

Regulatory Update – CAFII Board of Directors and Executive Operations Committee, October 20, 2017

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Federal/National

Canadian Council of Insurance Regulators (CCIR)

CCIR's New Strategic Plan Puts Focus On Co-operative Supervision

The Canadian Council of Insurance Regulators (CCIR) published its new strategic plan for the years 2017 to 2020 on June 27/17.

In its new Plan, CCIR says it will develop an annual cooperative supervisory plan to conduct thematic and insurer-specific reviews across provinces and territories.

In addition, when it comes to consumers, the CCIR says it will work to "ensure good outcomes from the interactions of insurers and intermediaries with their customers, focusing on disclosures and transparency, incentives management and client relationships." The Plan also aims to increase consumer awareness of risks related to natural disasters, insurance options and coverages that are available as well as how disaster relief programs work across jurisdictions.

The CCIR says it will pursue a co-ordinated approach for regulators across sectors to stay informed, work together and leverage regulatory capacity. It will also make harmonization a priority and work with industry stakeholders to identify specific areas for greater consistency in approach across jurisdictions.

To determine its strategic priorities, the CCIR consulted stakeholders and took into account the current insurance environment. "The work the CCIR has done over the last three years has had a considerable impact on the evolution of insurance regulation in Canada," says Patrick Déry, chair of the CCIR. "We have developed the foundation for greater collaboration, cooperation and information sharing among our members and introduced stronger supervisory partnerships. The 2017-2020 strategic plan will leverage these efforts and build upon that foundation moving forward."

Canadian Life and Health Insurance Association (CLHIA)

CLHIA Urges Ottawa To Allow Insurers More Freedom On Technology

The Canadian Life and Health Insurance Association is urging the federal government to provide insurance companies with greater flexibility to invest in technology and to commercialize 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.

"Greater investment and partnerships with fintechs and other innovative firms will allow life insurance companies to better serve our customers and meet the changing preferences and demands of the Canadian marketplace," the Association's submission states.

Although insurers are investing in technology increasingly to make their businesses more efficient and to meet changing client expectations, they're restricted from selling or licensing this technology to companies outside of the financial services sector under the current framework, the Association notes.

"Insurers should be permitted to commercialize innovations outside the realm of financial services," the CLHIA's submission recommends.

As examples, the CLHIA suggests that if an insurer had developed an online game to promote financial literacy, or a tool to facilitate compliance with anti-money laundering legislation, the company should be able to license those products to a third party for commercialization.

The CLHIA also calls for more flexibility in the legislation to take into account the rapid pace of technological change. Under the current framework, insurers must receive written approval from the federal finance minister prior to making certain technological investments.

"The process to seek Ministerial approval can be slow and cumbersome, which can be problematic given the rapid pace of new technology," the CLHIA's submission states. "In order to encourage innovation in a timely manner in the financial services sector, the industry recommends a carve-out for fintech, whereby insurers do not require Ministerial approval prior to engaging in innovative activities."

Independent Financial Brokers of Canada (IFBC)

IFBC Implores Ottawa To Take Steps To Help Smaller Firms

The federal government needs to take action to help independent financial services firms compete against the increasingly dominant big banks in Canada as well as to improve consumer protection, Independent Financial Brokers of Canada (IFB) argues in a recent submission to the federal Department of Finance Canada.

Notably, the IFB expresses its support for the government's intention to consider proportionality in the development of policy and regulation in its submission to Finance Canada on the department's review of the federal financial services sector framework.

The financial services sector's growing regulatory responsibilities are placing smaller businesses at a competitive disadvantage to their larger counterparts, the IFB argues in its submission.

"IFB members must compete with large, vertically integrated financial institutions — like banks and insurance companies — for clients," the submission says. "However, today, the increasing regulatory burden and dominance of large financial institutions is reducing the ability of independent firms to remain competitive."

The growing costs and efforts associated with compliance, the IFB's submission states, are taking away from the amount of time and resources that independent advisors can devote to their clients.

The increasing dominance of the big banks, in general, also poses a challenge for small, independent players in the financial services sector — as well as jeopardizing consumer protection, the IFB suggests in its submission.

"Today, we have a financial services landscape increasingly dominated by six large banks," the IFB's submission states. "This domination extends to all aspects of the financial services industry — banking, securities, even insurance — while delivering services to consumers that, at best, have been shown to lack transparency."

For example, in the securities dealer space, the IFB notes that the presence of the banks has led to a drastic decline in the number of independent firms. Furthermore, the IFB suggests that it's often not clear to consumers whether they're dealing with a bank branch or a representative of the bank's securities arm.

Also "troubling," according to IFB, have been recent cases involving the banks in which clients have been overcharged over the course of many years, leading to "no-contest" settlements with the Ontario Securities Commission.

The review of the financial sector framework, currently underway at Finance Canada, represents an opportunity for the government to strengthen consumer protection, the IFB says. "Canada's lack of a statutory financial consumer protection policy, in comparison to some other countries," the IFB's submission concludes, "has been cited as a fundamental weakness in oversight."

British Columbia

Janet Sinclair Appointed New Executive Director of Insurance Council Of BC

In October, the Insurance Council of BC announced that Janet Sinclair will become its new Executive Director, succeeding Gerry Matier who is retiring as the Council's chief executive at the end of 2017. Her first day in her new job will be November 1/17.

Ms. Sinclair has a strong background in regulatory affairs, having most recently been the Chief Operating Officer of the Association of Professional Engineers and Geoscientists of British Columbia. Council Chair Michael Connors said that her strong background, with over 16 years of regulatory and management experience, will be a huge asset to Council as it implements its new strategic plan. While Ms. Sinclair has no direct insurance industry experience, she comes from a family of general insurance professionals.

Insurance Council Of BC Suspends 21 Surrey Life Insurance Agents

In early October, the Insurance Council of BC announced that twenty-one (21) life insurance agents in Surrey were under investigation for allegedly colluding to cheat on their Life Life Qualification Program (LLQP) modular exams.

Insurance Council Executive Director Gerry Matier said that an audit of exams written over the past year found a highly dubious distribution of multiple-choice exams with near-identical right and wrong answers. The set of suspiciously similar answers were written between October 2016 and June 2017.

The Council's investigation into the matter revealed that those exams were all written by agents affiliated with a particular Surrey branch of World Financial Group. Matier declined to reveal which branch was involved.

"So many people coming from the same location having pretty well the exact same answers — particularly on the ones that were wrong — that's what kind of makes it look very unusual," he said. "We've never encountered it before.... we've caught the odd person cheating, but we've never found it at this level where there appears to be collusion involving more than one person."

Matier believes that the cheating, while a low-tech effort, was co-ordinated. The Insurance Council suspects that one person took the exams first, memorized what he/she had answered, then gave the sequence to the other alleged cheaters.

There are four versions of the licensing exams, which means one or more people were involved in the scheme. The cheating scheme, however, was not foolproof. Some of the test-takers used the wrong answer sequences on some sections of their exams, Matier noted.

The agents accused of cheating are entitled to hearings to prove that they did not cheat – those who cannot prove their innocence will lose their licenses.

Saskatchewan

Premier Candidate Vows To Rescind Provincial Sales Tax On Insurance Premiums

Meadow Lake MLA Jeremy Harrison has revealed that if he wins the Saskatchewan Party leadership, he would roll back the provincial sales tax (PST) levied on insurance premiums.

Harrison had originally supported the tax, which was part of the March 22 provincial budget. However, he claimed he has changed his tune on the policy after hearing feedback from the public. “Many individuals use life insurance as a savings mechanism, while others use it as a way to transition their small business from one generation to the next,” he said in a news release. “Insurance is often another way of saying ‘savings.’”

Harrison also added that the 6% PST rate is also affecting farmers. “Many producers expect to see thousands, if not tens of thousands, in increased insurance costs for crop insurance, for instance,” he noted.

Quebec

Finance Minister Tables Omnibus Bill 141 To Modernize Financial Services Sector

On October 5/17, Quebec Finance Minister Carlos Leitão introduced a long-awaited omnibus Bill in the National Assembly to improve the framework for Quebec's financial sector and strengthen protection of consumers.

Bill 141, An Act to substantially improve the supervision of the financial sector, the protection of deposits of money and the functioning of financial institutions, is a follow-up to recent reviews of various Acts governing the industry.

Most importantly for CAFII members, Bill 141 introduces a framework for the online distribution of insurance products “in order to offer Quebecers the opportunity to transact within a regulatory framework which protects them”; and, in addition, the structure of the framework for the distribution of financial products and services will be revised “to improve its effectiveness and better protect the public and strengthen its confidence in the system.”

Among the proposed changes, the AMF Act would become the Financial Sector Supervision Act; and an advisory committee of consumers and users of financial products and services would be established. Amendments would also be made to the Act to improve the accessibility and effectiveness of the Administrative Tribunal for Financial Markets. To increase the protection of investors against fraud, the Financial Services Compensation Fund would have its coverage expanded and compensation decisions would be approved by an independent compensation committee.

The Insurance Act and the Act respecting trust companies and savings companies would also be replaced in order to update the law relating to the internal operation of these financial institutions and the supervision of their operations.

In addition, the laws governing Mouvement Desjardins would be reviewed in order to adapt it to international rules aimed at institutions of systemic importance.

With the proposed changes, the government intends to strengthen its existing provincial regulatory model which is based on an integrated regulator (the AMF) with a comprehensive view of the activities of financial sector stakeholders and providing a one-stop shop for consumers to handle complaints.

"The proper functioning of the financial sector must be based on modern laws leading to effective supervision that takes account of business developments and reinforces public confidence. It is in this spirit that we have drafted this Bill, which proposes the revision of all the laws of the financial sector in an integrated and coherent way. The interests of consumers and their protection have been at the centre of our concerns throughout the preparation of this Bill," Minister Leitão said.

Research, Thought Leadership, and Innovation

Boston-Based FinTech Sandbox To Expand Its Model Into Ontario

Toronto-based Ontario Centres of Excellence Inc. (OCE) and Boston-based FinTech Sandbox signed a memorandum of understanding (MOU) in June to collaborate and expand the FinTech Sandbox model into Ontario. As a part of the agreement, OCE, a member of the Government of Ontario-funded Ontario Network of Entrepreneurs, will provide initial access to FinTech Sandbox in Ontario for qualifying financial technology (fintech) small and medium enterprises (SMEs) and start-ups at no cost, including those located at incubators and accelerators throughout the province.

The partnership between OCE and FinTech Sandbox, a nonprofit that promotes fintech innovation globally, will establish a shared resource to promote fintech. It will also provide the Ontario-based fintech start-ups and SMEs that meet eligibility criteria to participate in the FinTech Sandbox with free access to data feeds for development, cloud hosting and an opportunity to engage with a diverse network of fintech entrepreneurs and finance professionals.