

February 21, 2014

Ms. Carolyn Rogers
Chair, Canadian Council of Insurance Regulators
c/o CCIR Secretariat
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Dear Ms. Rogers:

The Canadian Association of Financial Institutions' in Insurance (CAFII) is pleased to provide input for CCIR's development of its 2014-17 Strategic Plan.

Our submission is appended to this letter. We have generally framed our input in accordance with the questions raised in your invitation letter.

Thank you for inviting CAFII to participate in this important stakeholder consultation process.

CAFII would be pleased to discuss our submission or answer any questions that the CCIR may have about it. Should you wish to meet for that purpose, either in-person or by teleconference, please contact Brendan Wycks, our Executive Director, at brendan.wycks@cafii.com or 647-218-8243 to arrange a mutually convenient date and time.

We look forward to working with CCIR on continuing to develop a sound and flexible risk-based regulatory regime for the Canadian insurance industry, which supports consumer protection and the ability of business to meet market needs in an efficient and effective manner.

Yours sincerely,



Mark Cummings, Chair
Canadian Association of Financial Institutions in Insurance

CAFII INPUT FOR CCIR 2014-2017 STRATEGIC PLAN

1. What are the challenges facing the insurance industry?

Maintaining A Flexible Regulatory Environment That Supports Innovation

It is CAFII's view that one of the main challenges facing the Canadian insurance industry and the CCIR for the foreseeable future is the pace of change in technological innovation and corresponding changes in how customers want to interact with any business. This trend highlights the need to maintain a flexible and efficient regulatory environment. We recommend that regulators "stay the course" and maintain a principles- and risk-based regulatory environment. It is especially important that Canadian regulators focus on the characteristics of our own marketplace, and are equipped to address pressures to "follow suit" and replicate, despite altogether different market conditions, recent regulatory interventions in other countries.

Risk-Based Regulatory Models

The risk-based system 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 CCIR's 2014-2017 Strategic Plan should contain a commitment and resolve to maintain this approach.

Impact of Technological Innovation

With respect to innovation, it perhaps goes without saying that life insurance needs of Canadians have evolved dramatically over the past 15 years. And the marketplace is now 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.

In addition to the traditional agent and broker distribution channels, the life insurance market now includes 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.

Online distribution has been a well-spring of innovation, and proven to be well-suited to making information readily available on a clear and complete basis. CAFII members have developed interactive simulations and other tools to enable consumers to model a variety of scenarios with a view to understanding and choosing a product.

For example, creditor's group insurance and travel insurance, which CAFII members are authorized to distribute, are supported in the online environment with a view to ensuring that consumers understand the coverage offered. The online information and advice tools utilized include "click to chat" capability and toll-free access to knowledgeable representatives in both call centres and branches.

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.

In that connection, CAFII commends the CCIR for recently completing a timely and thoughtful consultation on electronic commerce, with a view to ensuring that the industry is able to meet growing consumer demand for convenient access to insurance products. CAFII members utilize electronic commerce extensively to distribute simple, straightforward life and health insurance products, and we share the CCIR's objective of ensuring that consumers are protected while purchasing products through whatever channel they choose.

We support the principles-based approach taken in the electronic commerce position paper, as it provides insurers with needed flexibility in their online interactions with consumers while at the same time ensuring that consumer protection outcomes are met. It is now critical that all provincial and territorial regulators, the members of the CCIR, adopt the principles set out in the final version of the Council's e-commerce position paper.

Regulatory Effectiveness: Increasing Consumer Demand for Direct Distribution Driving Need to Harmonize, Modernize, and Simplify Licensing

The need for harmonization, modernization, and simplification of licensing is an ongoing major regulatory challenge for the industry.

CAFII views a nationally harmonized regulatory model – one which recognizes the importance of the telemarketing channel and alleviates the unnecessary burden imposed by multi-jurisdictional licensing – as an imperative. Ideally, if an agent is duly licensed in one jurisdiction, that license 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.

Canadian insurance providers are increasingly using direct channels such as the internet and client contact centres to sell coverage in all jurisdictions. Currently, for individual life insurance, contact centres employ LLQP-trained agents, each of whom must hold licenses from all 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; compliance with multiple continuing education, errors and omissions insurance, and notification requirements).

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 the appropriate agent, even though the answering agent would be fully competent to handle the caller's needs. In these situations, the reality of multi-jurisdictional licensing and the lack of interprovincial harmonization or mutual recognition can create a poor customer experience.

It is also costly and time-consuming to handle compliance with the requirements of multiple jurisdictions. Businesses have not been able to achieve the growth in the telemarketing/client contact centre channel that customer demand warrants, for reasons directly related to multi-jurisdictional licensing challenges.

The current situation also poses risks to agents and companies in navigating the system, mainly through the possibility of errors and inadvertent non-compliance.

Making this change will better align with the Agreement on Internal Trade, which stipulates that individuals with recognized skills and qualifications should be able to work in their field in any jurisdiction in Canada, without undue impediment. In addition, the increasing use of electronic commerce, in all sectors of the insurance industry, has made physical location increasingly unimportant.

Importance of a National Online System for Licensing

To maximize the potential of an emerging and promising opportunity for major progress on harmonization, CAFII strongly encourages all provinces and territories to join in on the Canadian Insurance Participant Registry (CIPR) initiative being rolled out by the Alberta Insurance Council. We commend Alberta for the leadership it has provided on this vitally important project. As an online system for licensing intended to be national in scope, the CIPR is an encouraging start on addressing a critical need that CAFII has been highlighting for years.

In that same vein, the Life Licence Qualification Program (LLQP) has harmonized entry-level proficiency requirements for agents in all common law provinces; and the current LLQP modernization initiative will bring Quebec into the fold by 2016. CAFII commends the Canadian Insurance Services Regulatory Organizations (CISRO) and CCIR on the significant progress made to date on the current LLQP modernization effort.

Access To Insurance For The Under-served Market

A continuing challenge facing the industry is to ensure access to insurance coverage for all Canadians.

The traditional agent and broker distribution channel focuses on the upper end of the market, leaving a vast middle market of lower and middle income Canadians under-served. The commission-based nature of this channel incents its intermediaries to focus on higher premium policies, which results in sales of higher face value policies to clients who are older and wealthier.

Over time, this has been reflected in larger amounts of coverage being purchased by fewer households. For example, in 1995 Canadians purchased 994,000 individual life insurance policies with an average face amount of \$106,000. By 2008, the number of policies purchased had declined by more than 20% to 780,000 while the average policy size nearly tripled to \$274,000¹. Similarly, the average size of a new term life insurance policy in 2009 was \$370,000 up from \$336,000 in 2005.²

To address a significant gap in the market, CAFII members have developed products to meet the needs of a broad range of consumers, not just the affluent. Products offered through the direct channels of CAFII member financial institutions have provided a vast segment of the population with access to insurance coverage at smaller face value amounts, protection that they would otherwise not have.

In order to ensure broad access to protection for all Canadians, it is key that regulators take into account deposit-taking institutions' branches and other direct distribution access points (e.g. telephone, Internet, mail) in the development and harmonization of regulation. A risk-based perspective should be applied to any regulatory changes under consideration, such that contemplated changes are measured against the risk to consumers.

Distribution of insurance via electronic channels provides accessibility for broad demographic and geographic segments of uninsured and under-insured consumers. CAFII therefore recommends that regulations should continue to support electronic distribution.

2. What Specific Initiatives Should CCIR Continue Or Undertake Over The Next Three Years To Deal With Those Challenges?

Harmonized Implementation Of CCIR Positions

CAFII appreciates that projects undertaken by the CCIR serve to co-ordinate and harmonize research across jurisdictions. It is frequently noted by the CCIR, however, that provinces implement CCIR recommendations and positions independently.

¹ LIMRA, Canadian Individual Life Insurance Sales Trends – 1995 - 2008

² LIMRA, Canadian Individual Life Insurance Sales Survey, Third Quarter 2009

Recognizing the role of CCIR in the development of co-ordinated research and development of policy positions, and the very separate role accorded to individual jurisdictions in implementing those policies, we strongly encourage regulator dialogue to explore ways to implement policy decisions consistently to achieve harmonized requirements across jurisdictions.

CAFII would be pleased to work with the CCIR to offer more specific recommendations in this regard.

Maintain Focus On Policy-Maker and Stakeholder Engagement; And Strengthening Influence

CAFII believes that it is very important for regulators to impress frequently upon their respective policy-makers the importance of interprovincial harmonization of laws and regulations governing the insurance industry, and of the resulting benefits for consumers and for the businesses who meet their needs.

Recognizing that there is a similar onus upon industry Associations, such as CAFII, to communicate with policy-makers, we have built an enhanced focus on policy-makers into our new Communications Strategy and plan to meet with them with more regularly.

In that connection, CAFII would be pleased to co-operate and participate with CCIR members in direct presentations to policy-makers or, more indirectly, through presentations to Institutes or think tanks serving policy-makers -- particularly on topics such as case studies of industry compliance requirements and practices; and the impact of unharmonized regulations on business practices.

And in this vein, CAFII encourages the CCIR to pursue greater engagement and co-ordination with its federal regulatory counterparts, beyond OSFI. We believe that consumers and industry would be well-served if there was regular consultation between the CCIR and the federal Department of Finance and the Financial Consumer Agency of Canada. In particular, we believe that it is important to ensure that the CCIR is closely consulted on the proposed development of a new federal financial consumer code – the consultation process for which is currently underway – to ensure that a potential confusion/chaos scenario of overlapping regulation and blurred accountabilities does not come to pass, which would be highly detrimental to both consumers and the industry.

Facilitate Development And Implementation Of Harmonized Regulation

As noted above, CAFII recommends that this priority be maintained. It is unlikely that the protection needs of consumers in one province vary significantly from the needs of consumers in other provinces. We caution, however, against harmonization which leads to expanded regulation in every jurisdiction.

Efficient and Effective Regulation

As noted above, efficient and effective regulation which reduces or eliminates unnecessary regulatory burden should continue to be an important goal for the CCIR.

Regulatory burden restricts the ability of companies to compete and to serve consumers through innovative offerings. It also imposes costs on the delivery of products and services which must be borne by consumers.

Therefore, reducing or eliminating regulatory burden allows both regulators and industry to make best use of their resources, which leads to better consumer outcomes.

Moreover, a principles and risk-based regulatory system is in complete harmony with the reduction and elimination of regulatory burden, and 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 and effective.

A number of provinces have been working on red tape and other regulatory reduction programs for a number of years; this is therefore an important goal for provincial policy-makers.

We encourage the CCIR to consider the effect of new and incremental legislation, regulation or guidelines on industry so that industry does not face unnecessary regulatory burden. Where regulatory intervention is deemed necessary, CAFII recommends that industry be permitted to develop self-regulatory standards and guidelines rather than have additional legislation or regulation imposed.

Consumer Complaint Data

CAFII believes that the recently implemented national complaint reporting system is a very important initiative. Complaint data is a key tool for determining areas of risk to consumers and permits “regulation based on facts,” ie. in the assessment of risk and the determination of whether or not to regulate. We recommend that industry be given access to regular complaint reports. We encourage the CCIR to continue to refine the system, so that complaints by product line and channel can be observed. We believe that complaint numbers are very low for our products and distribution channels and, in keeping with the principles of risk-based regulation, complaint reports by channel would give guidance to regulators on the degree of intervention required.

3. Additional Input

Communication With Industry

CAFII appreciates the good communication, meetings and consultations that CCIR has established with industry and supports continued interaction. The CCIR has made it possible for industry to meet with regulators on major issues. This is important to ensure that industry becomes aware on a timely basis of the issues on which regulators are working, thereby allowing industry to participate by sharing information and expertise.

For example, there are many examples where the involvement of industry associations such as CAFII was very helpful, at the earliest stages of issue identification, in discussing issues with regulators before any industry surveys or consultations were released. In this way, we can provide timely background information, help to vet issues, and provide our perspective on any research being undertaken.

ABOUT CAFII

The Canadian Association of Financial Institutions in Insurance (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 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 banks – 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 Solutions, and Canadian Premier Life Insurance Company.

In addition, CAFII has 10 Associate members that support the role of financial institutions in insurance.

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.

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.