

July 24, 2019

Insurance Fees Consultation
Financial Institutions Commission of British Columbia
2800 – 555 West Hastings St.
Vancouver, British Columbia
V6B 4N6
feedback@ficombc.ca
Attention: Frank Chong, Acting Superintendent of Financial Institutions

Re: CAFII Submission on Insurance Fees Consultation Paper, June 2019

Dear Mr. Chong:

CAFII commends the Financial Institutions Commission of BC for undertaking this consultation and we appreciate the invitation to comment on the principles and proposals set out in the paper.

We have aligned our feedback with the sections and sequencing used in the consultation paper, under the following headings: Rationale; Principles for Developing Fees; Proposed Changes to Fee Model and Analysis Against Foundational Principles; and Questions.

Rationale

CAFII supports the stated Rationale for a new fee methodology, given the need to fund the new BC Financial Services Authority (BCFSA) as an independent Crown Corporation and the fact that FICOM's current fee formula has not been reviewed and updated since 1990.

CAFII is pleased that the BC government has committed funding beginning in fiscal year 2019-20 to help with the transition from FICOM to the new BCFSA and to ensure that the regulated sectors are self-funded by fiscal year 2021-22. We view that commitment as a prudent and beneficial measure on the government's part, one which will allow 2020-21 to be treated as a transitional year and help facilitate a smooth change-over to the new fee methodology and full self-funding of BCFSA by the industry in 2021-22 (see related feedback and adjustment recommendation under Proposed Changes to Fee Model and Analysis Against Foundational Principles, p. 2).

Principles for Developing Fees

CAFII supports the five principles articulated as the underpinnings of the proposed fee formula. In particular, our Association is pleased with the commitment that fees will be predictable year-over-year.

We are pleased that "investing in IT infrastructure to support more efficient and user-friendly interactions between insurers and the regulator" has been articulated as a BCFSA Service Commitment, as we view that as a necessary and key modernization initiative for the new regulator to achieve. In that connection, we ask that in designing and building the new IT infrastructure, BCFSA give priority consideration to making it as harmonized and integrated as possible with other Canadian jurisdictions' similar systems: to optimize its efficiency and effectiveness for insurers and for BCFSA, as a CCIR member and participant in its national co-operative market conduct supervision framework.

We also took note of the Transparency commitment that BCFSa “will report on its activities in its annual Service Plan and publish financial statements annually,” as we view such reporting to be a minimum transparency requirement (see related feedback and recommendation under Questions, p. 3).

Proposed Changes to Fee Model and Analysis Against Foundational Principles

CAFII supports the need for a new fee model to fund BCFSa as a modernized, independent, and adequately resourced regulator which exercises its authority under a supervisory framework that is principles/risk-based and aligns with international best practices.

Like FICOM/BCFSa, CAFII regards Fair Treatment of Customers as of paramount importance. We therefore support the new BCFSa’s having strong investigative capabilities under a principles/risk-based supervisory framework that facilitates identifying and dealing with bad actors in the regulated sectors.

The principles/risk-based framework adopted by CCIR several years ago is commendable and produces desired results; it should not be varied from lightly. It allows regulators to allocate resources to the issues or industry players which pose the greatest risk, thereby making best use of their finite resources and their regulation more efficient.

CAFII strongly supports CCIR’s risk-based approach to regulation, including the emphasis on industry self-regulation solutions, which was described as follows by former CCIR Chair Danielle Boulet in her Foreword to the Council’s 2011-2014 Strategic Plan: “We don’t just react – we identify and assess risks first. We focus on the outcomes needed and how to accomplish them, not on rules and forms. We recognize that the best control is self-control, so we work with industry stakeholders to develop industry standards so that all market participants know what is expected of them.”

CAFII recommends that the new BCFSa’s foundational documents and its initial and future strategic plans should contain a commitment to maintain a principles/risk-based approach to its regulatory mandate.

Our Association is generally comfortable with the proposed new formula for calculating the annual fee payable by insurers to support the BCFSa, especially given that it will allow for a high degree of fee predictability year-over-year.

However, that said, we respectfully request that the following adjustment be made with respect to implementation of the new fee formula: the new funding formula proposes a 107.6% average fee increase (more than doubling the current average fee) for extra-provincial insurance corporations, in one fell swoop in 2020-21. Given the magnitude and relative suddenness of that proposed fee increase, CAFII recommends that the proposed new fee model be phased in over a two-year period, at least for extra-provincial insurance corporations, with half of the fee increase being introduced in 2020-21 and the remaining portion of the fee increase being implemented in 2021-22. This phased-in approach should be quite feasible given that the BC government has prudently committed transitional funding to help ensure that the new BCFSa is fully self-funded by the regulated sectors by fiscal year 2021-22.

In addition, we recommend that in finalizing the new fee model, BC should provide precise definitions of what is meant/intended by such key terms as “non-consolidated assets”, “direct premium”, and from what period of time the insurer’s direct premium number is to be derived (recommendation: the insurer’s most recently completed fiscal year).

Questions

With respect to the consultation paper’s question on whether there are any other Service Commitments we would like to see from the BCFSa, CAFII recommends that the new regulator include in its founding principles a higher level of commitment to consultation with the industry and transparency through additional initiatives such as annual “accountability and feedback meetings” between the regulator and industry stakeholder groups on the regulator’s performance, financial situation/stability, and future direction. This would be akin to the consultation and transparency commitment which the new Financial Services Regulatory Authority of Ontario (FSRA) has made to the regulated sectors in Ontario.

Conclusion

CAFII appreciates the opportunity to comment on this important FICOM/BCFSa consultation initiative, and we look forward to continued communication and input on related regulatory policy matters.

We would be pleased to meet with you, Mr. Chong, and/or other FICOM/BCFSa representatives to discuss our feedback in more detail. Should you wish to arrange a meeting for that purpose, please contact Brendan Wycks, Co-Executive Director, at brendan.wycks@cafii.com or 647-218-8243.

Sincerely,

Martin Boyle
Board Secretary and Chair, Executive Operations Committee

ABOUT CAFII

CAFII is a not-for-profit industry Association dedicated to the development of an open and flexible insurance marketplace. Our Association was established in 1997 to create a voice for financial institutions involved in selling insurance through a variety of distribution channels. Our members provide insurance through client contact centres, agents and brokers, travel agents, direct mail, branches of financial institutions, and the internet.

CAFII believes consumers are best served when they have meaningful choice in the purchase of insurance products and services. Our members offer travel, life, health, property and casualty, and creditor's group insurance across Canada. In particular, creditor's group insurance and travel insurance are the product lines of primary focus for CAFII as our members' common ground.

CAFII's diverse membership enables our Association to take a broad view of the regulatory regime governing the insurance marketplace. We work with government and regulators (primarily provincial/territorial) to develop a legislative and regulatory framework for the insurance sector that helps ensure Canadian consumers get the insurance products that suit their needs. Our aim is to ensure appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII is currently the only Canadian Association with members involved in all major lines of personal insurance. Our members are the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Financial Security; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant Solutions, CUMIS Services Incorporated, Manulife (The Manufacturers Life Insurance Company), The Canada Life Assurance Company, and Valeyo.