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Regulatory Update – CAFII Board, June 6, 2014

Prepared By Brendan Wycks, CAFII Executive Director

Executive Summary of this Issue

- **Insurance Council of BC Invites Representation Nominees. Page 1:** Gerry Matier invites recommendations from CAFII members of well-qualified nominees for non-voting positions on the BC Insurance Council.
- **Review of BC Financial Institutions Act. Page 1:** BC's Financial Institutions Act is due for a scheduled review, and work is expected to start in Fall 2014. The Insurance Council will be trying to get a number of things moved out of the Act and into Rules and Regulations, to create more flexibility.
- **AMF Disseminates Questionnaire On Compliance With Sound Commercial Practices Guideline. Page 4:** In early May, the AMF sent its promised Questionnaire on Compliance With Sound Commercial Practices Guideline to all insurers and deposit-taking institutions operating in Quebec. At the CLHIA Compliance Conference, AMF staff executive Helene Samson commented on the questionnaire and characterized the Guideline as the AMF's bible on Fair Treatment of Customers.
- **Insurance Licensing Crisis In New Brunswick. Page 4:** CAFII, CLHIA Make Views Known On Delays in Processing Applications for New and Renewal Life Licences.
- **CCIR To Develop Common Supervisory Framework. Pages 5-6:** All CCIR members support, in principle, a Common Supervisory Framework initiative, where CCIR members will work together in a manner similar to a Supervisory College
- **CCIR's 2014-17 Strategic Plan Initiatives. Page 6:** Carolyn Rogers, CCIR Chair, gave a high level overview of the Council's new Strategic Plan at the CLHIA Compliance Conference; and commented on related regulatory developments.
- **Financial Consumer Agency of Canada Outlines National Financial Literacy Strategy; Seeks Applicants For National Steering Committee From Broad Range Of Sectors. Pages 7-8:** Jane Rooney has been promoted into the role of Financial Literacy Leader, working within the Financial Consumer Agency of Canada (FCAC).
- **Borden Ladner Gervais Presentation on Market Conduct Issues: Trends in Industry and Self-Regulation. Page 9:** Jill McCutcheon gave some poll-based prognostications on market conduct regulation trends at the recent CLHIA Compliance Conference.

British Columbia

Financial Institutions Commission (FICOM)

FICOM Awaiting Stragglers' Responses to Open Letter and Two Question Survey On "Creditor's Group Insurance Issue"

In late May, Brendan Wycks made a follow-up call to Harry James, FICOM's Director, Policy Initiatives, to find out if there was any news he could share based on responses to the Commission's open letter send in early April to all entities licensed to offer creditor's group insurance in the province. The deadline for responses was May 9.

Harry advised that it was premature for him to respond, as there were still a number of straggler respondents who had yet to submit a response to the letter. He expected to be in a position to communicate FICOM's findings and next steps in early to mid-June.

As previously indicated, the open letter includes a questionnaire consisting of two high level filter questions intended to ascertain the prevalence in the market of CGI products which may contravene BC insurance legislation with respect to the "structuring and effecting" of creditor's group insurance.

Earlier, on March 12, Harry James had contacted Brendan Wycks to provide heads-up information about an issue related to creditor's group insurance which had led the Commission to impose a Consent Order and fines totaling \$150,000 on Manulife Financial and its subsidiary company Benesure Canada.

Insurance Council of BC

The following are highlights of a May 28, 2014 regulatory liaison meeting that CAFII arranged with Gerry Matier, Executive Director of the Insurance Council of BC, while he was in Toronto for CISRO LLQP Committee meetings:

Representation For Banks-in-Insurance Sector At Insurance Council of BC

Gerry is always interested in receiving recommendations from CAFII members of well-qualified (company or agent) nominees for the non-voting positions on the Insurance Council (first step towards full council membership). Duration of the term for such appointments and residency requirements could be negotiated.

Review of the Financial Institutions Act

BC's Financial Institutions Act is due for a scheduled review, and work is expected to start in the fall. The Insurance Council will be trying to get a number of things moved out of the Act and into Rules and Regulations, to create more flexibility.

It was suggested and agreed that if this change occurs, it will be all the more important to have all relevant perspectives represented at the Insurance Council table, including the banks-in-insurance perspective.

The exemption from licensing for creditor insurance is in this Act.

Recent Consultation on Conflict of Interest Guidelines

Roughly 10 submissions were received by the Insurance Council. Gerry's staff are revising the draft Guidelines to reflect the salient feedback received and the revised document will be brought to the Council at its Annual Meeting in June.

There was substantive discussion of how and if conflict of interest situations could occur and how they could be dealt with in a call centre or other controlled environment where clients initiate the approach, which surfaced factors not fully considered in this consultation thus far.

In discussion of this matter, Gerry commented that "your banks-in-insurance sector really does have a different perspective that is always valuable when regulators are developing rules or guidance for the industry."

The particular example noted was that the Council sees it as appropriate to deny a life insurance agent license to those in certain professions who want sell insurance as a sideline (egs. police officers; pastors and other religious leaders; nurses; doctors). However, he now intends to consider how Council's view should be adapted where the applicant for a license was going to be working in a CAFII member FI contact centre, rather than in face-to-face sales.

Banks-in-Insurance and Regulatory Risk

In Gerry's view, Canada's banks and the banks-in-insurance sector are one of the most tightly controlled, and rigorously internally regulated financial sectors in the world; and that's been proven time and again. In his job, he doesn't worry much at all about the banks and other FIs that operate in the creditor's group insurance space. It's the bit players that have been allowed to play in the insurance sandbox – such as car dealers and glass companies – that he worries about in terms of consumer protection. "Banks have more to lose by doing something wrong than anybody else, in terms of reputational risk."

He is not in agreement with BC legislation's exemption from licensing for creditor insurance and would prefer that an appropriate licensing regime be put in place.

Consumer Financial Literacy

The Insurance Council has started to get involved in consumer education. It has invested in running some pithy ads on insurance topics in lower and middle income-targeted media throughout the province which say something like "Did You Know (pithy/interesting insurance fact)?" and then refer the viewer/listener to a web site. This is akin to the AMF's "Protegez Vous" financial literacy campaign.

Manitoba

Meeting With Minister of Finance On April 29/14

On April 29, Moira Gill, Paul Yeung, and Brendan Wycks met in Winnipeg with Manitoba Minister of Finance Jennifer Howard, Deputy Minister Jim Hrichishen, Superintendent of Insurance Jim Scalena, and Deputy Superintendent Scott Moore.

Immediately prior to that meeting, the CAFII delegation had a pre-meeting with Jim Scalena, Scott Moore, and Erin Pearson, Executive Director of the Insurance Council of Manitoba.

In addition to face-to-face relationship-building, the meetings provided an opportunity for CAFII to communicate its support for Manitoba's ISI Regulation, given that its current form reflects a high degree of harmonization with the existing ISI regimes in Alberta and Saskatchewan. The delegation stressed the importance of providing – whenever such new Regulations are introduced – sufficient lead time to enable our member Financial Institutions to implement the required changes in an efficient, effective and consumer-friendly manner. We noted that significant regulatory changes inevitably become major projects within member organizations and it takes considerable time to ensure that necessary IT systems changes are made, forms revised, staff re-trained, and consumers notified of how the changes affect them.

Other highlights of the meetings are set out in a Regulatory Visit Report and thank you letters sent to Minister Howard and Superintendent Scalena.

Quebec

Compliance Questionnaire on Sound Commercial Practices Guideline

Helene Samson, Director, Prudential Oversight of Financial Institutions at the AMF, presented as part of CLHIA Conference panel on Fair Treatment of Customers, along with Moira Gill and John Lewsen.

In her remarks, Ms. Samson advised that the following through that week, by Friday, May 9, on its promise to issue a Questionnaire on Compliance with the AMF's Sound Commercial Practices Guideline, which came into force in June 2013. She indicated that the Guideline was inspired by best practices and ICP 19 in the IAIS' Insurance Core Principles, is outcomes-based, and is effectively the AMF's policy manual and bible on Fair Treatment of Customers.

She indicated that the questionnaire would be sent to all financial institutions operating in Quebec, both insurers and deposit-taking institutions. The survey is designed to give the AMF a "big picture assessment" of the current level of compliance, which will permit it to measure the degree of progress towards compliance with the Guideline. Insurers and DTIs doing business in Quebec will be given several months to complete and submit the Questionnaire on Compliance with the Sound Commercial Practices Guideline.

New Brunswick

CAFII, CLHIA Make Views Known On Delays in Processing Applications for New and Renewal Life Licences in New Brunswick

On June 4, CAFII representatives met with an official from Invest New Brunswick, a Crown Corporation with a mandate to attract inbound business investment to the province. CAFII took the opportunity of this meeting invitation to emphasize strongly how the current insurance licensing crisis in the province is a disincentive to new or expanded contact centre operations in the province.

In a similar vein, Frank Swedlove, CEO of the Canadian Life and Health Insurance Association, recently wrote to Angela Mazerolle, New Brunswick's Superintendent of Insurance, as follows:

Dear Ms. Mazerolle:

Recently a number of insurers have approached CLHIA with concerns related to delays in processing applications for new and renewal life licences in New Brunswick.

Based on the information collected over the past year by several insurers, it appears that approvals can take anywhere from 20 to 60 days with the average being approximately 30 days. This compares with one to three weeks in most other provinces including the other Atlantic provinces where applications are processed manually.

Our members are concerned about the length and variability of the approval process. You can appreciate that this affects the ability of agents and prospective agents to carry on business and earn a living. It also can mean a great deal of uncertainty for the insurers they represent.

We trust you will give this matter your careful attention with a view to quickly achieving more acceptable standards for processing licence applications. Rest assured the industry is prepared to assist in any way it can.

Federal/National

Canadian Council of Insurance Regulators (CCIR)

The following updates are based on CCIR's Highlights from its April 3-4, 2014 Spring Meeting and from an update presentation given by Carolyn Rogers, Chair, at the May 7-9/14 CLHIA Compliance Conference:

Review of Third Party Administrators

CCIR's Agencies Regulation Committee (ARC) undertook a review in 2013 to determine if there were regulatory gaps in the oversight of these entities and if their involvement in insurance distribution and claims administration might be causing harm to the public.

While ARC's fact-finding and pre-consultation identified some areas of interest around TPAs, none of them were directly related to insurer's use of TPAs. Insurers generally treat TPA contracts as outsourcing arrangements and follow the OSFI outsourcing guideline for oversight, etc. Therefore, CCIR has agreed to suspend further consultation regarding insurers' use of TPAs in these markets.

However, this investigation has resulted in an issue related to White Labeling of Travel Insurance making its way into the 2014-17 CCIR Strategic Plan.

As well, CCIR is reminding insurers that their oversight of TPAs may be addressed by Conduct of Business Review in the future; and insurers are expected to ensure that their TPAs make information about the complaint and dispute resolution process clear to claimants who are denied for any reason.

Market Conduct Supervisory Framework

CCIR's "IAIS Insurance Core Principles Implementation Committee (ICPic)" is currently drafting a paper detailing the issues and options for the development of a common Supervisory Framework. The Council has reached agreement that the common Framework must be rooted in the following principles:

- comprehensive with respect to international standards;
- cost-effective for CCIR members;
- efficient in regard to administrative burden on the regulated industry; and
- shared and equitable distribution of responsibility among participating jurisdictions.

The key issue with respect to assisting CCIR member jurisdictions in improving their compliance with the IAIS' ICPs is: how to regulate and supervise on a national basis in an environment characterized by many supervisory authorities and shared decision-making?

The areas requiring most improvement are in the Supervisory Framework (ICP 9) requirements and the Conduct of Business requirements (ICP 19). The approach to addressing these will have to recognize the differences in legislation in various jurisdictions as well as stakeholder concerns about regulatory duplication and overlap.

All CCIR members support, in principle, this Common Supervisory Framework initiative, where CCIR members will work together in a manner similar to a Supervisory College (as described in ICP 25).

ICPic plans to have a draft Supervisory Framework ready for approval at CCIR's Fall 2014 meeting.

2014-17 Strategic Plan

Based on strong common themes found in stakeholder input submissions for CCIR's new Strategic Plan, the following have been incorporated into the Council's priorities for its 2014-17 plan:

- increased emphasis on harmonization of laws and regulations, in the implementation of CCIR recommendations, in licensing requirements, and in guidance around the uses of new technologies;
- greater regulatory co-ordination amongst provincial regulators as well as greater engagement with federal regulatory counterparts including OSFI and FCAC;
- continued focus on risk-based approaches where regulatory action is targeted for the outliers, rather than stricter compliance rules for all; and
- more efficient and effective regulation to reduce or eliminate unnecessary regulatory burden.

Therefore, CCIR's high level strategic priorities for the next three years are

- align supervision with international best practices to enhance consumer protection;
- work collaboratively with regulatory partners to increase regulatory capacity across all jurisdictions; and
- partner with industry stakeholders to identify opportunities to improve harmonization and reduce inter-jurisdictional barriers.

CCIR expects to publish its new 2014-17 Strategic Plan in the summer of 2014.

Dates For 2014 Annual Stakeholder Meetings In Toronto

CCIR has tentatively set aside Wednesday and Thursday, November 5-6 for its third annual Stakeholder Meetings in Toronto. Invitations will be extended to industry Associations in the early Fall to meet with the Council to discuss current industry issues and concerns, along with respective work plans for the coming year.

Canadian Insurance Services Regulatory Organizations (CISRO)

LLQP Modernization

On April 28, Ron Fullan, Chair of CISRO and its LLQP Committee, issued an open letter to LLQP Stakeholders on the subject of "LLQP Updating Project." The letter has been widely shared throughout the life insurance industry, including by FSCO and the AMF.

The main purpose of the three-page letter – which details the process followed by the LLQP Committee to date, plans and timelines for seeing the project through to completion, and the benefits of the modernization effort to all stakeholders, including consumers – is to address “misconceptions concerning some of the details of the project.” The misconceptions referenced, no doubt, include those held by the industry stakeholder whose opposition to key aspects of the project caused the LLQP Committee to ask CAFII for a “letter of support,” since delivered, which could be shared with Ministers across the country.

On May 28, 2014, CAFII representatives Fay Coleman of TD Insurance and Brendan Wycks met with the LLQP Committee for another one-on-one stakeholder consultation, where the focus of discussion was the criteria to be used by CISRO in selecting LLQP course providers and monitoring their performance.

CCIR has expressed its continuing unanimous support for the LLQP modernization project and the direction that CISRO is taking, noting that “this will be a solid advancement in harmonization across the nation and a boon to consumer confidence in the life insurance industry.”

*See also separate report on **LLQP Support and Opposition** found in a Regulatory Visit Report on the May 28, 2014 CAFII meeting with Gerry Matier, Executive Director of the Insurance Council of BC and a member of CISRO’s LLQP Committee.*

Financial Consumer Agency of Canada

FCAC Outlines National Strategy On Financial Literacy

On April 15/14, Jane Rooney, a seasoned FCAC policy-maker in domestic and international financial literacy issues, was appointed Canada’s first-ever Financial Literacy Leader. At the CLHIA Compliance Conference on May 9, Ms. Rooney presented as part of a panel on financial literacy. The title of her presentation was “Financial Literacy: A Powerful Market Force.” The highlights of her remarks are as follows.

The goal of the National Strategy for Financial Literacy is to strengthen Canadians’ knowledge, skills and confidence to make responsible financial decisions throughout their lives.

Phase 1 of the National Strategy will focus on Seniors and near-Seniors. Phase 2 will focus on other vulnerable groups such as low income Canadians, aboriginal people, and newcomers to Canada. Phase 3 will focus on children and youth.

A National Steering Committee on Financial Literacy comprised of sector leaders and champions of the National Strategy will be formed. There will an online application process for the committee this Spring and she hopes to be in a position to select and name the members of the committee before the end of summer. She will be engaging with stakeholders to promote participation on the committee.

Financial Literacy Month, which will continue to be held every November. In 2014, a new element will be a National Financial Literacy Conference, to be held in Vancouver on November 6-7, to share knowledge and best practices.

Canada's First National Steering Committee On Financial Literacy To Be Created: Financial Literacy Leader Seeks Applicants From Broad Range Of Sectors

On June 2/14, Jane Rooney, Canada's first Financial Literacy Leader, announced that she is looking for influential people within the public, private and non-profit sector across the country to serve on the country's first National Steering Committee on Financial Literacy. The Minister of State (Finance) will play a key role in shaping the membership of the Steering Committee.

Committee members will provide leadership and promote participation within the sectors they represent, helping to ensure effective coordination across sectors in the development and implementation of a successful National Strategy for Financial Literacy.

Interested individuals need to apply online with the Financial Consumer Agency of Canada by June 16, 2014.

FCAC Unveils New Three Year Business Plan

On April 30, 2014, FCAC Commissioner Lucie Tedesco unveiled the Agency's 2014-17 "Report on Plans and Priorities." The six priorities outlined in this business plan for the Agency for the next three years are:

- lead and co-ordinate the implementation of the National Strategy on Financial Literacy;
- increase the Agency's contribution to financial consumer policy discussions;
- expand efforts to promote public awareness of the obligations of federally regulated financial entities (FRFEs);
- conduct proactive and transparent supervision;
- strengthen collaboration and engagement with internal and external stakeholders;
- leverage the Agency's resources and optimize its infrastructure to enhance efficiencies.

In a May 9/14 briefing/planning meeting with CAFII representatives Maria Sanchez-Chung, Moira Gill, Brendan Wycks, and Leya Duigu, Brigitte Goulard, recently appointed FCAC Deputy Commissioner who will be the speaker at CAFII's June 10 Reception event, Ms. Goulard advised that some of her remarks will focus on explaining the Agency's new business plan. She characterized the three-year plan as having five externally-focused priorities and one internally-focused priority. She noted that the CAFII speaking engagement presents an excellent opportunity for FCAC to address one of its external priorities, by connecting with a key industry stakeholder and improving the relationship.

Federal Financial Consumer Code To Proceed

In a briefing meeting with CAFII representatives on May 9/14, Brigitte Goulard, Deputy Commissioner of the FCAC, advised that the proposed Federal Financial Consumer Code, for which a consultation with industry was held between December 2013 and February 28, 2014, will definitely be proceeding ahead.

She advised that many industry stakeholders are not aware of just how much international issues impact domestic market regulatory policy and market conduct regulation. The consultation around the proposed Federal Financial Consumer Code, for example, was borne out of a commitment that Canada made at a G20 meeting. Many people don't realize how difficult it is to change the Government's mind, particularly when international commitments have been made, she advised.

Office of the Superintendent of Financial Institutions (OSFI)

OSFI Wins High Performance Marks In Qualitative Research Findings

In the Executive Summary of a qualitative research report published in March 2014 by public opinion research firm The Strategic Counsel, OSFI wins high marks for effectiveness in discharging its mandate.

Overall, satisfaction with OSFI is very strong which is attributed to perceptions of how it interacts with those it regulates. OSFI is perceived to

- be willing to engage in dialogue with both individual companies and the industry;
- have established good communications with the life insurance industry through consultation, regular meetings with some companies, and participation in presentations and seminars;
- be professional in its dealings with life insurance companies; and
- focus on appropriate areas of risk for the most part.

OSFI is viewed to be among best-in-class regulators worldwide for its efforts to consult with the industry on the development of guidance; principles-based approach to regulation; and generally, being seen as fair and reasonable to deal with.

Canadian Life and Health Insurance Association (CLHIA)

Highlights of 2014 CLHIA Compliance and Consumer Complaints Conference, May 7-9/14 In Ottawa

Market Conduct Issues: Trends in Industry and Self-Regulation

Jill McCutcheon of Borden Ladner Gervais gave a presentation at the CLHIA Conference on this subject. She reported that she had recently conducted an informal poll of industry experts (both regulators and others) in which she posed this question: "What is the most important market conduct issue facing the life insurance industry today and in the near future?"

While this straw poll gave rise to a variety of answers and a remarkable lack of consensus, the following themes emerged:

- higher regulatory expectations rooted in the international mantra of "Fair Treatment of Customers" and related pressure points
- consumer protection standards are increasingly being driven by international views and/or adopted local views, and not by law-maker views
- increased regulator supervision of market conduct
- increased pressure for insurer supervision of the independent life agent/MGA channel

-increased use of Administrative Monetary Penalties as a sanction

CLHIA Sends “Proposal On Keeping Regulators Informed” To CCIR

On March 4, CLHIA CEO Frank Swedlove wrote to Carolyn Rogers, Chair of CCIR, to communicate his Association’s “Proposal On Keeping Regulators Informed.” The proposal was in response to a CCIR letter to the industry on the same subject, issued in July 2013. The CLHIA letter is reproduced as Appendix A to this newsletter.

Credit Union Central of Canada

CUCC Names New President & CEO

On May 14, Daniel Burns, Board Chair of Credit Union Central of Canada, announced that Martha Durdin had been named President & CEO, effective June 9, 2014.

Ms. Durdin is a public affairs practitioner who has enjoyed a more than 25-year career in corporate communications, marketing, and government relations. Her clients have included large international corporations, governments, universities, associations and not-for profits that she has guided through major foreign investment transactions, rebranding and repositioning strategies, advised on crises, and developed high profile advocacy campaigns.

Ms. Durdin’s career has included time in both the public and private sectors. Prior to her most recent role as Managing Principal with Navigator, a Canadian communications firm, she spent more than a dozen years at BMO Financial Group, as VP of Corporate Affairs for global operations and was Head of Marketing and Communications for BMO’s global investment banking business.

Early in her career, Martha served as Media Relations Officer in the Office of the Prime Minister, Chief of Staff to two federal ministers and handled media on national and provincial election campaigns. Ms. Durdin is bilingual and holds a BA (Hon) from Western University, an MSc from the London School of Economics, and an ICD.D from the Rotman School of Management.

Appendix A

CLHIA's Proposal on Keeping Regulators Informed

March 4, 2014

Ms. Carolyn Rogers
Chair, Canadian Council of Insurance Regulators
5160 Yonge Street
Box 85, 17th floor
Toronto, ON M2N 6L9

Dear Ms. Rogers:

I am writing to provide the CLHIA's input on the request you made to industry members for suggestions on determining when developments in the insurance market are of such significance that they should be communicated to regulators and the best ways to make such communication as easy as possible.

Our attached Proposal on Keeping Regulators Informed suggests a two-pronged approach. First, it suggests that ongoing market intelligence gathering be strengthened in order to create a stronger baseline of information for regulators. And then, it outlines an approach for identifying significant developments and notifying the regulators about them. As stated in the Proposal, the industry anticipates that there would be at most a handful of such significant developments from across the country in any given year.

We wanted to also reinforce, as you did in your letter, that notification of significant developments is not, nor is it intended to become, a pre-approval process. As well, in the context of discussing situations when companies provide regulators with sensitive information or information that may have competitive implications, the importance of having a self-evaluative privilege in place is highlighted. Thus, we have recommended that companies report to their home regulator, where such protection is more likely to exist, rather than to a CCIR committee. Further, we urge CCIR to encourage those jurisdictions that have not yet adopted a self-evaluative privilege to move on this front as soon as possible.

We look forward to discussing our Proposal or to answer any questions you may have, at your convenience.

Yours sincerely,

Original signed by

Frank Swedlove

PROPOSAL ON KEEPING REGULATORS INFORMED

The life and health insurance industry appreciates the opportunity to provide input to the Canadian Council of Insurance Regulators (CCIR) in response to its letter of July 24, 2013 about "*methods for pro-active market intelligence gathering*" and seeking "*suggestions on determining when changes are significant and need to be communicated to regulators and the best way to make such communication as easy as possible*".

The industry recognizes the need for regulators to be aware and informed of significant developments in the insurance market. Indeed, such expectations are reinforced through the IAIS Insurance Core Principles. To achieve this goal, we set out a two-pronged approach: the first deals with mechanisms for ongoing market intelligence gathering, and the second with timely notification to regulators about impending significant developments. In the case of the latter, we suggest a variety of factors that can be used to identify significant developments.

1. ONGOING MARKET INTELLIGENCE GATHERING

Structured interactions between the regulators and the industry now take place on a regular ongoing basis, be it with specific insurers or with the CLHIA. This is an important existing tool that, we suggest, could be used to promote more dialogue by, for instance, including an agenda item that focuses on industry trends and developments or increasing the incidence of CCIR-CLHIA meetings. Commitment on the part of both regulators and the industry is important in making these interactions as effective as possible.

CLHIA currently meets with CCIR on an annual basis, at the invitation of CCIR, and provides an overview of industry developments with particular attention to the impact of policy/regulatory initiatives and international regulatory developments. In addition, CLHIA is always available to CCIR to provide input on issues of interest (e.g., providing insurer expertise for a CCIR/CAPSA session on longevity risk in fall 2013). We see an augmented role going forward in providing information to CCIR about any new development that has an industry-wide impact and is likely to result in prominent media coverage of the industry, including trade media. For example,

- a. government budget announces tax exempt changes
- b. pressures on governments to restrict insurers' ability to underwrite -- e.g., to not use information from genetic tests
- c. changes in capital requirements have prudential impact on insurers
- d. the industry's response to major disasters (e.g., 9/11).

In the case of a new development that has an industry-wide impact, CLHIA would likely need to consult its members to have a fuller understanding of the impact, before bringing it to the attention of CCIR. If the information is not time critical, CLHIA would give notification at the next regularly scheduled meeting with CCIR. Otherwise, CLHIA would contact CCIR on a priority basis.

To further supplement the regulators' goal of staying informed, CCIR may wish to consider putting into place some additional tools that might be helpful. For example:

- i. Obtaining insurers' news releases. This would give regulators a reliable and comprehensive flow of information and could be achieved by establishing feeds from the news wire services to get copies of all news releases issued by individual insurers. The CLHIA could work with the CCIR to ensure that an effective system is put in place.
- ii. The industry could provide CCIR members with a list of primary contacts at each insurer (e.g., government relations officers) from whom to obtain information on developments in the industry / obtain information on new significant developments. The industry would undertake to refresh the list regularly to ensure that it stays up to date.

The suggestions above (i.e., increased meetings and new tools) are intended to increase the level of regular industry-regulator interaction to provide a stronger baseline of information about day-to-day industry activities and developments and to provide for more opportunity to discuss emerging trends.

2. NOTIFICATION ABOUT SIGNIFICANT DEVELOPMENTS

In addition, there would be instances of significant developments in the insurance market where special notification to regulators could be provided by insurers. We set out a process for identifying and giving notification of such significant developments, below. The industry anticipates that there would be at most a handful of new developments from across the industry in any given year. In such cases, a short summary of the development would be provided to the appropriate regulator so that they are aware of and informed about the upcoming developments.

As new developments are assessed, a variety of factors can be applied to determine whether such new developments are 'significant' and should therefore be brought to the attention of the relevant regulator(s). The particular factors that we suggest are described in items A, B, and C, immediately below, along with examples from past initiatives (in some instances) to illustrate what types of situations are meant to be covered.

A. Is It A Development For Which Notice Should Be Provided?

The following indicia could be provided to assist insurers in helping to determine whether to bring a particular **significant new development** (e.g., new products, new underwriting or new claims adjudication processes, new forms of distribution) to the attention of regulators:

i. An **insurer** is introducing a product line that is new to the Canadian industry or provides insurance coverage for a type of risk not previously covered:

a. e.g., when critical illness or long term care insurance or longevity insurance were first introduced in the Canadian market

ii. An **insurer** is making changes to introduce novel or exceptional elements for the first time in the Canadian market:

a. i.e., significant changes to an existing product e.g., the introduction of level cost of insurance in universal life insurance; the introduction of guaranteed minimum withdrawal benefits

b. i.e., significant changes to claims or underwriting practices

c. i.e., the introduction of an entirely new distribution model, never used in the industry before

iii. An **insurer** anticipates that a new development (e.g., a significant business change) is likely to have a significant impact on policyholders as a whole and to result in prominent media coverage of the industry, including trade media:

a. e.g., if an insurer has marketed similar products or made changes to operating methods internationally, and those initiatives garnered media attention abroad, and the insurer anticipates that similar attention would result when the product is first introduced in Canada.

The existence of any of these indicia does not necessarily mean that a notification to the regulators is warranted. For example, a new product that is being introduced at present is PRPPs. Applying strictly the process described immediately above, this would likely fall under A(i) and the first insurer to market should therefore notify the regulators. However, given extensive industry discussions with regulators during the policy development phase, it may be that additional insurer notification of regulators would be redundant.

B. Provision Of Notification

Where an insurer determines that notice is warranted, it is proposed that the notification be sent to the insurer's 'home' regulator "Home regulator" is the provincial jurisdiction where the insurer has its head office or, in the case of a foreign insurer operating as a branch in Canada, the provincial jurisdiction in which it has its principal office. , which in turn would assess if the development might be of interest to the other regulators and may then distribute the information to other insurance regulators, as may be appropriate. This is most workable from an administrative perspective. It would also optimize any privilege/confidentiality protection afforded to communications between an insurer and its regulators.

If the new development is relevant only to a province that is not the 'home' regulator, then that particular province could also be notified directly.

Any disclosure would need to be made in compliance with financial disclosure requirements of securities laws.

C. Reasonable Time For Notification

The lead time for informing regulators will vary depending on the nature of the significant development, its sensitivity, complexity, and the time that would be needed for the regulator to become informed. Judgment will need to be applied in each case. However, as a general objective, in the case of an insurer initiative, a reasonable lead time for informing regulators could be about two weeks from when the development is to become public. While this should be sufficient in most instances, in some cases a longer time period may be appropriate. In other instances, circumstances may dictate a shorter period.

In all situations, the goal is for the time period to be workable and reasonable for both the regulators and the particular insurer, as the case may be.