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Agenda Item 6(b)(v)(2)
January 15/19 EOC Meeting

DRAFT ONLY
For Discussion Purposes Only At January 15/19 CAFII EOC Meeting

January 18, 2019

Mr. David Weir
Deputy Director, Insurance
Financial and Consumer Services Commission, Insurance Division
225 King St., Suite 200
Fredericton, New Brunswick
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Dear Mr. Weir:

Re: CAFII Input On FCNB's Insurance Act Rewrite Environmental Scan Questions

Thank you for arranging a preliminary dialogue meeting with CAFII representatives in Toronto on December 5/18 around the FCNB's plans to undertake a multi-year Insurance Act Rewrite project; and, as well, for discussing with us your plans to make the introduction of a Restricted Insurance Agent (RIA) licensing regime in New Brunswick part-and-parcel of the Insurance Act Rewrite initiative. We very much appreciate the FCNB's early and ongoing engagement with CAFII around these modernization initiatives, as a relevant and directly affected stakeholder.

The purpose of this promised follow-up letter is to share with you, in writing, our input on several of the environmental scan questions you posed prior to our December 5 preliminary consultation meeting.

How has the insurance sector changed over the last 20 years?

From a consumer perspective
The life insurance needs and expectations of Canadians have evolved dramatically over the past 20 years. And the marketplace is evolving to embrace digital/internet distribution channels – including distribution through consumers' mobile devices – which provide increased opportunities for access to insurance for Canadians across the full spectrum of society.

Consumer habits and preferences continue to evolve rapidly, and more and more clients expect insurance offerings to cater to their specific needs.

From an economic/industry perspective
In addition to more traditional distribution channels, such as captive agents and independent brokers, the life insurance market has evolved to include new types of intermediaries, such as corporate agencies and Managing General Agents (MGAs), as well as direct distribution options such as client contact centres and the internet. These changes have shifted the insurance market and improved choice for consumers.

That said, a 2013 independent research study conducted by the Life Insurance Market Research Association (LIMRA) found that life insurance ownership in Canada is at a 30-year low with only 68% of households owning life insurance, down from 79% seven years earlier.

Further, a recent actuarial report prepared by Towers Watson shows that nationally in 2013, creditor insurance on mortgages provided Canadians with $85B of new life insurance coverage. For the same year, Canadian Life and Health Insurance Association data indicates that the amount of new term life insurance purchased by Canadians was approximately $170B. As such, both creditor and term life insurance are important components of risk protection for Canadians.

From a technological perspective

Online distribution has been a well-spring of innovation in the creditor's group insurance sector, and it has proven to be well-suited to making information readily available on a clear and complete basis. Many CAFII members have developed interactive online tools to enable consumers to model different scenarios; and to ask questions and secure additional information, e.g. via "click to chat" functionality, all designed with a view to enhancing consumers' understanding of the features and terms of coverage options and helping them to choose a product.

Direct and electronic distribution are now well-established and valued channels for Canadian consumers, and are distinguished from traditional channels by the following features:

– Simple product design
– Straightforward enrolment process
– Affordable protection products
– Convenient and broad access
– Focus on meeting the needs of the under-served lower and middle income market
– Immediate and reliable coverage
– Comprehensive disclosure and well-trained representatives

It is CAFII's position therefore that insurance legislation and regulation must ensure that consumer needs for direct and electronic access to protection are effectively met; they must not unduly impact consumer access to protection.

From a regulation perspective

CCIR identified the following three strategic priorities for the 2014-2017 period:

- Align supervision with international best practices to enhance consumer protection.
- Work collaboratively with regulatory partners to grow and leverage national regulatory capacity.
- Partner with industry stakeholders to identify opportunities to reduce inter-jurisdictional barriers.

CAFII believes that CCIR has made significant progress on the first two of these strategic priorities and that the underlying objectives have largely been achieved through the new Framework for Co-operative Market Conduct Supervision and the ensuing Annual Statement on Market Conduct.

However, we believe that opportunities remain to enhance results against the third strategic priority Partnering with industry stakeholders to identify opportunities to reduce inter-jurisdictional barriers, and that it should be elevated in terms of its importance and the allocation of resources it receives at both the provincial/territorial regulator and national co-ordinating body levels.

In your opinion, what drove those changes?
The marketplace – in which consumer needs/expectations have shifted and technology has enabled the industry to respond -- has driven the creation of new and innovative products, services, and delivery models; and while emerging financial technology (fintech) provides new opportunities, it also brings new challenges for everyone involved. CAFII shares regulators' objective of ensuring that consumers are well-protected while they also 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 consumers' expectations throughout their user experience.

We agree 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 has 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 Canadians.

Science and technology
Even though insurtech (digital innovation in the insurance industry) is currently at an infancy stage as compared to its more advanced fintech sibling, new innovative business models within the insurance industry have emerged, 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

1. *Opportunities await: How Insurtech is reshaping insurance. Pwc Global Fintech Survey, June 2016.*
2. *Insurtech: Distruptions and opportunities in the Insurance Industry, Pinebridge Investments, October 2016.*

What things will accelerate, slow or prevent change? (rules, customs and traditions, physical or logistical constraints, patterns of behaviour, stakeholders)

1/CAFII members utilize electronic commerce extensively to distribute authorized and other life and health insurance products and we share regulators' objective of ensuring that consumers are protected while purchasing products through their channel of choice.

But at the same time, many regulatory requirements were designed for traditional paper-based and personal interaction sales practices and they will need to be revisited to ensure that they do not create inadvertent obstacles for innovation in alternate distribution models.

2/The need for harmonization, modernization, and simplification of licensing; and the need to foster an innovative and competitive marketplace, while ensuring consumer protection, are ongoing, major regulatory challenges for the insurance industry.

Canadian insurance providers are increasingly using direct channels such as the internet and client contact centres to sell coverage in all jurisdictions. Direct distribution of insurance has continued to grow due to the convenience and value that its channels provide to consumers.

Currently, for individual life insurance, client contact centres employ Life Licence Qualification Program (LLQP)-trained agents, each of whom must hold licences from the jurisdictions serviced by the centre, typically 13 different licences.

It is administratively very costly and cumbersome to have to manage licensing for 13 separate jurisdictions (including separate background checks; monitoring expiry dates for each jurisdiction; completion of forms; and compliance with multiple continuing education requirements, errors and omissions insurance requirements, and notification requirements). The current situation consumes a disproportionate amount of agent, insurer, and regulator time and resources. It also poses risks to licensed agents and companies in navigating the system, mainly through the possibility of errors and inadvertent non-compliance.

The increased costs of doing business caused by multi-jurisdictional licensing are borne by insurance providers, but ultimately have to be passed on to consumers.

The challenges created by multi-jurisdictional licensing give rise to operational inefficiencies and reduced growth in the client contact centre channel, resulting in reduced service standards and access for consumers. From an operational perspective, some companies choose to simplify their operations by offering products in only certain jurisdictions. Since the jurisdictions selected usually represent larger markets, the availability of insurance coverage can be negatively impacted in smaller jurisdictions, thereby reducing accessibility for population segments (rural, low and middle income, young families) that are already underserved by traditional face-to-face distribution channels.

The number of agents in a client contact centre who are able to serve consumers from all jurisdictions across Canada is limited by the complexity of the current multi-jurisdictional licensing system. In situations where an insurance provider has chosen to offer products in all jurisdictions, the reality is that at any given point in time, it's often only possible to have a portion of the agents licensed in all jurisdictions. Therefore, when a call comes in from a particular jurisdiction, the first agent in the queue may not have the appropriate provincial/territorial licence, and the caller must wait until an agent with a licence for his/her jurisdiction is available. In many cases, a caller may be asked to call back later because the queue is too long.

The reality of client contact centre operations is that customers may contact a centre several times over the course of a transaction -- to ask questions, complete the transaction, or to change coverage. In each case, if the answering agent is not licensed for the jurisdiction of the caller, the call must be transferred and queued for an appropriate agent, even though the answering agent would be fully competent to handle the caller's needs.

In some client contact centres, agents may not actually begin to answer phone calls until they have received the required licences for all jurisdictions; and if agents are kept off the phone while waiting to receive all required licences, the time lag reduces capacity and makes it more difficult for callers to get through to an agent.

The current multi-jurisdictional insurance licensing situation does not support quality customer service in a client contact centre environment; and some businesses have not been able to achieve the level of growth in that channel which customer demand warrants, for directly related reasons.

Solution: CAFII views a nationally harmonized insurance licensing model – one which recognizes the importance of the client contact centre channel and alleviates the unnecessary burden imposed by multi-jurisdictional licensing – as an imperative. Ideally, if an agent is duly licensed in one provincial/territorial jurisdiction, that licence should be recognized by other Canadian jurisdictions under a system of mutual recognition, with no further local requirements imposed, other than registration and fee payments. Such mutual recognition should be automatic and expeditious.

We note that the 2006 Reliance Model For Reciprocal Licensing introduced by the Canadian Council of Insurance Regulators (CCIR) and the Council of Insurance Services Regulatory Organisations (CISRO) intended to make it easier for regulators in other jurisdictions to rely on the requirements of an agent's home jurisdiction. Under this approach, a jurisdiction's requiring that an agent applicant meet further requirements beyond what they have met in their home jurisdiction, while optional, was not expected to be the norm.

While the Reliance Model For Reciprocal Licensing has not been implemented to any significant degree, two examples of where small progress has been made in this area are as follows:

Nova Scotia's Insurance Agents Licensing Regulations make provision for such automatic mutual recognition, via this clause: 10(1) Despite Sections 2, 3, and 4, the Superintendent may issue an insurance agent or agency license to an applicant who resides outside of Nova Scotia if the applicant holds a valid license in good standing for the same class of insurance issued by the jurisdiction in which the person resides as evidenced by a certificate of authority issued by that jurisdiction.

And in 2015, the Insurance Council of BC amended its policy on non-resident licence applicants who are subject to criminal record check requirements in their home province or territory. From that point in time forward, non-resident licence applicants who hold an insurance licence that is in good standing in their home province or territory have no longer been required to provide a criminal record check when they submit their licence application to BC.

CAFII views these Nova Scotia and BC modernizations as positive stepping stone developments.

The Future

What future evolutions do you see for the insurance sector?
It's our view that the future of life and health insurance will be marked by continued and accelerating innovation; and that regulation should embrace the role of all insurance channels in meeting the insurance needs of consumers. In particular, consumers continue to demand greater access to insurance information, purchasing opportunities, servicing, and claims fulfillment through digital means; and we believe that the digital space will play an ever more important role in meeting the insurance needs of Canadians.

CAFII believes that the insurance regulatory structure should foster an open marketplace where consumers are able to choose how and where to purchase coverage. Our members distribute Authorized Insurance Products (under the federal Bank Act and related Insurance Business Banking Regulations) and other types of life and health insurance products by direct mail, client contact centres, and through the internet; and we share regulators' objective of ensuring that consumers are protected while purchasing products through their channel of choice.

We encourage the FCNB to put specific mechanisms in place to support and foster innovation in the life and health insurance industry. It is critically important that the FCNB be able to evaluate and respond expeditiously when both of the following types of innovation are brought forward by the industry:

(i) process improvements which are an evolution out of existing practices and are clearly provided for/allowed under the current legislative and regulatory regime; and

(ii) significant leaps in innovation which were not contemplated by and therefore are not provided for/allowed under the current legislative and regulatory regime.

What opportunities and threats do these evolutions pose?

Who will resist, channel or accelerate change?
Insurance policy-makers and regulators have a large measure of control in this area. CAFII recommends that the FCNB pursue, as a strategic priority, an initiative to implement, in a full and consistent manner, previously established CCIR positions and recommendations. We offer the following examples for consideration:

(i) CCIR's final position paper on Electronic Commerce in Insurance Products (2013)
CCIR should lead in an initiative to see all member jurisdictions implement 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, by the end of the next Strategic Plan period.

(ii) CCIR's Final Report on Privilege Model and Whistle Blower Protection
Much of the data being requested in the Annual Statement on Market Conduct, as an example, is proprietary and its public release could be harmful to insurers and result in anti-competitive activities. However, only a minority of provinces/territories have adopted a self-evaluative privilege provision similar to the model endorsed by the CCIR in its Final Report on Privilege Model and Whistle Blower Protection. A CCIR strategic priority initiative in this area would see all member jurisdictions adopt self-evaluative privilege by the end of the next Strategic Plan period.

Conclusion and Follow-Up Meeting Request
Thank you for inviting CAFII to make this written submission outlining our input on the environmental scan questions posed prior to our December 5 preliminary consultation meeting.

Should you have any questions about the content of this letter or wish to meet with CAFII representatives at any time, please contact Brendan Wycks, CAFII 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 American Express, Assurant, Canadian Premier Life Insurance Company, CUMIS Services Incorporated, Manulife (The Manufacturers Life Insurance Company), and The Canada Life Assurance Company.