

August 27, 2018

Mr. Ron Fullan  
Chair, The Canadian Insurance Services Regulatory Organizations  
[cisro-ocra@fscs.gov.on.ca](mailto:cisro-ocra@fscs.gov.on.ca)

Dear Mr. Fullan:

The Canadian Association of Financial Institutions in Insurance (CAFII) thanks CISRO for its June 29/18 invitation to provide input for CISRO's 2019-2022 Strategic Plan, which we are pleased to accept.

First, we congratulate CISRO on its notable accomplishments in recent years, under your leadership, including

- overhaul of the Life Licence Qualification Program (LLQP); launch of a modernized, modular LLQP; and related implementation monitoring;
- collaboration with the Canadian Council of Insurance Regulators (CCIR) in developing industry guidance related to the fair treatment of insurance customers;
- working closely with CCIR on its Travel Health Insurance Review, and on initiatives related to *fintech* and segregated funds;
- piloting a CISRO Secretariat; and
- developing communications strategies to engage better with stakeholders.

As we noted in our March 2018 CAFII submission to CCIR, CAFII sees it as very positive that CCIR and CISRO are working collaboratively on the *Guidance: Conduct of Insurance Business and Fair Treatment of Customers*. Such joint initiatives allow both organizations to benefit from the other's knowledge/expertise and perspectives; and for the industry, collaboration of this kind brings the approaches of the two national co-ordinating bodies into better alignment, thereby promoting a more consistent approach to emerging issues.

CAFII also applauds CISRO's recent piloting of a Secretariat, as we believe that the Council has developed and evolved to a stage where Policy Manager-level support is needed to enhance its efficiency and effectiveness, and its profile in the national regulatory community.

With respect to the issues and concerns which CAFII believes should be considered in the development of CISRO's 2019-2022 Strategic Plan, we offer the following input:

Maintain A Flexible, Principles-Based Regulatory Environment That Supports Innovation

It is CAFII's view that one of the challenges facing the Canadian insurance industry and CISRO 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 therefore recommend that CISRO and its members "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 both CCIR and CISRO several years ago is commendable and produces desired results. 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 CISRO’s risk-based approach to regulation, including the emphasis on industry self-regulation solutions. That approach was described as follows by former CCIR Chair Danielle Boulet in her Foreword to that 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 CISRO’s 2019-2022 Strategic Plan should contain a resolve to maintain a risk-based regulatory 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 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.

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 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.

In that connection, we encourage CISRO to include a recognition of the importance of supporting technological innovation in the industry in its 2019-2022 Strategic Plan.

#### Pursue Opportunities To Reduce Inter-Jurisdictional Barriers Through Harmonization

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

CAFII believes that the current system of multi-jurisdictional insurance licensing across Canada creates significant interprovincial barriers which negatively impact the ability of the insurance sector to operate across the country. From the industry's standpoint, one of the key benefits of CISRO is that it provides a forum for provincial and territorial jurisdictions to co-ordinate and to harmonize insurance licensing requirements.

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 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 also 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.

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.

CAFII strongly encourages CISRO to focus on these issues as a key component of its 2019-2022 Strategic Plan. Creating an efficient, effective, 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 – would be a very valuable effort which CISRO is uniquely well-qualified to lead. Such an effort could explore new models – for example, 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.

As a more immediate, short-term measure, CAFII would be pleased to participate with CISRO as part of a regulator/industry collaborative group which could walk through and identify the inefficiencies created by the current multi-jurisdictional licensing model, such that CISRO could then hone in and tackle those issues as small, successive projects.

As an example of a foundation that CISRO could build upon in this area, we note that the 2006 *Reliance Model For Reciprocal Licensing* introduced by CCIR and 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.

CISRO's leadership in making significant progress in this area can produce a licensing regime that is better aligned with the Canadian Free Trade Agreement (CFTA), 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.

Establish A Focus On Policy-Maker Engagement; Partner With Industry Stakeholders, Where Appropriate  
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.

Therefore, CAFII strongly encourages CISRO to establish a focus on policy-maker engagement in its 2019-2022 Strategic Plan; and to partner with industry stakeholders, where appropriate, to achieve objectives in this area.

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 Strategic Plan and will be meeting with them with more regularly.

In that connection, CAFII would be pleased to co-operate and participate with CISRO and/or its individual 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.

#### Conclusion

Thank you again for the opportunity to provide input for CISRO's 2019-2022 Strategic Plan. Should you require further information from CAFII or wish to meet with representatives from our Association at any time, please contact Brendan Wycks, CAFII Co-Executive Director, at [brendan.wycks@cafii.com](mailto:brendan.wycks@cafii.com) or 647-218-8243.

Sincerely,



Peter Thorn  
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; 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.