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Regulatory Update – CAFII Board of Directors and Executive Operations Committee, 10 November, 2017

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Federal / National

Canadian Council of Insurance Regulators (CCIR)

CCIR Provides CAFII With A List Of Active CCIR Committees And Working Groups, And The Names Of Their Chairs

In response to a question at the CCIR Stakeholders Meeting from Brendan Wycks about what committees are currently active in the CCIR and who chairs them, CCIR Policy Manager Martin Boyle has provided the following list:

Hi Brendan and Keith,

As requested, the following is a list of active CCIR committees and working groups with the names of the chairs:

Insurance Core Principles Implementation Committee/ICPic (Laurie Balfour – AB)
ICPic Market Intelligence Working Group (Nathalie Sirois – QC)
Segregated Funds Working Group (Anatol Monid – ON)
FinTech Working Group (Hélène Samson – QC)
Travel Insurance Working Group (Harry James – BC)
Fair Treatment of Customers Working Group (Louise Gautier – QC)
Natural Catastrophes and Consumer Awareness (Frank Chong – BC)
Harmonization Working Group (Anatol Monid – ON)
OmbudService Oversight Standing Committee (Chris Carter – BC)
Electronic Commerce Committee (Hélène Samson – QC)
Facility Association Committee (Tom Golfetto – ON)
Assuris-PACICC Committee (Brian Mills – ON)
Forms Committee (Ima Okonny – OSFI)
Capital Requirements Committee (Judith Roberge – OSFI)

Canadian Life and Health Insurance Association (CLHIA)

CLHIA Calls On Feds To Allow Insurers More Freedom on Technology

Megan Harman of the Canadian Investment Executive Magazine reported in a 10 October, 2017 article that the Canadian Life and Health Insurance Association Inc. (CLHIA) is urging the federal government to provide insurance companies with greater flexibility to invest in technology and to commercialize these innovations in its submission to the Department of Finance Canada's review of the federal financial services sector.

Specifically, the CLHIA lauds the steps the government is taking to clarify and modernize the framework around the type of technology activities and investments that insurers are permitted to undertake. The CLHIA suggests that the life insurance industry could benefit from expanded capability to invest in technology, and adds that "Insurers should be permitted to commercialize innovations outside the realm of financial services."

Stephen Frank, New CEO Of The Canadian Life And Health Insurance Association (CLHIA), Says The Pace Of Regulatory Change In The Industry Is “Almost Without Precedence”

A 30 October, 2017 article in the Insurance and Investment Journal reported that Stephen Frank, who became president and CEO of the Canadian Life and Health Insurance Association last July, describes the pace of regulatory change as “almost without precedent.”

"When you look at the regulatory environment, there's just an awful lot coming at us at the same time and when you think through where that could land us in five years, it's pretty clear we'll be in a different environment, a different industry than we are today." Beyond the regulatory change, the insurance industry is also dealing with a changing market with the emergence of fintech and changing expectations of how consumers want to interact with insurers. "So there's market things happening, there's regulatory things happening – we're in the middle of that, saying how do we help our members not just react, but how do we help shape that? How do we be proactive?"

Travel Health Insurance Association (THIA)

Lack Of Understanding Behind Most Travel Insurance Problems

A 5 October, 2017 article in the Investment and Insurance Journal stated that while a new Travel Insurance Bill of Rights and Responsibilities crafted by Canada's Travel Health Insurance Association (THIA) is well meaning and checks all the major boxes, a big cloud continues to hover over clients who don't pay enough attention to the travel health questionnaire.

The Bill of Rights, which was published in June, comes on the heels of a report by the Canadian Council of Insurance Regulators (CCIR) outlining reforms for the travel health insurance market. Even before the regulators came out with their report, Brad Dance, vice president of THIA, said the organization's rights and responsibilities bill was already in the making. "Some of us in the industry got together and designed this Bill of Rights to give the public an idea of what they can expect from their travel health policy," Dance said in an interview from Vancouver. "We want them to go away on vacation and have a carefree vacation and ultimately we hope the Bill of Rights will give them the peace of mind [they need] to take off and not have to worry."

Financial Consumer Agency of Canada (FCAC)

FCAC States That It Caused Banks To Reimburse Clients $10.5 Million

FCAC's annual report, released in October 2017, stated that financial institutions reimbursed $10.5 million to 1.2 million consumer accounts. The reimbursements made up for inaccurate fee disclosure or interest rate calculations, or for incorrect charges to accounts. FCAC's annual report also details other agency initiatives, such as a new supervision framework, effective 2018, and a review to identify and analyze the impact of bank sales practices on consumers and on financial consumer protection.

November Is Financial Literacy Month

An article by the IIJ staff on 31 October, 2017 reported that November will be the Financial Consumer Agency of Canada's (FCAC) seventh annual Financial Literacy Month (FLM), which is dedicated to the improvement of financial literacy among Canadians so they can improve their finances. The theme of this year's financial literacy month is "take charge – it pays to know."

Advocis

Advocis Establishes Technology Task Force

A 30 October, 2017 in the Insurance and Investment Journal reports that Artificial Intelligence (AI), along with robo-advice and other fintech developments are poised to disrupt the industry in a significant way. To grasp and understand their impact, Advocis is establishing a national technology task force to help frame future regulatory discussion, and to help advisors adapt and use the technologies going forward.

“Disruptive is not a bad thing necessarily,” says Ed Skwarek, Advocis’ vice president of regulatory and public affairs. “I think the next five year period is going to be incredibly transformative.” Akin to the industrial revolution, he says there is an AI revolution taking place that can’t be ignored. “Artificial intelligence has its own momentum. There’s no way of stopping it. We need to understand it and operate with it. I think that’s what makes it so exciting,” Skwarek says.

Bank of Canada

Threat Of Cyberattack Has Bank Of Canada Governor Worried

Canadian Press reported on 26 October, 2017 that of all the economic fears that could keep Bank of Canada Governor Stephen Poloz awake at night, the threat of a cyberattack is perhaps the one that troubles him the most. "It leaps up to the top of your consciousness pretty quickly — I think in many ways it's more worrisome than all the other stuff," Poloz told The Canadian Press in an interview Wednesday at the bank's headquarters in Ottawa. The central bank warned Canadians in June that the country's interconnected banks are vulnerable to a cascading series of cyberattacks, something that could undermine broad confidence in the financial system. The report, known as the financial system review, also said such structural vulnerability could allow for the easy spread of an initial attack into other sectors, such as energy or water systems. The report urged commercial banks to co-operate on countering the threats, which aren't going away any time soon.

General

BMO Insurance Rolls Out First Tech Solution For Its MGA Channel

A 31 October, 2017 article in Insurance Business Canada reported that BMO has rolled out a new technology initiative it is calling the “first step of a multi-year digital strategy” to support its managing general agent distribution channel. Peter McCarthy, president and CEO of BMO Insurance, said it was important to make insurance correspondence and documentation as simple as possible in today’s tech-forward environment.

“We recognize that technology is playing a bigger part in how financial products are delivered to Canadians,” McCarthy said. “We are transforming our businesses by digitizing the experience for our advisors and clients, recognizing that they should have the option of reaching out to us or to an insurance advisor when they need one-on-one guidance.” McCarthy added: “The insurance industry is going through a digital transformation and companies are increasingly integrating technology into their business.”

TD Insurance Call Centre To Move From Edmonton, Alberta to Halifax, Saint John

The Chronicle Herald reported in a 30 October, 2017 article that TD Insurance is closing its call centre in Edmonton, and moving the service to Halifax and Saint John, effective March 2, 2018. The news was first revealed in the Alberta city last week and on Monday the company indicated it had nothing further to add. “This decision was not made lightly and we are committed to making every effort to limit the impact to employees . . .” a company official wrote in an email Monday.

Study Finds That 90% Of Marketplace Not In Love With Their Broker

A 30 Oct 2017 article in Insurance Business Canada reported that the average client retention rate for insurance brokers is about 85%, but that this is not due to client satisfaction. A recent study in the wealth management industry, which is also applicable to insurance brokers, surveyed clients in an effort to determine how satisfied they were with an existing advisor. Only 10% of clients were raving fans who loved their provider and thought the service was amazing.

Broker and author Derek Coburn commented at the Insurance Brokers Association of Ontario (IBAO) convention in Ottawa that this group of clients not in love with their broker is “a massive potential market. .... In my opinion, the companies that are going to be the most successful at acquiring this market share over the next few years are the ones who effectively disrupt that indifference.”

Insurance “Woeful” At Attracting Millennials

In an article in Insurance Business Canada Jonathan Reiss, group Financial Officer for Hamilton Insurance Group stated that the insurance industry needs to do much more to attract millennials as employees. Speaking at the recent Insurance Risk & Capital Conference he said the insurance industry’s appeal to young people was “woeful.” That needed to change, Reiss said, in order to attract fresh blood to the business. Reiss said recruiting millennials was especially important since the industry needed employees with technology skills.

Tax Changes Could Affect Insurance

Investment Executive Magazine reported in a Mid-October 2017 article that recent proposals by the federal government to change the way private corporations are taxed are garnering mixed reactions from the life insurance industry. The CRA's proposed amendments to the way corporations are taxed could have an impact on insurance sales and the use of insurance in corporate planning strategies

In July, the Department of Finance Canada released a consultation paper proposing a slew of policy changes that would eliminate certain tax-planning strategies for private corporations. On one hand, the changes could bolster life insurance sales because fewer alternative tax-planning strategies would be available to business-owner clients. On the other hand, the changes could eliminate certain tax-planning strategies that involve corporate-owned life insurance.

Provincial

Quebec

Quebec Consumer Group Option Consommateurs Says Bill 141 Is An “Unacceptable Setback for Consumer Protection”

The Investment and Insurance Journal reported in a 24 October, 2017 article in its French edition that Option consommateurs described several aspects of Bill 141 as "an unacceptable decline in consumer protection." Christian Corbeil, Executive Director, and Annik Bélanger-Krams, lawyer, deplored several measures including softening the language around who can provide a consumer with advice, and new language in the Act which did not require advisors to collect information about their client. They also expressed concern that the advisor no longer needed to present products that best suited the needs of their clients, and instead simply needed to present products and give advice, which they felt was “a major and unacceptable retreat.” They also did not support the elimination of the two self-regulatory chambres. “A complete rewrite is necessary,” said Option consommateurs.

Quebec Government Decides That General Insurance Brokers Must Offer Products From At Least Four Insurers

A November, 2017 in the Investment and Insurance Journal reported that Quebec Finance Minister Carlos Leitao has decided that those who wish to call themselves brokers will have to offer their clients products from at least four different insurers that do not belong to the same financial group. Specifically, the Quebec government will amend section 244 of the Act respecting the distribution of financial products and services to specify that a broker must present a minimum of four insurers’ products. Previously, this article mentioned “several” insurers.

The government has gone further with Bill 150, tabled Oct. 31. It indicates that firms will have to register either as an agency or brokerage firm. It will prohibit the firm from registering as a brokerage firm if a financial institution, a financial group or a legal person affiliated with them has a significant interest in the firm's decisions or equity. In particular, it mentions an equity stake of 20 per cent or more.

Another change to the Act concerns the disclosure to consumers of brokers' ties to insurers.
A general insurance agency or a general insurance brokerage firm must disclose, on its website and in its communications with its clients, the names of the insurers for whom it offers insurance products. If need be, it must specify those with which it is bound by an exclusivity contract and the products covered by this contract.

Caisse, Desjardins Group Create Fintech Fund Of Up To $75 million
Canadian Press announced on 10 October, 2017 that La Caisse de dépôt et placement du Québec and Desjardins Group have created a financial technology investment fund of up to $75 million. The venture fund will be dedicated to fintech and artificial intelligence applied to finance. Caisse and Desjardins will invest equal amounts for a joint total of $50 million, and other investors can also join the fund. They say the fund's purpose is to support the growth and development of new fintech companies in Quebec and Canada. The fund, which has yet to be named, will operate independently.

Ontario
FSCO To Revamp Insurance Advisors' Compliance Exams
Investment Executive reports on 10 November, 2017 that FSCO will begin sending out questionnaires to some advisors who are deemed to be higher risk to determine if they need a more in-depth compliance review. The report largely parallels an update on this same issue made in CAFII's September, 2017 Regulatory Update, based on feedback shared with the Life Insurance Working Group of which CAFII is a member.

The Financial Services Commission of Ontario (FSCO) is launching this new process for its compliance examinations of insurance advisors this autumn, according to Heather Driver, director of licensing at FSCO, who recently spoke at the Independent Financial Brokers of Canada's fall summit in Mississauga, Ontario. In particular, FSCO will soon be adding a new layer to its examination process, Driver said. Specifically, the regulator will begin conducting "desk reviews" — questionnaires that aim to help the regulator determine which advisors require a more in-depth compliance review — prior to conducting onsite exams.

FSCO To Introduce *Fair Treatment of Consumers Guideline* For Insurance Industry
At its 2017 Life and Health Insurance Industry Market Conduct Symposium on November 6/17, FSCO announced that it will be introducing a *Fair Treatment of Consumers Guideline* for the insurance industry in 2018; and it will be consulting with the industry on an initial draft of that Guideline shortly, during the winter months of 2017-18.
The purpose of the Guideline is to communicate FSCO's expectations of licensees with respect to the fair treatment of consumers; and it will align with the IAIS' ICP 19 (Conduct of Business) and the OECD's G20 High Level Principles on Consumer Financial Protection. FSCO staff executive Mercedes Aldana, who is leading this initiative, advised that the new Guideline arises from an evolution in conduct of business regulation from exclusively focusing on "what is required" to a stronger focus on "doing the right thing" (a continuous process that must guide every action in the way a company conducts its business).

FSCO To Issue *Incidental Insurance Market Conduct Questionnaire and Attestation* Shortly

At FSCO's 2017 Life and Health Insurance Industry Market Conduct Symposium on November 6/17, Izabel Scovino, Director, Market Conduct Regulation Branch, announced that FSCO would be issuing its planned Incidental Insurance Market Conduct Questionnaire and Attestation – which had been previously highlighted in meetings of FSCO's recently launched Life Insurance Industry Working Group -- in the near future.

Immediately following the Symposium, Ms. Scovino had a private conversation with B. Wycks in which she confirmed CAFII's interest in participating in a consultation with FSCO on the imminent Questionnaire and Attestation. That consultation meeting will likely occur in late November or early December, she advised. CAFII alone will be consulted on the Attestation, as it relates solely to bank-owned insurers. However, with respect to the ISI Market Conduct Questionnaire, CAFII and other stakeholders will be invited to participate in to provide feedback on it, as it encompasses the full range of ISI market players.

FSCO Study Finds That Millennials Struggling To Grasp Insurance

More than half of mature millennials between the ages of 25 and 34 in Ontario don't fully understand their life or supplementary health insurance policy, according to a survey conducted on behalf of the Financial Services Commission of Ontario (FSCO).

As many participants in this demographic are reaching important life milestones — starting a career, getting married, having children or purchasing a house — understanding what their insurance coverage entails, as well as their rights and responsibilities, is a key part of protecting themselves and their families, FSCO says in a news release. "Most people don't want to think about what might happen if they get sick, or worse, but these are important discussions to have," says Anatol Monid, executive director of licensing and market conduct division at FSCO, in a statement. "It's also extremely important that customers ask questions and make sure they understand their policies so they can make informed financial decisions that protect them and their loved ones."

Saskatchewan

Government Of Saskatchewan Invites Industry To Indicate What Has Been the Impact Of Introducing The PST On Insurance Premiums

Saskatchewan's new Finance Minister, Donna Harpauer, wrote CAFII in early November 2017 as a follow up to the introduction of PST on insurance premiums announced in the 2017-18 budget. Ms. Harpauer stated that the government has made "Significant efforts to control and reduce spending" but that "our efforts to manage spending were not sufficient to fully address the revenue shortfall." As a result, she wrote that the 2017-18 Budget "introduced a number of revenue initiatives to help address our fiscal challenge, including the expansion of he PST base to insurance premiums."

Ms. Halpauer stated that "The Ministry of Finance continues to work with the insurance industry on implementation and transition issues. We understand that many companies are still working on system changes to correctly collect and remit PST on insurance premiums to the Government of Saskatchewan." The Minister stated that while the government is committed to moving forward with this initiative, it is also committed to monitoring the impact of the tax, and in that context "we are now seeking information and specific data your organization may have to demonstrate the impacts the PST change is having." The Minister concluded her letter by asking for such information to be sent to her office by November 15, 2017.

Former Minister Of Finance Kevin Doherty Leaves Post, And Later Leaves Cabinet Entirely

The CBC announced on 30 August, 2017 that Kevin Doherty has been moved from his post as Minister of Finance and will instead manage the Advanced Education portfolio. At a media scrum on Wednesday, Wall and Doherty both said it was Doherty's choice to change portfolios. Donna Harpauer was announced as his replacement as Finance Minister. On 30 October, 2017 Minister Doherty resigned his post and left cabinet altogether. He will remain the MLA for Regina Northeast.

Thought Leadership / International

How Technology Is Reshaping The Traditional Insurance Model

Paolo Taruc, in a 31 October 2017 article in Insurance Business Canada, reported that the traditional two touchpoint insurance model is poised for major change amid an increasingly connected world, according to an analyst at business school INSEAD. In a recent article published on the school's website, INSEAD entrepreneur-in-residence Sangeet Choudray said insurers and clients in the current model only interact twice – at the time of sale and at the time of claim.

However, insurers have started shifting into a different direction as they seek to fill the data gap between the two touchpoints. "In the past, they captured data as a one-time event, using it to statically determine customers' risk profiles and premiums. Today, they are embracing connected technologies … to offer personalized and dynamic insurance premiums to their customers," Choudray said.

Ninety Per Cent Of Industry Innovation Will Be In Distribution, Predicts Insurance Executive

A 30 October, 2017 in the Insurance and Investment Journal reported that according to Dean Connor, President and CEO of Sun Life Financial, distribution is where insurance innovation will largely occur. In Connor's view, what will change in future – dramatically – is the ease of buying insurance. "It has continued to improve and I think we are on the edge of quite a bit of change in that regard," he told The Insurance and Investment Journal in an exclusive interview.

When asked if he thinks the industry could undergo "Uberization", Connor said digital disruptors are unlikely to take on the part of the insurance business that relates to product design and running a regulated financial institution, especially with increasing compliance and regulatory change. "What they might be more interested in is distribution and I think that's where you're going to see 90 per cent of the innovation in our industry – in distribution."

McKinsey Article States That Unlocking Growth In The Life Insurance Industry Requires Targeting Mass-Market And Middle-Market Consumers

A McKinsey Quarterly article suggests that unlocking future growth in the life insurance industry will occur by better serving mass-market and middle-market consumers, which could add $10 billion in annual premiums.

The new McKinsey research reveals a large and underpenetrated consumer segment that could jump-start growth: the mass market (consumers with $25,000 to $100,000 in investible assets) and middle market ($100,000 to $250,000 in investible assets) segments. To date, conventional wisdom in the industry has held that these segments are not interested in protection and retirement products or would not generate sufficient profit to warrant the effort, given traditional distribution approaches. McKinsey suggests that nothing could be further from the truth.

McKinsey research found that mass-market and middle-market consumers are looking to purchase protection products—particularly at key life milestones (or “trigger events”) such as the birth of a child and the purchase of a home. Furthermore, while products sold to these consumers are less profitable, the segments feature higher growth than others, often with less competition.

McKinsey suggests that to realize this potential, it will be critical for insurers to build their outreach capabilities, both with traditional advisers and remote capabilities, around trigger events, with an emphasis on a digital-first strategy that can meet changing and rising consumer expectations.

U.K. “Regulatory Sandbox” Meets Goals, Says Report

A 23 October, 2017 Investment Executive Magazine article reported that financial firms that participated in one of the world's first "regulatory sandboxes" — which allow firms to test innovative products and services without fully complying with regulatory requirements — have found it faster, and cheaper, to get to market, according to a report published Friday from the U.K. Financial Conduct Authority (FCA).

The report details the FCA's experience so far with its regulatory sandbox, which was introduced as a way of facilitating innovation and competition in the financial sector. The model has since been copied in a number of jurisdictions, including Canada. According to the report, the FCA's sandbox "has helped reduce the time and cost of getting innovative ideas to market". It notes that the approach has also helped startups find funding from potential investors by providing them with greater certainty about the idea being tested and its commercial viability.

Australian Banks To Overhaul Consumer Credit Insurance Sales Processes

A 1 August, 2017 article on Australian developments notes that the Australian Securities and Investments Commission (ASIC) has brought together representatives from the banking industry and consumer advocates to improve outcomes for consumer credit insurance, with the establishment of a Consumer Credit Insurance (CCI) Working Group.

The CCI Working Group will progress a range of reforms, including a deferred-sales model for CCI sold with credit cards over the phone and in branches. This will mean that consumers cannot be sold a CCI policy for their credit card until at least four days after they have applied for their credit card over the phone or in a branch.