

May 26, 2017

Mr. Brian Mills
Chief Executive Officer and Superintendent of Financial Services
Financial Services Commission of Ontario
5160 Yonge Street, Box 85
Toronto, ON M2N 6L9

Subject: FSCO's Draft 2017 Statement of Priorities

Dear Mr. Mills:

I am writing on behalf of the Canadian Association of Financial Institutions in Insurance (CAFII) with respect to the FSCO's Draft 2017 Statement of Priorities. We note that this year's Draft Statement of Priorities indicates that while FSCO will continue its efforts on core activities and initiatives in seven priority areas in 2017-18, the Commission has decided to focus the Statement on two over-arching themes: Treating Consumers Fairly; and Enabling Innovation. We have therefore restricted our feedback comments to those two themes.

Treating Consumers Fairly

CAFII agrees that treating consumers fairly means putting their interests first and taking the time to understand their needs and putting in the effort to ensure that they understand the risks of the product(s) being considered, along with their rights and responsibilities as consumers.

In that connection, we believe that in its communications, FSCO should emphasize, where appropriate, consumers' responsibilities with respect to financial and insurance products, in addition to their rights. In our view, the Financial Consumer Agency of Canada has found the right balance in its recent pronouncements, which place equal emphasis on consumers' rights and responsibilities: <https://www.canada.ca/en/financial-consumer-agency/services/financial-toolkit/insurance/insurance-3/10.html>

Enabling Innovation

CAFII agrees that the marketplace drives the creation of new and innovative products, services, and delivery models; and that while emerging financial technology (fintech) provides new opportunities, it also brings new challenges for everyone involved. We share regulators' objective of ensuring that consumers are well-protected while they have the ability to purchase products through their channel of choice. In the insurance industry context, it is important to note that part of the overall objective of fair treatment of consumers is to ensure that the insurer can provide support and meet their expectations throughout the user experience.

We also concur with the International Association of Insurance Supervisors' (IAIS) observations, as noted in the media release announcing its recent *FinTech Developments in the Insurance Industry* report, that fintech may increase the insurance industry's focus on improving the customer experience; and that it has "the potential to change the way the insurance sector serves policyholders."

Insurance has traditionally been an industry marked by low consumer touch and slow adoption of new technologies. But today's insurance consumers, shaped by their experiences with other industries, expect on-demand, high touch, and rapidly innovating services. Major shifts in consumer demographics, behaviours, and expectations are underway and will have important implications for the insurance landscape.

This shift has been led by millennials, individuals born roughly between 1980 and 2000. This generation will constitute half of the global workforce by the end of the current decade. In Canada in 2015, they equalled Baby Boomers in terms of the largest share of the overall population (27% each) and already comprised the largest share of the employed population—at 37% versus 31% for Gen Xers and 30% for Boomers (source: Statistics Canada).

Millennials, whose exposure to digital technology and innovative platforms from an early age have made them the first generation of “digital natives,” are beginning to move into their peak earning and spending years and have become an influential segment of the population. Their high expectations for technology-based services, convenience, transparency, speed, regular engagement, and a personalized experience that reflects their needs are defining how products and services are delivered. Their preferences and expectations are a particular challenge for the insurance industry.

Hence, CAFII believes that the future of the life and health insurance industry will be marked by continued innovation and an increase in consumer demand for electronic commerce and other alternate forms of distribution. Consumers continue to demand greater access to sales through digital channels; and we believe these channels will play an increasingly important role in meeting the needs of Canadian consumers.

With life insurance ownership in Canada at a 30-year low, we believe that regulatory structures should foster a harmonized, flexible, and open marketplace where consumers are able to choose how and where to purchase coverage. Regulation should embrace the role of all insurance channels in meeting the insurance needs of consumers. In that connection, it is important that regulatory frameworks help to foster and support the ongoing growth and development of technology-enabled, alternate distribution channels.

Technology and consumer habits are evolving rapidly, and more and more clients expect insurance offerings to cater to their specific needs. Even though *insurtech* (digital innovation in the insurance industry) is currently at an embryonic stage as compared to its more advanced *fintech* sibling, new innovative business models within the insurance industry continue to emerge, such as micro-insurance and pay-as-you-go insurance.

The unique value proposition of *insurtech* innovation lies in the shift from complexity and long-termism to real-time, easy-to-use, configurable, customized and cost-friendly products and services, all offered with the utmost consumer convenience through digital devices.¹ The biggest winners from *insurtech* innovation will be the end customers, who will benefit from better user experience, more personalized insurance solutions, and possibly improved pricing through lower premiums.²

CAFII therefore strongly encourages FSCO to play a leadership role in this area, through the CCIR, by pursuing a specific strategic priority to create an updated, nationally co-ordinated structure which fosters innovation and supports consumer choice in a digital world. One possible leadership initiative in this area would be the development of a national “regulatory sandbox.”

A number of financial services regulators – including the Financial Conduct Authority (FCA) in the UK; its counterparts in Australia and Singapore; and the Ontario Securities Commission (OSC LaunchPad) here at home – have recently established regulatory sandboxes, as projects designed to help companies test innovation with a limited number of users, without having to comply with existing regulatory rules, for a limited period of time.

¹ *Opportunities await: How Insurtech is reshaping insurance. PwC Global Fintech Survey, June 2016.*

² *Insurtech: Disruptions and opportunities in the Insurance Industry, Pinebridge Investments, October 2016.*

With respect to its regulatory sandbox, the FCA has said

- technology has the potential to improve not only how products and services are designed, but also how they are distributed;
- it wants more firms to embrace innovation and it wants to work with innovators to build in consumer protection from the outset; and
- the sandbox has been designed to reduce the time and potential costs of getting innovative ideas to market; and it will accelerate the testing and introduction of genuinely novel products and distribution enhancements that will benefit consumers.

FSCO leadership in this area, through the CCIR, should also include reviewing and updating regulatory requirements which were designed for traditional paper-based and personal interaction sales practices, to ensure that they do not create obstacles for meeting consumers' needs in the digital space. The regulatory framework should focus on the quality of consumer outcomes regardless of the mode of interaction or the delivery channel. We advocate a principles-based regulatory framework that is flexible to the changing landscape and can be more easily harmonized across jurisdictions.

We believe that a FSCO leadership initiative in this area would enable the Commission to demonstrate significant progress and a major "win" in one of its other priority areas for the current year, namely "Be an agile and adaptable organization."

On a related point, we also encourage FSCO to move Ontario forward on the legislative and/or regulatory changes necessary to permit electronic beneficiary designations and electronic termination of insurance contracts, where both the insurer and the individual insured agree to those options.

Conclusion

With respect to any regulatory changes which FSCO might be contemplating, CAFII requests that lead time of 12 to 18 months be provided to facilitate our members' implementation of the changes. Legislative and/or regulatory changes inevitably give rise to major information systems projects within member companies and it takes time to ensure that necessary systems changes are made, forms revised, staff trained, and consumers notified of how the changes affect them.

CAFII appreciates the opportunity to comment on FSCO's Draft 2017 Statement of Priorities and we look forward to continued communication and input on policy matters. We applaud the Commission for the open and transparent approach it takes in communicating with the industry, and for its steadfast commitment to stakeholder consultation on key policy and regulatory matters.

Should you require further information from CAFII or wish to meet with representatives of our Association at any time, please contact Brendan Wycks, CAFII Co-Executive Director, at brendan.wycks@cafii.com or 647-218-8243.

Sincerely,

Eleanore Fang,
Board Secretary and Chair, Executive Operations Committee
Canadian Association of Financial Institutions in Insurance

ABOUT CAFII

CAFII is a not-for-profit industry Association dedicated to the development of an open and flexible insurance marketplace. CAFII was established in 1997 to create a voice for financial institutions involved in selling insurance through a variety of distribution channels. CAFII 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.

CAFII's diverse membership enables our Association to take a broad view of the regulatory regime governing the insurance marketplace. CAFII works with government and regulators (primarily provincial) 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. CAFII's full members are the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Financial Security; National Bank Insurance; RBC Insurance; Scotiabank Financial; and TD Insurance – along with major industry players American Express, Assurant Solutions, Canadian Premier Life Insurance Company, and The CUMIS Group Ltd.

CAFII 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 its members' common ground.