

<b>Date</b>	11 July 2024
<b>Recipient</b>	Stakeholders Writing Automobile/Motor Business in Canada
<b>Subject</b>	Automobile Physical Damage cover in Canada
<i>Purpose:</i>	To provide guidance on the Automobile Physical Damage cover in Canada
<i>Affects:</i>	Stakeholders writing Automobile/Motor business in Canada
<i>Line of Business:</i>	Automobile
<i>Jurisdiction:</i>	Alberta, British Columbia, and Ontario
<i>Effective:</i>	Immediately

## What you need to know

This bulletin provides additional guidance on the Canada Automobile/Motor business. Lloyd's has obtained further clarification and guidance on various coverages and endorsements from the Alberta, Ontario, and British Columbia automobile regulatory bodies.

### Automobile Physical Damage (APD) cover

As indicated in our [Canadian Bulletin AU-23-014](#), Lloyd's was advised that automobile physical damage may be written as a standalone policy for automobile fleet policies and Individually Rated Commercial Automobile (IRCA) policies, provided IRCA rates have been filed and approved, in the following jurisdictions:

#### **British Columbia**

In British Columbia, the minimum required automobile insurance coverage that must be maintained by all automobile owners (for personal or commercial use) is prescribed by the Insurance Corporation of British Columbia (ICBC) under AutoPlan. For private insurers offering optional automobile cover in British Columbia as a supplement to AutoPlan, there is no policy form filing or rate filing requirements and Standalone Own Physical Damage (and not Direct Compensation – Property Damage “DCPD”) automobile cover for IRCA and Fleet may be written as an optional insurance contract in this province.

While policy forms for optional coverages are not mandated, all automobile insurance contracts in British Columbia must comply with the specific form and content requirements set out under [The Motor Vehicle Act](#) (British Columbia).

## Ontario

Automobile physical damage may be written as a standalone policy for IRCA and Fleet in Ontario. However, when underwriting standalone auto physical damage cover, Lloyd's must obtain approval from the Financial Services Regulatory Authority (FSRA) of Ontario prior to using any policy documents developed for this coverage. As such, standalone cover would **NOT** fall under the scope of the Owner's Policy or Endorsements.

For IRCA (i.e., non-Fleet) policies, **currently Lloyd's has no plans for filing these rates, and therefore, this remains prohibited in Ontario.**

## Alberta

### The Exemption

Pursuant to an exemption in the Alberta legislation, an insurer licensed to offer property insurance may insure commercial vehicles against physical loss or damage under a commercial property insurance policy (the "Exemption").

The primary intention behind this Exemption is to apply to physical damage cover for large industrial vehicles, specifically those used in mining and logging industries, which are primarily used off public roads.

Further legal guidance suggests not to use the Exemption for writing normal course commercial fleet physical damage cover in Alberta, unless it relates to the specific industries to which the Exemption was initially intended, such as industrial mining, energy, and forestry.

The Exemption cannot be used to write physical damage cover for private passenger automobiles being operated on public roads.

**Please note that the assessment of the particular circumstances when the use of the Exemption is appropriate lies with individual Coverholders and their Managing Agents. Their business requirements will help determine which APD policies should be issued as Commercial Property policies.**

The following guidance should be considered when underwriting APD under a commercial property policy:

1. **Automobile Insurance Coverage:** Aside from basic coverage (i.e., third-party liability and accident benefits), an insurer can provide all physical damage coverage for commercially rated automobiles under a commercial property insurance policy, provided the insurer is licensed to write property insurance in Alberta.

Coverholders **should not be inserting the wording of Section C of the Standard Policy Form -SPF 1 (Owner's Policy) into a commercial property insurance policy.**

2. **Standard Endorsement Forms (SEFs) and Conditionally Approved Endorsements (CAEs):** An insurer cannot attach a SEF or a CAE to a commercial property insurance policy as these endorsements are exclusively for use in respect to automobile insurance policies. Furthermore, an insurer cannot attach a SEF or CAE to an automobile insurance policy where the underlying coverage is provided by a commercial property insurance policy.
3. **Development of Endorsements:** There is no prohibition preventing an insurer from developing its own endorsements in respect to APD, provided it is under a commercial property insurance policy.
4. **Limitations:** According to the Superintendent of Insurance, this approach to underwriting physical damage coverage is limited to commercially rated risks and does not apply to private passenger automobile risks.

When underwriting standalone auto physical damage cover using the SPF1, Lloyd's must obtain approval of filed rates from the Alberta Insurance Rate Board (AIRB) prior to offering Individually Rated Commercial Automobile (IRCA).

For IRCA policies, **currently Lloyd's does not have filed rates in Alberta, and we are continuing to review this with Coverholders and Managing Agents to determine if there is a business need for filed rates.**

### **Standalone policy (Section C) and Individual Rated Commercial Automobile (IRCA)**

The Insurance Act of Alberta stipulates that all forms of applications, policies, endorsements, renewals, or continuations related to automobile insurance must be approved by the Alberta Superintendent of Insurance.

In line with this requirement, we have drafted a standalone Automobile Physical Damage (Section C) policy and Lloyd's has initiated discussions with the Alberta Superintendent of Insurance to ensure our policy aligns with the necessary regulations.

Furthermore, Lloyd's is collaborating with the LMA Motor working group to assess whether there is a need or desire within the Lloyd's Market to file the required rating program with the Alberta Insurance Rate Board. This step is crucial in ensuring the Lloyd's Market's practices align with industry standards and regulatory requirements.

Lloyd's will share further developments as we receive updates on these matters.

**Reporting APD as Commercial Property Insurance**

All transactions related to our Canadian automobile business must be processed through Lineage Accounting and Settlement system, which automatically satisfies the regulatory reporting requirements. In addition, it is crucial that all reporting includes the applicable Risk Codes. For a comprehensive list of automobile Risk Codes, please refer to [Canadian Bulletin RE-24-002](#).

Lloyd's will be requiring that all APD coverage be coded in accordance with an automobile insurance policy, not as a commercial property policy (even when written in the Province of Alberta pursuant to the Exemption). This change will mandate that APD coverage be coded specifically as automobile coverage.

We are in the process of validating the coding associated with APD coverage, which is documented under our commercial property policies. We understand the importance of this information for our operations and are working diligently to ensure its accuracy.

We will share additional details regarding the coding in Lineage as soon as they become available.

Please continue to review all communications on the Automobile business in Canada and send any questions to [lloydscanada@lloyds.com](mailto:lloydscanada@lloyds.com).

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