

July 4, 2018

Mr. William Ngu, Superintendent of Insurance
Nova Scotia Finance and Treasury Board
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Halifax, Nova Scotia
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Subject: CAFII Input on Financial Services Issues For Inclusion In Canadian Free Trade Agreement

Dear Mr. Ngu:

Thank you for your letter of June 7, 2018 and the invitation extended to CAFII to provide input on financial services areas and issues which should be considered for inclusion in exploratory discussions related to the Canadian Free Trade Agreement (CFTA).

Our Association is pleased to respond to the three stakeholder questions in your letter, as follows:

Question 1:

CAFII believes that the current system of multi-jurisdictional insurance licensing across Canada creates a significant interprovincial barrier which negatively impacts the ability of the insurance sector to operate across the country.

Current Market Environment

The life insurance needs of Canadians have evolved dramatically over the past 20 years. The marketplace is now served by new distribution channels, providing innovative products tailored to meet the unique needs of Canadians across the full spectrum of society.

In addition to more traditional distribution channels, such as captive agents and independent brokers, 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.

Current Business Environment

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.

Making this change will better align with the CFTA, and the objective that individuals with recognized skills and qualifications should be able to work in their field in any jurisdiction in Canada, without undue impediment.

We urge the Ministers involved in CFTA discussions and negotiations to take a leadership position by mandating the development and launch of a national system for automatic mutual recognition of licensed insurance agents from other jurisdictions.

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.

Question 2:

A specific financial services-related issue which CAFII would like to see addressed through the CFTA is that of a much-needed update to the insurance regulatory framework, across jurisdictions, to foster innovation and support consumer choice in a digital world.

Consumer habits are evolving rapidly, and more and more clients expect insurance offerings to cater to their specific needs. 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: Disruptions and opportunities in the Insurance Industry, Pinebridge Investments, October 2016.*

CAFI 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.

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.

Solution: we recommend that the Ministers involved in CFTA discussions and negotiations play a leadership role by pursuing a strategic priority to create a nationally co-ordinated structure which fosters innovation and supports consumer choice in a digital world. One possible leadership initiative in this area would be the development and launch of a national "regulatory sandbox."

CAFI recognizes that some Canadian insurance regulators – in particular, the Autorité des marchés financiers (AMF) in Quebec and the in-development Financial Services Regulatory Authority of Ontario (FSRA) – have regulatory sandboxes under consideration. However, we strongly encourage the pursuit of one nationally co-ordinated regulatory sandbox, in which all Canadian jurisdictions are involved. A single, nationally harmonized regulatory sandbox is essential for such an initiative to be attractive to potential participants and to be successful -- because technological innovation does not happen on an individual jurisdiction basis.

Around the world, a number of financial services regulators – including the Financial Conduct Authority (FCA) in the UK; its counterparts in Australia and Singapore; and the Ontario Securities Commission (OSC LaunchPad) here at home – have established regulatory sandboxes, as projects designed to help companies test innovation with a limited number of users, without having to comply with existing regulatory rules, for a limited period of time.

With respect to its regulatory sandbox, the FCA in the UK has said

- technology has the potential to improve not only how products and services are designed, but also how they are distributed;
- it wants more firms to embrace innovation and it wants to work with innovators to build in consumer protection from the outset; and
- the sandbox has been designed to reduce the time and potential costs of getting innovative ideas to market; and it will accelerate the testing and introduction of genuinely novel products and distribution enhancements which will benefit consumers.

Question 3:

There are no financial services-related sectors or issues which CAFI would like to see excluded from the CFTA.

Conclusion

Thank you again for the opportunity to provide our Association's comments and recommendations related to this important CFTA consultation. Should you require further information from CAFII or wish to meet with representatives from our Association at any time as the CFTA exploratory discussions and subsequent negotiations progress, please contact Keith Martin, CAFII Co-Executive Director, at keith.martin@cafii.com or 647-460-7725.

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.