISA's current system;
- Experience Analysis – details of the experience under the current framework for the period 2007-2009;
- Formulation of mitigating deficiency fee framework to act as an incentive to improve data accuracy and create a culture of responsible behaviours;
- Phased rollout of the Early Warning System (EWS) to support aggregate data accuracy and close monitoring of industry impact and reaction;
- Comparison of experience under the Current and Proposed Models; and
- Industry Pilot of the Proposed Framework – discussion of proposed framework and company-specific experience.

Should you have any questions, please contact GISA's service provider, IBC, at 416-445-5912 or 800-761-6703, or email your assigned Data Quality Analyst.