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Regulatory Update – CAFII Executive Operations Committee, September 20, 2019

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Table of Contents

Federal/National.....	2
Canadian Council of Insurance Regulators (CCIR).....	2
Insurers' Annual Statement on Market Conduct Filing Compliance Improves in 2019.....	2
Financial Consumer Agency of Canada (FCAC)	2
Minister of Finance Appoints Judith Robertson As New FCAC Commissioner	2
McCarthy Tétrault Hires Former FCAC Commissioner Lucie Tedesco	3
FCAC To Monitor Banks' Compliance With Seniors' Protection Code Of Conduct.....	3
Canadian Life and Health Insurance Association (CLHIA)	3
CLHIA Elects New Chair: Alka Gautam, RGA Life Reinsurance	3
OmbudService For Life & Health Insurance (OLHI).....	3
OLHI Appoints New CEO	3
OLHI Releases 2019 Annual Report: Fewer Complaints Received In Past Year	4
Provincial/Territorial.....	4
British Columbia.....	4
Blair Morrison Appointed Founding CEO Of BCFSa.....	4
BCFSa To Replace FICOM Effective November 1/19: Order In Council.....	5
Insurance Council of BC	6
Insurance Council Elects New Chair	6
Yukon Superintendent Of Insurance.....	6
CBC Report On Yukon Credit Protection Insurance Licensure Gap Remains Un-Updated	6
Ontario.....	7
FSRA Elaborates On Life And Health Insurance Sector Priorities.....	7
Québec.....	8
AMF Appoints New Fintech Staff Executive.....	8
International Developments, Research, and Thought Leadership	9
Every Aspect Of Insurance To Change Over Next 10 Years: McKinsey Report	9
EY Canada Announces New Centre Of Excellence For Insurers	9
Industry Innovation Complicates Cross-Border Oversight: European Regulators.....	10

Federal/National

Canadian Council of Insurance Regulators (CCIR)

Insurers' Annual Statement on Market Conduct Filing Compliance Improves in 2019

In early August, CCIR announced that all but 10 of the 315 Canadian insurance companies required to file an Annual Statement of Market Conduct did so by the May 1/19 deadline, an increase of 10 per cent in the compliance rate compared to previous filings.

CCIR said the 10 insurers that filed late received either a letter of education or a letter of warning. Five insurers that filed late for the first time received letters of education informing them that failure to submit the Annual Statement on Market Conduct by the deadline in the future may subject them to regulatory action. The other five insurers had a second contravention and received letters of warning reminding them that an Annual Statement that is filed late or not filed may be subject to further, unspecified regulatory action.

About 315 insurers were required to complete the Annual Statement on Market Conduct and provide information on their governance, policies and processes regarding the fair treatment of consumers. Some of the questions asked of the insurers dealt with providing an overview of the development and enforcement of policies and practices related to fair treatment of consumers, whether there was a documented code on this subject at the company, and whether they have advertising aimed at consumers.

Financial Consumer Agency of Canada (FCAC)

Minister of Finance Appoints Judith Robertson As New FCAC Commissioner

Former industry executive and commissioner with the Ontario Securities Commission (OSC) Judith Robertson has been appointed to lead the federal Financial Consumer Agency of Canada (FCAC).

Finance minister Bill Morneau announced in June that Robertson had been appointed to a five-year term as FCAC commissioner, starting Aug. 19.

Robertson, who served as an OSC commissioner from 2011 to 2017, was a founding Board member of Ontario's new provincial regulator, the Financial Services Regulatory Authority of Ontario (FSRA).

"Her significant experience in the financial sector makes her an ideal choice to continue FCAC's mandate to protect Canadian consumers and promote financial literacy," Morneau said in a statement.

Last year, in the wake of concerns about the quality of consumer protection in the banking sector, the FCAC's oversight powers were strengthened, and it created a new enforcement division to bolster its ability to investigate possible misconduct.

Along with her regulatory experience, Robertson has had an impressive career in the financial industry.

She was previously president and CEO of Belzberg Technologies Inc., executive vice president of Perimeter Financial Corp., CEO of Markets Inc., managing director at Barclays Global Investors and vice president with CIBC Wood Gundy.

McCarthy Tétrault Hires Former FCAC Commissioner Lucie Tedesco

In early September, former FCAC Commissioner Lucie Tedesco joined the law firm McCarthy Tétrault LLP as senior counsel in its National Financial Services Group.

She has over 24 years' experience in the financial services and regulatory environment, having also served as a member of the federal Financial Institutions Supervisory Committee, as an ex-officio board member of the Canada Deposit Insurance Corporation, as a board member of the Investment Industry Regulatory Organization of Canada (IIROC) and as chair of the International Financial Consumer Organisation, an international organization of supervisory authorities responsible for financial consumer protection.

Tedesco's practice will focus on financial regulation and sectors that are subject to market conduct requirements, including banking, credit, insurance, securities and telecommunications. She will also advise on regulatory matters related to payments and external complaints bodies.

FCAC To Monitor Banks' Compliance With Seniors' Protection Code Of Conduct

The FCAC announced on July 25/19 that it will be monitoring banks to ensure they comply with the banking industry's Code of Conduct for the Delivery of Banking Services to Seniors.

Banks who have signed on to the Code must abide by its principles. While it comes into effect January 1/21, banks must abide by principles 5 and 6 effective immediately. These principles require them to mitigate potential financial harm to seniors and take into account market demographics and the needs of seniors when proceeding with branch closures.

Should the FCAC find that a bank has breached a voluntary code, it will take appropriate action as outlined in its Supervision Framework, says the agency.

"As Canadians live longer, some seniors may face challenges that impact their ability to bank," said Werner Liedtke, Assistant Commissioner of FCAC. "This voluntary code of conduct marks an important first step in guiding banks in their delivery of products and services that meet the needs of seniors. FCAC will actively monitor banks' compliance with this code and ensure its principles are upheld."

Canadian Life and Health Insurance Association (CLHIA)

CLHIA Elects New Chair: Alka Gautam, RGA Life Reinsurance

CLHIA has appointed Alka Gautam, President and CEO of RGA Life Reinsurance Co. of Canada, to serve as its next Chair. Gautam succeeds Mark Sylvia, president and CEO of the Empire Life Insurance Co, who served as the Association's chair over the past year.

Gautam was named president and CEO of RGA Canada in January 2015. She joined the company in 2000, and served as chief financial officer, chief risk officer and chief operating officer before taking the top job.

OmbudService For Life & Health Insurance (OLHI)

OLHI Appoints New CEO

The OmbudService for Life & Health Insurance (OLHI) has appointed Glenn O'Farrell as its new CEO, effective August 19/19.

O'Farrell is a member of the Québec Bar, Canadian Bar Association and Institute of Corporate Directors. He has served on numerous company boards of directors, as well as not-for-profit corporations. Most recently, he held the position of CEO of Groupe Média TFO.

Toronto-based OLHI reviews complaints about life, disability and travel insurance; employee health benefits; and insurance investment products such as annuities and segregated funds.

OLHI Releases 2019 Annual Report: Fewer Complaints Received In Past Year

On September 20/19, Canada's OmbudService for Life & Health Insurance (OLHI) released its 2019 annual report, which includes the insurance-resolution service's key statistics.

For the fiscal year ended March 31/19, OLHI received 2,290 complaints, the report said, with Quebec having the most by volume (54.5%) followed by Ontario (about 26%, which is a drop of 2.6%). Last year, there were 2,636 complaints.

The number of complaints decreased, at least in part, because general inquiries received by phone are now re-directed to the OLHI website, the report said.

Though complaints decreased, the overall number of contacts received increased almost 6% to 109,454, which the report said is a record.

Claims and service represented more than 80% of the complaints, followed by products at 9.5%. In the product category, disability-related complaints remained highest, at 36.6%, a slight decrease from last year's 38.9%.

Retirement and investment products received the fewest complaints by volume, at 0.7% and 0.5%, respectively.

The OLHI opened 21 new investigations and closed 17 in fiscal 2019. By product, life insurance accounted for about one-third of new investigations, with disability accounting for the most of these (about 43%).

OLHI also recorded more than 107,000 website visitors, with 90,000 being new visitors. The increase represents a continuous trend since the OLHI's website was implemented in 2009, the report said.

Provincial/Territorial

British Columbia

BC Financial Services Authority (BCFSA)

Blair Morrison Appointed Founding CEO Of BCFSA

In late June, BC FICOM announced the appointment of Blair Morrison as the founding CEO of the BC Financial Services Authority (BCFSA), its successor regulator organization and an independent Crown Corporation, effective July 22/19.

BCFSA will regulate pension plans, B.C. credit unions, insurance and trust companies and mortgage brokers.

Morrison, who holds a law degree from University of Western Ontario, previously worked as Bank of Montreal's chief compliance officer, among other titles. He's also worked for TMX Group, Nortel Networks Corp. and Torys LLP.

Transforming FICOM into an independent Crown agency was a recommendation from a 2017 independent review, after B.C.'s auditor general found deficiencies in the commission.

Previously, FICOM fell under the direct auspices of the Ministry of Finance. One glaring problem found by the auditor general was significant vacancy in staff positions because salaries were capped under government rules. The auditor general found 35% of positions were vacant. The commission now reports that only 15% of positions are vacant.

As well, the Ministry directly oversees FICOM's budget, funded by industry fees, and any excess funds were returned to the ministry at the end of the year. Now, BCFSA will be able to set its own parameters and keep excess funds to apply to regulation costs.

The auditor general also found existing legislation failed to keep up with international industry standards.

In addition to CEO, Morrison will serve as superintendent of financial institutions, superintendent of insurance, superintendent of pensions, registrar of mortgage brokers and CEO of the Credit Union Deposit Insurance Corporation (CUDIC).

Morrison replaces former CEO Tara Richards.

The BCFSA board now consists of Stanley Hamilton, Wilma van Norden, Shannon Salter, Michael Grist, Gerry Matier, Jacqueline Kelly, Joel Whittemore, Jo-Ann Hannah, Joanne Hausch and Bruce Howell.

BCFSA To Replace FICOM Effective November 1/19: Order In Council

A BC Government Order in Council was issued on September 13, 2019 ordering that the BC Financial Services Authority (BCFSA) be fully brought into force effective November 1, 2019. On that date, the BCFSA will replace the Financial Institutions Commission (FICOM) as BC's regulator of credit unions, trust companies, insurance companies, pension plans and mortgage brokers. While November 1 has been the BCFSA's operational target for some time, this official posting by Government gives the November 1 transition the full force of law. This represents another important landmark for the new crown Authority.

Insurance Council of BC

Insurance Council Elects New Chair

The Insurance Council of British Columbia has announced the election of Lesley Maddison as Chair for 2019-2020. Maddison is Vice-President and General Manager of Insurance for Coastal Community Insurance Services (2007) Ltd. She is an accredited insurance broker based in Nanaimo, BC.

Maddison was first appointed to the Council in 2016 and has served as Chair of Council's Governance and Financial Audit committees.

Yukon Superintendent Of Insurance

CBC Report On Yukon Credit Protection Insurance Licensure Gap Remains Un-Updated

The CBC News story below, headlined "Mortgage and other credit insurance no longer available in Yukon" and published on July 30/19, remains un-updated and it seems that the Yukon Superintendent of Insurance has not made efforts to update the media on more recent developments.

Getting a mortgage in Yukon? The Yukon government says mortgage, and other credit protection insurance, is no longer available. The government agency responsible for licensing insurance sellers in the territory discovered it didn't have appropriate regulations in place to license the sale of that class of insurance products.

This affects mortgage and credit card insurance sales, although policies sold before July 1 should be valid, said Nancy Meagher, Yukon's director of professional licensing and regulatory affairs. The Yukon government is responsible for licensing insurance agents and brokers in the territory. During the government's last annual renewal of licences, Meagher said they discovered a problem. "We noticed that this class of insurance was not reflected in our regulations, which outline the types of insurance that we're allowed to licence for in Yukon," Meagher said. "Because of that we did not issue a licence for insurance companies to sell credit protection for this year."

Credit protection insurance generally involves covering debt in the event of death, disability or job loss.

Meagher said the government is working to resolve the situation, whether through legislative or other policy decisions. She could not say when brokers might again be licensed to sell mortgage or other forms of credit protection insurance in Yukon.

"There are other kinds of insurance that are available in the territory that may meet Yukoners' needs," Meagher said. "I would recommend people talk to a licensed insurance broker agent or salesperson in Yukon about their options."

Susan Zanders, senior mortgage broker with Verico Zanders and Associates Mortgage Brokers, said she doesn't like to see anyone buy a home without mortgage insurance in place, especially considering the high monthly payment that goes with many mortgages now. "For a family that's got a mortgage payment of \$3,000 a month and somebody [is] off on disability — that's a big payment to have to cover with one person the only one contributing to it," Zanders said.

"If they didn't have coverage and something happened to them ... it could mean a loss of home."

Zanders does not sell the insurance directly, but refers clients to insurers who do.

"The mortgage is one of the biggest credit expenses in a person's life," she said. "That's the biggest debt they're going to incur. It's where you live and where you call home."

"So it's something you need to protect."

Zanders said she hasn't been notified that the insurance is no longer available in the territory, but said Yukoners should look for alternatives while credit protection insurance is unavailable.

Ontario

Financial Services Regulatory Authority of Ontario (FSRA)

FSRA Appoints Two New Directors To Its Board

In early August, FSRA announced two new appointments to its Board of Directors.

Joanne De Laurentiis, former president and CEO of the Investment Funds Institute of Canada (IFIC), and Brent Zorgdrager, former CEO of Kindred Credit Union, will both serve two-year terms.

In addition to serving as president of IFIC up to her retirement in 2016, De Laurentiis had previous roles as president and CEO of Credit Union Central of Canada, Mondex Canada and the Interac Association.

Zorgdrager, who joined Kindred Credit Union in 2007 as the CFO before being appointed CEO in 2010, helped Kindred become the 10th largest credit union in Ontario, with assets of more than \$1 billion and a membership of more than 22,000, the FSRA said.

"We welcome the depth and breadth of financial services experience and leadership that these individuals bring to the governance of FSRA," Bryan Davies, the chair of the FSRA, said the release. "FSRA board members share Ms. De Laurentiis's commitment to developing consumer financial literacy and will benefit from Mr. Zorgdrager's experience within the credit union sector."

FSRA Elaborates On Life And Health Insurance Sector Priorities

Recent updates to FSRA's website, made since the new regulator launched in early June, include the following elaboration content.

In our first year of operations we have two priorities across all sectors: burden reduction and regulatory effectiveness.

To reduce burden FSRA will conduct, in conjunction with our stakeholders, a thorough examination of existing guidance documents, data and filing requirements and service standards to ensure that they are relevant, provide value, and support our legislative objects.

Regulatory effectiveness is about ensuring that we achieve our legislative objectives and protect the public interest through industry and regulatory expertise, enhanced collaboration and transparency, efficient processes and use of technology and enabling innovation.

In addition to cross-sector priorities, in each sector we have, based on discussions with stakeholders, identified sector-specific opportunities for FSRA to reduce burden and improve regulatory effectiveness. These priorities will be achieved by working with industry and other stakeholders.

Within the insurance sector, these are sector priorities:

- 1. Adopt effective conduct standards*
- 2. Improve licensing effectiveness and efficiency*
- 3. Harmonize treating consumers fairly guidance*

FSRA will be launching a stakeholder engagement process in support of their priorities. More information will be provided shortly.

Québec

AMF

AMF Appoints New Fintech Staff Executive

In early September, the Autorité des marchés financiers (AMF) has announced that Oumar Diallo is joining the regulator as its Director, Fintech and Innovation.

Diallo will coordinate the AMF's work on fintech-related issues, help implement the AMF's innovation strategy and will be the regulator's front man with the fintech industry.

Diallo was previously senior advisor, team leader, governance, risk and compliance at PricewaterhouseCoopers.

"We are very proud to welcome to this key position an expert who has both an excellent understanding of the supervisory challenges posed by technological innovation and an in-depth knowledge of the key factors that influence the evolution of the financial sector", said Lise Estelle Brault, the AMF's Senior Director, Fintech, Innovation and Derivatives Management.

International Developments, Research, and Thought Leadership

Every Aspect Of Insurance To Change Over Next 10 Years: McKinsey Report

Property and casualty insurers are expected to shift from their current state of “detect and repair” to “predict and prevent” over the next decade, transforming every aspect of the industry in the process, according to a new report by consulting firm McKinsey & Company.

And this new state is expected to affect everyone from the consumer to the broker and further.

“The pace of change will accelerate as brokers, consumers, financial intermediaries, insurers, and suppliers become more adept at using advanced technologies to enhance decision making and productivity, lower costs and optimize the customer experience,” states the report.

While the industry will be focused on artificial intelligence and other technology trends, it won't be an insurer's IT team that gets projects moving. Rather, states the report, new trends will be led by board members and customer-experience teams who invest the time and resources to build a deep understanding of the technologies.

The report states that some insurers are already beginning to take innovative approaches such as starting their own venture-capital arms, buying up promising insurtech companies, and forging partnerships with leading academic institutions.

As projects move forward it will be data, both internal and external, that will be the most valuable asset for insurers. But hiring the right people will be just as important.

“The insurance organization of the future will require talent with the right mind-sets and skills. The next generation of successful frontline insurance workers will be in increasingly high demand and must possess a unique mix of being technologically adept, creative, and willing to work at something that will not be a static process but rather a mix of semi-automated and machine-supported tasks that continually evolve.”

The report notes that it will be the insurers that view disruptive technologies as opportunities rather than threats that will thrive in the industry in 2030.

EY Canada Announces New Centre Of Excellence For Insurers

Advisory services firm EY Canada is launching a new Centre of Excellence for insurance companies.

The Centre for Insurance and Actuarial Services will be based in both Toronto and Quebec City, a release said. EY's new Centre will guide insurers on regulatory changes, as well as on how to keep up with digital transformation.

"The insurance sector is evolving every day – and we're responding by innovating the support we provide," said EY Canada financial services leader Paul Battista. "Insurers face immense pressure to modernize their businesses while, at the same time, manage increasingly complex actuarial and accounting standards. The centre will work with these companies to identify better ways of working, drive a clearer sense of purpose and adopt more effective use of technology."

According to EY's Insurance Outlook for the year 2019, the insurance sector's growth is projected to remain weak in the near-term. To counter this, insurers need to place greater focus on technology and initiatives that could help in optimizing costs and driving wider distribution, the report concluded.

"Margin pressures are straining the growth potential of many insurers in Canada," commented EY Canada insurance leader Janice Deganis. "Digital transformation is no longer optional, but absolutely necessary to optimize costs and reinvest in future-focused areas of the business that generate results."

Deganis revealed that EY Canada has been recruiting bilingual talent from across the country to help staff the Centre. Experts with backgrounds in strategy and business transformation, accounting standards, actuarial science and information will lend their experience to interested insurers.

Industry Innovation Complicates Cross-Border Oversight: European Regulators

Ongoing innovation in financial services, increasing digitalization and post-crisis reform efforts are combining to complicate cross-border oversight of financial markets, European regulators find. A new report from the umbrella group of securities, banking, insurance and pension regulators — known as the Joint Committee of the European Supervisory Authorities — examined the supervision of retail financial services across national borders, and found that regulators are facing "intensified demands" when supervising financial institutions that provide retail banking, investment and/or insurance services across borders.

Among other things, the report noted that increasingly borderless financial markets pose a variety of regulatory issues, including added supervision and enforcement challenges, gaps in regulation and arbitrage opportunities, along with organizational issues.

For instance, the report points to "the aggressive and misleading cross-border marketing of complex financial products to retail clients." To address their concerns, the regulators make a number of recommendations to policymakers, including that they look to increase harmonization; clarify how rules apply when firms provide services online across borders; and seek to increase cooperation, collaboration and information sharing between regulators.