

29 October, 2021

Mr. Mark White, CEO; and
Financial Services Regulatory Authority of Ontario
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Toronto, Ontario
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mark.white@fsrao.ca; and

<https://www.fsrao.ca/engagement-and-consultations/consultation-proposed-2022-2023-statement-priorities>

RE: CAFII Feedback on Proposed FY2022-2023 Statement of Priorities

Dear Mr. White:

The Canadian Association of Financial Institutions in Insurance (CAFII) thanks the Financial Services Regulatory Authority (FSRA) of Ontario for the opportunity to provide comments on FSRA's *Proposed FY2022-2023 Statement of Priorities*.

In this submission, we have restricted our comments to those sections of the consultation document which are germane to CAFII members, i.e. to the sections on Environmental Scan, Cross-Sectoral Priorities, the Life and Health Insurance Sector-Specific Priority, and FSRA's Proposed FY2022-23 Budget.

Environmental Scan

CAFII agrees with FSRA's environmental scan observations and, in particular, your views on the implications of COVID-19. We believe that these are times of significant uncertainty for consumers, businesses, and regulators alike. Our members, and the entire life and health insurance sector, are operating in a time of unprecedented change, including environmental, social, and technological change. In today's environment, insurance can be more important than ever for consumers, by offering them risk protection, peace of mind, and a measure of predictability amid the challenges and doubts that characterize the times.

We also agree with FSRA's recognition that the pace of technological change is rapid and accelerating, and concur with the statement that

Digital sales of financial services were becoming more prevalent prior to 2022, and the pandemic greatly accelerated this trend. Regulated entities such as insurance companies/intermediaries ... had to implement or improve digital sales channels to reach customers. (Page 5)

In connection with that pandemic-accelerated reality, CAFII recently commissioned a Pollara Strategic Insights survey on Canadians' credit protection insurance (CPI) digitalization preferences, and an executive summary of its results is posted on the Research section (under News & Research) of our website. We were pleased to learn that Canadians feel well-served by our members' digital CPI offerings. We also noted with interest that while consumers are generally comfortable communicating and transacting digitally with their insurance providers, a sizeable majority is looking forward to being able to interact in-person with branch representatives again, post-pandemic, in addition to having digital options at their disposal.

With respect to consumer issues, we took note of the Proposed Statement of Priorities' assertion that "FSRA will also continue to monitor the overall value-for-money insurance consumers receive from their products and whether the products consumers are being sold are suitable." (Page 7)

In that connection, CAFII must emphasize that with respect to CPI -- which operates under powers granted by the federal *Bank Act* and the related *Insurance Business (Banks and Bank Holding Companies) Regulations*, in addition to being provincially/territorially regulated -- advice cannot be offered in connection with these optional Authorized Insurance Products; and, therefore, they are not offered by licensed individuals at financial institutions (FIs). That being the case, CAFII member customer service representatives are not permitted to assess "suitability" for customers interested in the protection offered by Authorized Insurance Products/CPI; instead, they assess customers' "eligibility" to be enrolled for coverage under these group insurance products. Also, because the consumer is purchasing/enrolling in optional insurance related to a single and specific borrowing need such as a mortgage, line of credit, or credit card -- and that scenario falls within the scope of activity permitted to occur through a non-advisory sales channel -- consumers must be provided with sufficient information, which meets provincial/territorial regulations and industry commitments and guidelines, to enable them to make an informed decision.

We support the emphasis that FSRA has placed on monitoring cyber-technology risk and climate change risk. With respect to the latter, while climate change risk assessments have traditionally been focused solely on the P&C insurance sector, there is increasing recognition of the impact that climate change can and will have upon mortality, morbidity, and consequently life and health insurance. For those reasons, CAFII is actively monitoring these issues. We recently held a CAFII webinar on "Climate Science, Our Changing Planet, and Implications for Life Insurance" with co-presenter experts from RGA Reinsurance; and their presentation deck is available on the Research section (under News & Research) of our website.

Cross-Sectoral Priorities Related To "Regulatory Efficiency and Effectiveness"

CAFII agrees with and supports the three cross-sectoral priorities which FSRA has articulated under the heading of "Regulatory Efficiency and Effectiveness."

With respect to the "Strengthen consumer focus" cross-sectoral priority; CAFII members, as major FI distributors and underwriters of CPI and travel insurance, make considerable investments in systems, processes, oversight, monitoring, employee training, and controls to support highly professional sales practices which are focused on appropriate products and fair treatment of customers.

We also support this priority's emphasis on the importance of robust complaints handling systems; and the imperative for businesses to be committed to ongoing assessment of shifting consumer expectations. CAFII members are also committed to supporting consumers' financial education and strengthening their financial literacy.

With respect to the “Enable innovation” cross-sectoral priority, we strongly support FSRA’s ongoing efforts in this area. The shifting needs of consumers and industry’s efforts to meet them are challenging the regulatory system to keep pace. The deliverables and outcomes specified by FSRA under this cross-sectoral priority are appropriate in our view. In that connection, we continue to advocate for the benefits of “regulatory sandboxes” which can provide a safe, monitored space within which to test innovative products and services while ensuring consumer protection.

In that connection, CAFII is pleased to have had, on October 29, a preparatory dialogue meeting with Glen Padassery, FSRA’s EVP, Policy and Consumer Office, and Marlena Labieniec, Director of FSRA’s Innovation Office; and we will now be collaborating with them on a follow-up virtual event which will provide an opportunity for CAFII members to learn about FSRA’s Innovation Framework and how to tap into it.

With respect to the “Modernize systems and processes” cross-sectoral priority, we encourage FSRA to continue to invest in its core technology and processes to make them as efficient as possible. We believe that technology will continue to have a profound impact upon financial services regulators, just as it is having upon industry. It is critical to FSRA’s effectiveness that it keep up with the pace of innovation through investments in technology. We recommend, however, that the deliverable related to improving data interfaces and analytics will be most effectively achieved if it is informed by meaningful consultation with industry on this matter. Each regulated business has its own definitions around data and its own approaches to technology, and understanding those nuances before building interfaces will reduce FSRA’s risk of obtaining data that is difficult to aggregate, analyze, and interpret.

That said, CAFII fully supports FSRA’s fundamental principle of taking an evidence-based approach to regulation.

As a concluding comment related to “Regulatory Efficiency and Effectiveness,” CAFII has in the past extended kudos to FSRA for adopting CCIR/CISRO’s *Guidance: Conduct of Insurance Business and Fair Treatment of Customers* as the document which outlines FSRA’s expectations of industry with respect to FTC, without the need for separate FSRA guidance in this area. CAFII believes that such kudos to FSRA are still deserved, as the Authority continues to “walk the talk.” In taking the approach noted above with respect to FTC guidance, FSRA set a leadership example of supporting national co-ordination and harmonization. In that connection, we note the many references to FTC in the *Proposed FY2022-2023 Statement of Priorities*; and we encourage continued FSRA emphasis on the fact that such references are consistent with the CCIR/CISRO Guidance, which makes it crystal clear that FSRA’s harmonization approach continues unabated.

Life and Health Insurance Priority

CAFII agrees with and supports FSRA’s life and health insurance sector-specific priority of “Enhance market conduct oversight to protect consumers.”

In that connection, we emphasize again that CAFII members, as major FI distributors and underwriters of CPI and travel insurance, make considerable investments in systems, processes, oversight, monitoring, employee training, and controls to support highly professional sales practices which are focused on appropriate products and fair treatment of customers.

We were pleased to learn that FSRA has joined the International Association of Insurance Supervisors (IAIS). We recognize that international travel is currently restricted due to COVID-19. But that will not always be the case and we believe that FSRA, as the financial services regulator for Canada's most populous province which is the economic engine of the country, should play a prominent role in the IAIS, which is a major international standards-setting body. We note the many references in the *Proposed FY2022-2023 Statement of Priorities* to FSRA's learning from and, as appropriate, aligning with the practices of international bodies (such as the IAIS), and we are fully supportive of that approach.

Proposed FY2022-23 Budget, Financial Outlook, and Sector Fee Assessments

With respect to FSRA's proposed 2022-2023 Budget, CAFII notes that it calls for a significant overall increase in FSRA's fee revenue, well above the rate of inflation, even the comparatively high inflation rate in these supply chain-challenged pandemic times. We also note that some regulated sectors, including Life and Health, are facing particularly steep fee increases in 2022-2023. Finally, we note the following funding priority set out in the proposed budget: "Build new team to address critical regulation gap to protect consumer in Life and Health Conduct sector."

The COVID 19-dominated 2021 year has been a second successive challenging year for the life and health insurance sector, and the sector has continued to make considerable efforts to respond to shifting and heightened consumer needs and regulatory expectations in these difficult times. Heading into 2022, as the industry collectively looks to operationalize a "new normal" with society and the economy emerging from the pandemic, the industry continues to face considerable financial challenges.

In that connection, CAFII asks that FSRA consider the following feedback points and observations with respect to its proposed 2022-23 budget:

- has the life and health insurance sector been fully and effectively consulted, such that there is a high degree of acceptance within the sector that a 'critical regulation gap' exists within it, one that needs to be urgently addressed?;
- if the FSRA-determined critical regulation gap in the life and health insurance sector exists almost exclusively within the MGA and/or licensed insurance advisor channels, is it possible to levy the steep fee increase predominantly upon that/those sub-channel(s) and not equally upon all regulated entities in the entire life and health insurance sector?; and
- given the magnitude of the fee increase which the budget proposes to impose upon the life and health insurance sector in 2022, combined with the pandemic-recovery financial challenges being faced by nearly all regulated entities in the sector, is it possible to spread the desired fee increase over two FSRA fiscal years: 2022-23 and 2023-24?

We encourage FSRA to keep those factors fully in mind when making a final decision about the proposed fee increase to fund increased conduct supervision in the life and health insurance sector.

In closing, we thank FSRA for its continued commitment to open and transparent communication and consultation. We look forward to making further representations of our Association's views on the Authority's *Proposed FY2022-2023 Statement of Priorities* through the Life and Health Insurance Sectoral Advisory Committee's meetings, including with the FSRA Board on 23 November, 2021.

Sincerely,



Rob Dobbins
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 credit protection, travel, life, health, and property and casualty insurance across Canada. In particular, credit protection 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 which helps ensure that Canadian consumers have access to insurance products that suit their needs. Our aim is to ensure that appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII's members include the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Insurance; National Bank Insurance; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players Assurant; Canada Life Assurance; Canadian Premier Life Insurance Company; Canadian Tire Bank; CUMIS Services Incorporated; Manulife (The Manufacturers Life Insurance Company); Sun Life; and Valeyo.