



June 5, 2015

Expert Advisory Panel
Ministry of Finance
Financial Institutions Policy Branch
Frost Building North, Room 424
95 Grosvenor Street, 4th Floor
Toronto, Ontario
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Canadian Association of Direct Insurers (CADRI) Submission

The Canadian Association of Direct Relationship Insurers (CADRI) is a trade association representing insurance companies who offer automobile, home and commercial insurance products to Canadians on a direct basis. Whether through the web, on the phone or face-to-face, CADRI members provide end-to-end service and are in direct relationships with their customers through all steps of the sales and service process.

CADRI monitors the insurance regulatory environment in all Provinces and Territories and supports regulation that encourages distribution accessibility and efficiency, technological innovation and other measures necessary for a healthy and competitive insurance market for the benefit of all Canadians.

Because of their involvement as both distributors and underwriters of insurance products, CADRI members have developed a comprehensive understanding of all facets of the insurance business and are in a unique position to offer valuable input in the development of a Canadian insurance market regulatory framework that is responsive to customers' needs.

The members of CADRI are:

- belairdirect
- CAA Insurance
- Co-operators General Insurance
- Desjardins General Insurance Group
- RBC Insurance
- TD Insurance

CADRI welcomes the opportunity to provide input to the Expert Advisory Panel (Panel) reviewing the mandates of the Financial Services Commission of Ontario (FSCO), the Financial Services Tribunal (FST), and the Deposit Insurance Corporation of Ontario (DICO). CADRI will focus its comments on the review of FSCO



and the FST. CADRI works closely with the Insurance Bureau of Canada (IBC) on general industry issues and as such are supportive of the submission sent to the Panel by the IBC. CADRI will use this opportunity to highlight issues that are of specific concern to direct insurers in Ontario.

Mandate

CADRI members are of the view that a new approach to regulating financial services and more specifically the insurance industry is required in Ontario. This new approach must include a redesign of the mandate and responsibilities of FSCO. It is CADRI's view that a clearly defined mandate is the most crucial element of a redesigned financial services regulator. The redesigned regulator must have a clear and specific mandate that is focused on positive consumer outcomes. Without a very specific mandate, it is left to the interpretation of the regulatory agency and may result in a reliance on prescriptive rules and result in an expansion of intended objectives and mandate.

The mandate, in CADRI's view, must reflect the reality of the financial services marketplace and recognize choice and competition as important components of a healthy marketplace. Consumers must be given the opportunity to choose products and services based on their needs and allowed to make informed decisions in a competitive marketplace. The mandate must include clear objectives focused on consumer outcomes.

With a clear and specific mandate, the regulator can focus on developing principles to guide its approach and set out expectations for the market. A principles based approach would set out broad but well-defined principles to guide the work of the regulator. CADRI members support the following principles in their business that we believe can form the basis of an outcomes based approach.

They are:

- ***Consumers can make informed decisions on the features of the product that meet their important needs.***
- ***Consumers can access affordable products in a competitive market.***
- ***Appropriate information and advice is available from regulated insurers or licensed representatives.***
- ***Information and advice can be accessed online, in person or over the phone.***
- ***Individual privacy is protected.***
- ***All communication is clear and transparent.***



The financial services sector is changing rapidly and consumer expectations are changing how financial institutions deliver products and services. In all areas of financial services, providers are working to meet consumer demand for accessible and affordable products and services. In this environment, financial regulators must be flexible and responsive to market changes in order to ensure consumers are protected and markets are healthy and competitive. CADRI members believe that the regulator needs a new approach – a principles based approach that balances consumer protection with competition and innovation.

Our members support the direction outlined in the IBC submission that suggests a clear definition of consumer interest together with an environment that supports innovation and competition within the financial services industry will ensure a healthy marketplace in Ontario. A principles based approach can set the parameters for that development and continue to promote a healthy and competitive financial services marketplace.

We believe that this approach for the regulator will benefit consumers and insurers. From an insurer perspective there is potential for stronger relationships with clients, better understanding of their insurance needs and the ability to provide tailored appropriate products to meet those needs. For their part, consumers can access information and advice whenever they need it and can rely on regulated insurers to meet their needs. Consumers expect to be able to use online, mobile, phone or face-to-face service at any or every step in the process. This omni channel delivery has become a standard across the financial services industry. The majority of consumers are using the web, social media and other mediums for information and advice. Regulators play an important role in helping insurers meet consumer needs.

In the insurance sector, innovation has been slower and it is crucial that policymakers, regulators and insurers work together to maximize innovation and development. For example, the development of telematics has the potential to revolutionize how insurance is delivered. Many insurers have begun to develop telematics in a way that can build strong connection with clients and allow for personalized service and pricing. However, regulators across the country, with the exception of Quebec, have been slow to allow this innovation to meet its full potential.

Leadership and Resources

The redesigned regulator will require strong leadership to ensure it is able to fulfill its mandate and adopt a principles based approach. It will require access to sophisticated resources so that it is well able to identify risks and opportunities in the marketplace and move quickly to address them. Employees of the regulator should be governed by applicable professional standards and subject to independent review. With these appropriate checks and balances, the work of the regulator will be measurable and transparent.

Structure

CADRI's view is that strong focus on mandate and leadership are the first step in deciding an appropriate structure. The adoption of a particular structure is secondary to mandate and leadership, provided that it creates an environment that is free of undue influence.



Responsibilities

Automobile insurance

The regulation of automobile insurance is a significant responsibility for FSCO. There is a general view within the industry that a fundamental change is required. CADRI members are supportive of the views expressed in the IBC document related to Automobile Rate Regulation. We share the view that a full and thorough review of the current system of rate regulation is required. We agree with the IBC that the ideal future for rating and underwriting in Ontario should start with a commitment from the government to move toward a much less stringent rate regulation system. One meaningful step that could be taken in this direction would be to move quickly to a file and use system for private passenger vehicles. As IBC's submission demonstrates, the experience in other jurisdictions is that a less stringent rate regulation system is to the ultimate benefit of consumers.

Insurance Fraud

CADRI members want to highlight the importance of continuing to combat insurance fraud. Since the report of the Anti-Fraud Task Force was tabled in 2012, the Government has moved forward on several key initiatives to reduce the risk of fraud. CADRI members encourage the financial services regulator in Ontario to work with the Ministry of the Attorney General to establish an Insurance/Financial Services Fraud Bureau as set out in the IBC submission.

Licensing of agents

CADRI members have a strong interest in ensuring efficient and effective licensing mechanisms in all jurisdictions. CADRI member companies employ agents that must be licensed in multiple jurisdictions all with different requirements, timelines and continuing education requirements. Licensing regimes for insurance agents (other than life) in Canada are onerous when compared to other sectors within financial services. It is the view of direct insurers that a less restrictive licensing regime could be adopted across the country. We are of the view that licensing regimes should recognize that salaried staff in a regulated insurance company already have adequate supervision and oversight through their regulated insurance company. CADRI members are of the view that there are many tasks performed by licensed agents today that could easily be performed by non-licensed individuals. Most administrative functions could be performed by a non-licensed individual while providing advice related to insurance products should remain within the purview of a licensed individual. Once a new mandate for the regulator in Ontario has been defined we encourage the Government to review its licensing regime with an understanding of the functions and responsibilities of staff that work for direct insurers.



Today, FSCO is responsible for licensing agents in Ontario and the Registered Insurance Brokers of Ontario (RIBO), a self-regulatory organization, is responsible for the broker license. Direct insurers work closely with the licensing staff at FSCO who are experienced and understand our business model well. FSCO has put significant resources into an online licensing system that is the most effective in the country. We support FSCO's continued role in licensing. RIBO is a self-regulatory organization that is governed by broker companies in Ontario. We can see potential efficiencies and benefit to merging responsibility for both agent and broker licensing in Ontario. However, CADRI members would not support a recommendation that saw all licensing responsibility move to RIBO. There are significant differences between a direct insurer business model and a broker model that extend beyond the interaction with consumers. For example, the level of oversight and monitoring is quite extensive within the direct business model. Staff in a direct insurance contact center receive ongoing training and are subject to call recording and compliance audits. All direct insurers have developed sophisticated processes for monitoring performance. This is very different from the experience of the majority of insurance brokers and would make it very difficult for RIBO to be able to adapt its approach and processes to meet the needs of a direct insurance company. Most direct insurers are larger companies and many are national in scope while most brokers are local or regional in scope. Direct insurers have long advocated for coordination and harmonization in licensing regimes across the country. Given that Ontario is the only jurisdiction where broker licenses are regulated in a separate self-regulatory organizations, moving all licensing to RIBO could be a barrier to harmonization.

It is our view that with additional resources, Ontario's financial services regulator would be well placed to manage all licensing in Ontario. With its mandate to regulate financial services generally it makes sense that licensing of both agents and brokers be moved to the new regulator. It is our view that Ontario's regulator is independent and has the infrastructure, the expertise and the experience to manage all licensing.

This review of the FSCO mandate provides a unique opportunity to transform FSCO into a principles based, forward thinking regulator that balances consumer protection with innovation. CADRI would be pleased to meet with the panel to discuss our submission in more detail.

We appreciate the opportunity to have provided comments. Should you have any questions on the submission please feel free to contact Susan Murray at smurray@cadri.com.

Yours truly,

Alain Thibault
President and Chair
CADRI