



May 31, 2013

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

RE: FSCO Statement of Priorities for 2013

Dear Mr. Howell:

I am writing to you on behalf of the Canadian Association of Financial Institutions in Insurance (CAFII) with respect to the draft 2013 FSCO Statement of Priorities.

CAFII supports FSCO's over-arching emphasis on risk-based regulation and its four main strategies. Below we comment on initiatives to be undertaken that are of particular interest to CAFII; and thereafter we address some matters of general strategic focus.

1) Develop proposals to modernize disciplinary hearings for insurance agents and adjusters

CAFII supports this modernization initiative. We appreciated the invitation and opportunity to provide preliminary feedback on proposed changes during a pre-consultation meeting with FSCO's leaders of this project in February 2013; and we look forward to commenting further during the expected formal consultation period to come.

In that connection, CAFII commends FSCO for its work in 2012 which has resulted in implementation of an Administrative Monetary Penalties (AMPs) regime in the insurance sector, effective January 1, 2013. CAFII was consistent in its support of AMPs as an enforcement tool, provided that regulatory guidelines make it clear that AMPs will be used to address persistent transgressions rather than an inadvertent error. We believe that our concerns in this area have been satisfactorily addressed.

2) Conduct life insurance and mortgage broker product suitability reviews

Market conduct reviews of suitability of product recommendations would involve a variety of distribution channels and intermediaries, and of life and health insurance products with a wide range of complexity.

With respect to this initiative, CAFII would appreciate having a pre-launch consultation meeting with FSCO to discuss how the life insurance product suitability reviews will be undertaken; and we offer our co-operation and advice in making the process efficient and effective.

We therefore appreciated receiving an indication from Anatol Monid, Director, Market Regulation Branch, that such a consultation meeting would be arranged once the IMF/IAIS Review of ICPs in Canada is completed. We are also pleased to be able to facilitate an opportunity for FSCO representatives to tour a CAFII member Call Centre at a mutually convenient, appointed time.

3) *Create a national disciplinary actions database*

We appreciate and commend FSCO's leadership in co-chairing this CCIR initiative to create a national database of disciplinary actions by insurance regulators. This will be an important contributor to much desired harmonization.

We note, however, that the Statement of Priorities does not directly reference initiatives to simplify inter-jurisdictional licensing. As you know, CAFII members need to have representatives licensed in multiple jurisdictions. In order to increase industry efficiency, we support ongoing development of electronic systems and integration with other jurisdictions. In this regard, we view a common interface for licensing systems as a step toward efficient multi-jurisdictional licensing.

Alberta has proposed a business number registration system to be used by all jurisdictions that would serve as a central database of all insurance licensees and record all infractions by licensees. CAFII supports a central disciplinary actions database as a step toward efficient multi-jurisdictional licensing.

4) *Develop harmonized life agent licence qualification national standard*

CAFII strongly supports this initiative and commends FSCO for its participation in CISRO's Life Licence Qualification Program (LLQP) project. This critically important initiative will develop a national qualification standard that aligns with the Agreement on Internal Trade, the Ontario Labour Mobility Act, and the Ontario-Quebec Trade and Cooperation Agreement. We continue to participate with keen interest in the LLQP Committee's Industry Stakeholder Consultation meetings and processes.

5) *Develop and implement an information technology Enterprise Development Program.*

CAFII supports this initiative and commends FSCO for the business case and project plan progress it has made on this system, intended to create one window access to check or renew licenses, submit filings, pay fees, and do other related tasks. We support ongoing improvements to electronic licensing systems. In keeping with the priority of fostering a coordinated, national approach to regulation, we recommend that FSCO pursue compatibility of its electronic systems with those of other jurisdictions.

International Insurance Core Principles

CAFII commends FSCO for the leadership role it has played in ensuring that Canada's insurance regulators are well-prepared for the International Monetary Fund's review this year of our country's adherence to the International Association of Insurance Supervisors' Insurance Core Principles. CAFII strongly supports this work to ensure adequate levels of consumer protection and a financially sound insurance sector.

Should any follow-up be required as a result of the IMF's assessment, CAFII stands ready to co-operate and assist FSCO and other members of the Canadian Council of Insurance Regulators.

Harmonization

CAFII appreciates FSCO's continued leadership in fostering a coordinated national approach to regulation. CAFII members offer insurance coverages in multiple jurisdictions and it is very important that regulations are as similar as possible across all jurisdictions. Coordination of regulations is also important for ensuring that consumers have consistent satisfactory experiences in each jurisdiction.

Risk-based Regulation

Risk-based regulation involves monitoring, identifying, focusing and allocating resources toward the highest risks in each regulated sector. One important tool of risk-based regulation is the self-evaluative questionnaire. Industry is increasingly being asked to supply information in response to such questionnaires. We believe that necessary protection for respondent companies related to such questionnaires will be provided if the information they submit is protected by “self-evaluative privilege.” This was a position recommended by the Canadian Council of Insurance Regulators and adopted by Alberta and Manitoba in their recent *Insurance Act* reviews. Given Ontario’s leadership focus on both risk-based regulation and harmonization, we recommend that self-evaluative privilege be adopted.

CAFII also recommends that a risk-based perspective be extended to any market conduct regulatory changes under consideration, such that contemplated changes are measured against the risk to consumers. For example, distribution of insurance over the internet achieves broad demographic and geographic access to Canadians. As such, electronic channels can help ensure that insurance is made available to uninsured and underinsured consumers and we therefore recommend that regulations should support electronic distribution.

Auto Insurance and Combatting Fraud

We note that FSCO has ongoing focus on auto insurance reforms and insurance fraud. Using risk-based regulation principles, where regulation should focus on areas with greatest impact on consumers, we concur that these are important priorities for FSCO to pursue.

In that same connection, CAFII supports innovation in all sectors of the insurance market. We therefore commend FSCO for the foresight and leadership demonstrated in supporting telematics-based innovation in auto insurance, while ensuring that consumers are fairly treated. Under the heading of *Performance Measures & Improved Service*, FSCO acknowledges that “Government and regulators need to meet the increasing service expectations of consumers.” This is equally true with respect to market conduct regulation, and CAFII congratulates FSCO for its leadership and the risk-based regulatory approach deployed in assessing innovation and supporting the introduction of usage-based insurance.

Finally, we also note that the current draft priorities contain a number of measures stemming from the recent Ontario auto insurance reforms which will assist companies in achieving better containment of costs. It is critical that the remaining recommendations from the package of Auto Insurance Reforms, announced by the Minister of Finance in November 2009, be fully addressed. There have also been additional challenges which have arisen since the implementation of the 2010 reforms -- such as capacity and process issues within the FSCO Dispute Resolution System -- which add costs to the accident benefit system for both claimants and insurers. While FSCO has made great efforts to reduce the outstanding mediation backlog, more work is necessary to maintain the effectiveness of the mediation system. This focus on cost containment remains critically important to the availability and affordability of the auto insurance product in Ontario.

CAFII appreciates the opportunity to comment on FSCO’s priorities and looks forward to continued communication and input on policy matters.

Yours truly,



Jennifer Hines

CAFII Secretary and Chair, Executive Operations Committee