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The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

200-411 Richmond Street E, Toronto, ON M5A 3S5
☏ (416) 494-9224 🖷 (416) 967-6320
info@cafii.com www.cafii.com

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Regulatory Update – CAFII Executive Operations Committee, June 16, 2020
Prepared By Brendan Wycks, CAFII Co-Executive Director

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Federal/National

Financial Consumer Agency of Canada (FCAC)

FCAC Publishes 2020-21 Business Plan
The Financial Consumer Agency of Canada (FCAC) recently published its 2020-21 Busines Plan on its website: https://www.canada.ca/content/dam/fcac-acfc/documents/corporate/planning/business-plan-2020-2021.pdf.

The 31-page Plan, most of which is internally focused on the Agency's accountabilities to the federal government, spells out four FCAC priorities for 2020-21:

- Priority no. 1: Enhance FCAC's regulatory effectiveness;
- Priority no. 2: Ensure FCAC is an insightful and effective authority in financial education;
- Priority no. 3: Invest in the future; and
- Priority no. 4: Capitalize on the diversity of FCAC's talent.

Under Priority no. 1: Enhance FCAC's regulatory effectiveness, the FCAC says that the following two strategic objectives will be among four such objectives which will enable this priority:

Implementing the new Financial Consumer Protection Framework (FCPF) in the Bank Act.
The FCPF was part of legislation passed in 2018 that provided FCAC with new powers and tools to protect consumers. We will support the legislation's coming into force by:
• Regularly consulting with banks and other regulated entities through working groups and other mechanisms to support their compliance with the FCPF. This work will include developing and providing clear guidance.
• Supporting the Department of Finance in developing and finalizing the regulations required to bring the FCPF into force.
• Updating internal procedures and policies, including FCAC's Supervision Framework, to reflect the Agency's enhanced powers and authorities.

Conducting risk-based and proactive supervision of Federally Regulated Financial Entities (FRFEs)
so that FCAC can prioritize resource allocation, anticipate market conduct risks and become a more proactive regulator. This year, we will:
• Conduct and complete market conduct profiles of select financial institutions. This will help to generate quality data on and analysis of the risks that are present or inherent in the business activities of FRFEs. It will also enable the Agency to conduct risk-based supervision.
• Conduct an industry review of select small- and medium-sized banks with a focus on their sales practices and complaint handling procedures. We will publicize the results in the next fiscal year (2021–22).
• Develop and implement a data intake and prioritization strategy to enhance the Agency's enforcement work.

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In her "From the Commissioner" introduction to the 2020-21 FCAC Business Plan, Judith Robertson says:

"Our plans for the upcoming year are guided by our newly articulated vision: to be a leader and innovator in financial consumer protection. The Agency's dedicated employees are united and deeply engaged in achieving this vision. Our combined efforts will help to ensure Canadians continue to benefit from strong financial protection standards.

"At FCAC, we are committed to delivering results for Canadians. As part of this commitment, we will integrate our regulatory, consumer education and financial literacy roles with the aim of ensuring our efforts are best aligned with our mandate to protect financial consumers. This work is reflected in a new organizational structure and business ethos that we sum up as 'One Mandate, One Team.'

"This is an important period for the FCAC and for financial consumer protection in Canada. New legislation to modernize the Financial Consumer Protection Framework in the Bank Act places consumers' interests at the heart of how banks do business. The Agency has also acquired new powers to protect consumers and direct banks to comply with their market conduct obligations. It is time to renew the National Strategy for Financial Literacy to be sure we are building on what we have accomplished since our launch in 2015 and to leverage the results of the latest research.

"As this Business Plan demonstrates, we are using these developments to position ourselves for the future. Building on the strong legacy of the past, we will modernize our business practices— guided by innovation, collaboration and the principles of sound resource management—to meet the challenges of a rapidly evolving financial sector."

The 2020-21 Business Plan indicates that the FCAC's planned spending/budget for 2020-21 will remain constant at the 2019-20 level of $38.4 million; however, spending on "Supervision of FRFEs" will see a 3% increase to $9 million of the overall envelope.

For 2021-22, the FCAC's planned spending/budget is expected to increase by 7% to $41.1 million, of which "Supervision of FRFEs" will receive an additional $568,000 or 6.3% increase over the prior year.

Canadian Council of Insurance Regulators (CCIR)

<u>CCIR's 2020-23 Strategic Plan Recommits To Three Strategic Priorities</u>
In CCIR's new 2020-23 Strategic Plan, released in April 2020, the Council recommits to the following three strategic priorities for the next three years, "each of which is focused on consumers, regulators, and industry":

• build upon co-operative supervision in alignment with international standards to enhance consumer protection;
• work collaboratively with regulatory partners to grow and leverage national regulatory capacity; and
• partner with industry stakeholders to identify opportunities to increase regulatory and supervisory harmonization where feasible and appropriate.

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These priorities are identical to those set out in the Council's previous 2017-20 Strategic Plan. The new 2020-23 Strategic Plan can found on the CCIR website here: https://www.ccir-ccrra.org/Documents/View/3579.

CCIR and CISRO Launch Fintech/Insurtech Advisory Hub
On May 7/20, CCIR and CISRO jointly announced that they were launching a new "CCIR-CISRO Fintech/Insurtech Advisory Hub (Advisory Hub)."

The joint release indicated that the two regulatory organizations believe in facilitating innovation and the introduction of new products, services and technologies in the insurance marketplace. "In the current climate, where most financial services are being delivered remotely, the time is ripe for development of innovative, cutting-edge solutions to facilitate engagement and transactions between customers and financial services' providers. With this in mind, the Advisory Hub presents itself as a valuable resource for fintechs seeking to go-to-market," said Hélène Samson, the AMF's Director of Prudential Supervision of Financial Institutions and Chair of the CCIR Fintech Working Group.

The Advisory Hub will serve as a portal for interested entities to seek and obtain clarification on what would be required to operate or provide their innovative insurance products or services in one or more jurisdictions across Canada. The Advisory Hub will not offer pre-market testing, exemptive relief from regulatory/licensing requirements, financial support, or binding advice.

Through the Advisory Hub, businesses can explore piloting innovative products, services or technologies in one province or territory, with the intent of potentially rolling out those new products, services and technologies across the country.

The Advisory Hub provides:
• increased visibility of the regulated insurance sector, to fintechs and other businesses wishing to develop innovative products and services;
• a common access point for all jurisdictions, giving ease of access to all regulators for fintechs and other businesses; and
• a resource for businesses to get clarification and direction about the insurance sector and regulations, prior to launching in individual jurisdictions.

More information on the CCIR/CISRO Advisory Hub can be found here: https://www.ccir-ccrra.org/CCIR-CISROFintechAdvisoryHub.

CCIR Fair Treatment of Customers Working Group Reviewing CSA's Client-Focused Reforms
In a special Spring 2020 issue of CCIR's Communique newsletter, the Council's Fair Treatment of Customers Working Group (FTCWG) reported that it is reviewing the Client Focused Reforms (CFRs) released by the Canadian Securities Administrators (CSA) and assessing the relevance of the CFRs to the insurance sector.

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The FTCWG also indicated that it is continuing to engage actively with industry representatives, from product manufacturing and distribution, to examine the alignment of compensation and incentive structures used in-market with the principles of the CCIR/CISRO "Guidance: Conduct of Insurance Business and Fair Treatment of Customers."

CCIR To Hold Summer Teleconference Meeting On June 18/20

In a special Spring 2020 issue of CCIR's Communique newsletter, the Council advised that its Summer 2020 teleconference meeting of provincial/territorial insurance regulator members would take place on Thursday, June 18/20.

CAFII will follow-up with CCIR Policy Managers Tony Toy and Munir Chagpar the following week with a request for a debrief on any issues discussed in the June 18/20 Summer Teleconference which are of relevance to the Association and its members.

Provincial/Territorial

British Columbia
Insurance Council of BC

Insurance Council Publishes New 2020-23 Strategic Plan

The Insurance Council of BC has published a new 2020-2023 Strategic Plan on its website. The new three-year plan takes effect in June 2020 and provides direction for the organization's activities. The one-page plan, with four overarching goals, calls for the Council to update regulatory practices in line with international standards; provide oversight that protects consumers and enables industry innovation; enhance support for consumers, licensees and government; and deliver efficient and effective access to Insurance Council services.

The Insurance Council of BC 2020-23 Strategic Plan can be found here: https://www.insurancecouncilofbc.com/Website/media/Shared/About%20Us/Strategic-Plan-2020-2023.pdf.

Québec
Autorité des marchés financiers (AMF)

AMF Publishes Damning Report On Insurance Products Sold By Auto Dealers

On June 3/20, the AMF published on its website its *"2016–2018 Insurer Disclosure Analysis Report – The offering of insurance products by automobile and recreational and leisure vehicle dealers in Québec*."

The damning report indicates that data collected by the AMF exposed four main issues related to the auto/recreational/leisure vehicle dealers' commercial practices in selling insurance:

- concerning levels of remuneration for the distribution network;

- limited added value for consumers in the case of Q.P.F. No. 5 products owing to the high price paid in the dealer distribution network;
- a high claim denial rate for debtor life, health and employment (DLHE) insurance products; and
- issues related to the premium refund in the event of policy cancellation.

"The AMF has undertaken efforts in recent years to bring this sector into line, including publishing multiple notices, establishing a round table and imposing penalties on specific dealers and an insurance firm," said AMF President and CEO Louis Morisset.

"Based on the data collected by the AMF, those efforts have not yielded the desired results. Now that it has a more accurate picture of the market, the AMF is going to continue to strengthen its actions to correct persistent improper practices."

The report indicates that the AMF's planned actions to address its concerns will focus on four objectives:

- offer consumers, through dealers, products that have a similar added value to that of comparable products currently offered through the traditional distribution network;
- require remuneration practices that promote the fair treatment of consumers;
- pursue initiatives to educate and improve disclosures to consumers; and
- have an effective deterrence effect with respect to improper sales practices.

The AMF says that it will continue to closely monitor the market for insurance products offered by auto/recreational/leisure vehicle dealers. Annually-collected data will be analyzed in order to track developments in this market.

The AMF's media release on this report, which does not appear to have received any industry trade press coverage to date, reminds consumers that

- they should always take the time to shop around for insurance products and check whether they are not already covered; and
- they are under no obligation to purchase an insurance product offered by a dealer.

Research/Thought Leadership

<u>Canada Life Recalls Some Employees To The Office</u>

The following article appeared in The Insurance Journal e-news on June 12/20:

Canada Life announced June 12 that roughly one quarter of its workforce will potentially be back in the office by end of October.

Beginning after the Canada Day long weekend – the company also announced it is giving its employees two extra paid vacation days on July 2 and 3 to celebrate the holiday – the company says it will gradually increase the number of people returning to the office, beginning with those in vital roles that can best be done on-site. Currently, more than 95 per cent of Canada Life's workforce is working from home.

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Canada Life senior vice president of human resources, Cathy Weaver, said the company's investment in technology and its development of flex work policies helped employees and management meet the challenges posed by the COVID-19 outbreak. Going forward, she says the majority of the company's employees will continue working from home for the foreseeable future. "This is important, because as a major employer across Canada, we believe communities are best served by keeping employees out of the office, particularly in reducing the stress on transit systems in major metropolitan centres."

For the 25 per cent expected to return to the workplace, Weaver says physical distancing principles will be the foundation of how offices function. All employees will be provided reusable masks and all team meetings will continue to be conducted online throughout the summer, even as the number of employees in the office increases. Travel restrictions will also remain in place going forward.

"We've created new ways of working that will be part of our lives long after COVID-19 has gone," she adds. "Our goals are to keep employees and their families safe and to keep our business moving forward."

Manulife CEO Says Pandemic Remains A Challenge For Insurers

The following article appeared in The Insurance Journal e-news on June 8/20:

Many life insurers came into the current recession well-prepared. They were already adapting to low interest rates and many had high capital buffers and little exposure to speculative-grade debt.

That said, CEO panelists at the annual S&P Global Ratings' Insurance Conference, including Roy Gori, president and CEO at Manulife Financial, say the pandemic presents a huge challenge, to advisor sales, and to business continuity. The CEOs gathered also discussed policy lapses, terminations in claims, and payouts related to deaths from COVID-19.

Gori says Manulife has yet to see an increase in payment lapses or policy terminations, "but it's still too early to declare victory," he told the group. Gori also spoke about the rapid pace at which his company had to digitize, working with regulators and supervisors in ways they never have before to ensure quick approval of their platforms. Although he and other panelists agree that certain complex policies are better handled in-person, Gori told the group of those gathered that "digital is not the enemy of face-to-face distribution."

Going forward, the panelists say they don't expect any mergers or acquisitions to occur in the next few months, agreeing that stability is important for both buyers and sellers. But once stability returns, M&A likely will, as well. They also say insurers will need to offer new products going forward, pay attention to their pricing, and cut costs.