



CADRI Response to the FSCO mandate review

Introduction:

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.

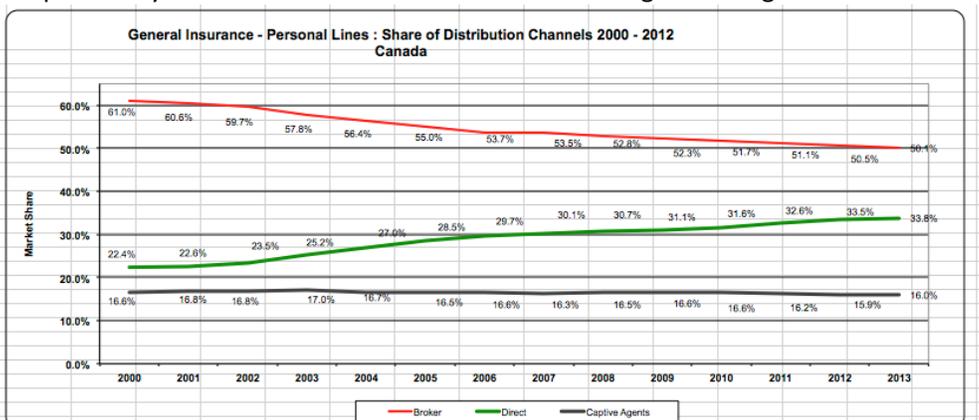
Because of their involvement as both distributors and underwriters of insurance products, CADRI members have developed a comprehensive understanding of all facets of the insurance business and are in a unique position to offer valuable input in the development of a Canadian insurance market regulatory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

Direct Insurers Market Share

Direct insurers are the choice for many Ontario consumers. Nationally the market share has increased significantly over the past five years. The chart below shows the latest figures using MSA 2014 data.



Trends

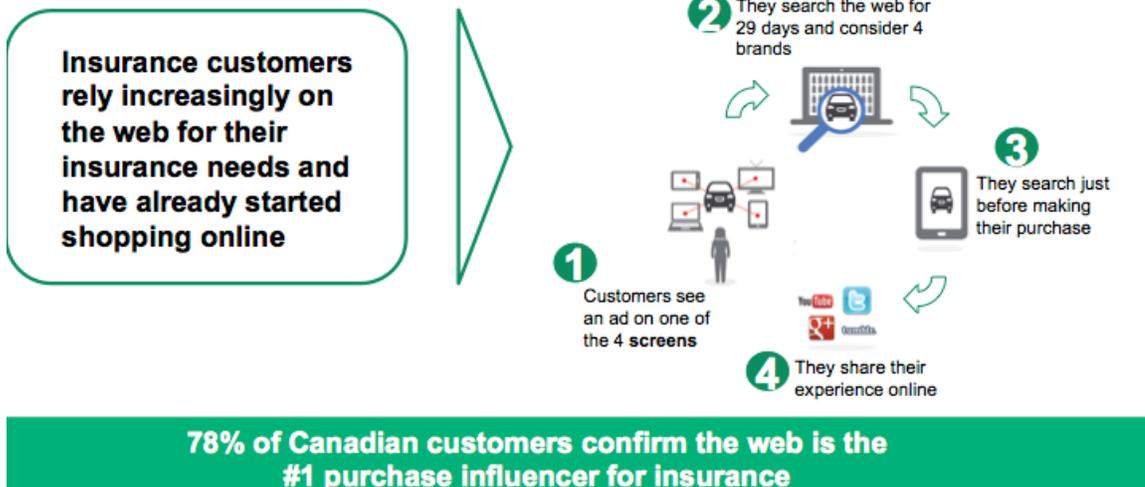
Direct insurers are becoming the choice for the majority of consumers as they demand more options...

(insert chart)

Consumer expectations are changing the financial services landscape and providers are moving rapidly to meet these demands. In all areas of financial services, providers are working to meet consumer demand for accessible and simple access to service. Consumer expectations for insurance delivery are no different but unfortunately, insurance companies are lagging when it comes to meeting demand. Direct insurers are aware and are working to ensure that consumers can choose their mode of interaction through every step of the delivery process. There is still much work to be done.

There is value in moving forward with innovation for both insurers and consumers. 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 omnichannel delivery has become a standard across the financial services industry. For example, today, 78% of Canadian consumers say that the web is their #1 purchase influencer for insurance. (source) The majority of consumers are using the web, social media and other mediums for information and advice.

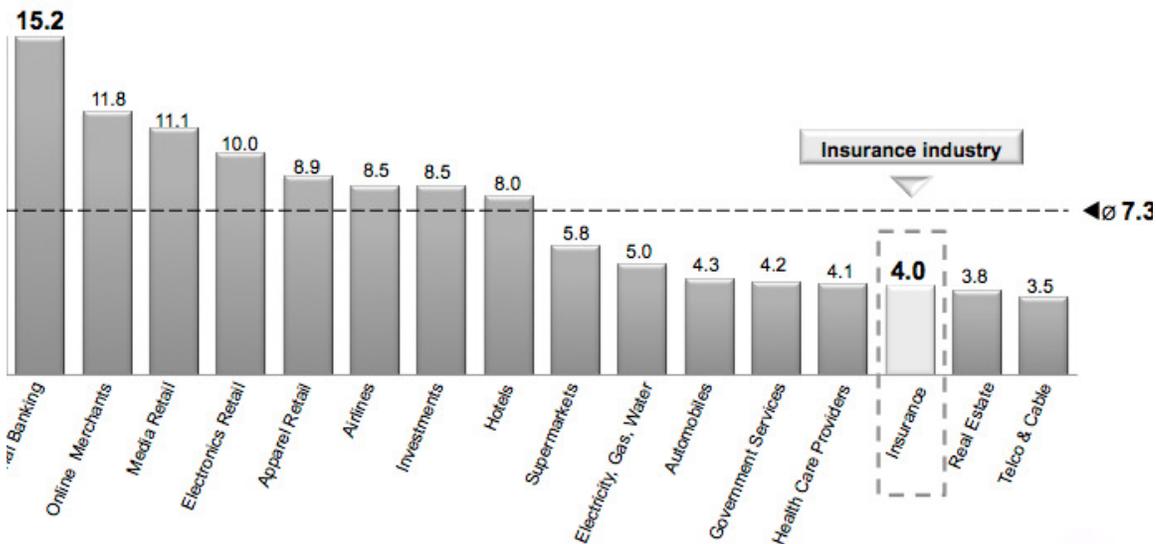
Typical customer behaviour to purchase insurance online
(Auto, Canada)



Insurers will have to develop and bring innovation to the market quickly if they are to remain relevant to consumers. We have already seen the impact of recognized brands moving to meet demand in the payment space. These new players are unregulated and it is more challenging to ensure consumers are well protected.

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, the regulatory regime has been slow in allowing the full development of this important innovation.

Consumer satisfaction with online experience, by industry (global)
(Relative satisfaction utility score¹, 2013)



5
Source: BCG-Morgan Stanley
Relative satisfaction utility score based on MaxDiff technique: consumers distributed 100 utility points across segments according to how positive they felt their online experiences were



It is crucial that the FSCO mandate allow for development and innovation within the financial services landscape. A principles based approach can set the parameters for that development and continue to promote a healthy and competitive financial services marketplace.

Principles based approach

CADRI members believe that consumers are best served in a healthy and competitive insurance market with a regulatory framework that focuses on ensuring positive consumer outcomes and allows for appropriate recognition of risk factors.

CADRI believes that consumer protection rules should result in the following outcomes:



- *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.*

With our focus on consumer outcomes, CADRI members are also supportive of a principles based mandate for FSCO that focuses on positive outcomes through a balanced framework. A principles based approach would set out broad but well-defined principles to guide the work of FSCO. We would suggest that it include at a minimum: consumer protection and regulation that protects the public interest; support the development and innovation of the regulated sectors; make recommendations to the Minister of Finance on regulated sectors.

It will be important for these foundation principles to carry through FSCO's strategic plan and priorities. A principles based approach to regulatory compliance should allow development and innovation within certain parameters. Given the rapid changes in the financial services sector, this model will allow FSCO to be more agile and move to protect consumers in a more efficient fashion. One example of a principles based guideline is the Autorité des marchés financiers (AMF) approach to usage-based insurance. (insert link) The approach taken by the AMF provides clear expectations and outcomes rather than regulating the process at each step.

FSCO Responsibilities

Automobile insurance

The regulation of automobile insurance is a significant responsibility for FSCO. The current system is not working well for Ontario consumers. While some important changes have been made and are in the process of implementation, CADRI members believe that there is an opportunity to make more fundamental change.

Reducing the regulatory burden that FSCO has imposed on the insurance industry would improve efficiencies in the system and ultimately reduce costs for consumers. There is an emerging consensus among insurance companies that rate regulation is not an effective mechanism for regulating the insurance market. However, it is also recognized that change must be incremental. With that in mind, CADRI members are clear that they do not support a rate board model. We believe that efficiencies can be implemented within the current model.



CADRI members have long advocated that FSCO reduce regulatory complexity, particularly around rate and underwriting filings. In adopting a principles based approach, FSCO could look at moving to a simplified approach for rate filings. A simplified system for rate filings would allow both increases and decreases to reach market in a shorter period. In the CADRI submission we had focused on the following suggestions:

- Allowing rapid simplified filings for increases within a range, similar to the current model that is permitted for rate decreases;
- A “file and use” approach in some circumstances, allowing both increases and decreases shorter time to market;
- A lighter process for full filings that focuses on the most important outcomes;
- The modernization of overall rate and rule filing requirements with a view toward the removal of duplication, reduction of filing costs, and increased ease of interaction with FSCO;
- Greater transparency around the benchmarks and assumptions companies are asked to use in filings.

The above suggestions provide examples of how the existing system could be simplified, but there are many options for simplifying and improving the existing system. The precise details of any simplified system would need to be carefully examined, and we would recommend that a Joint Advisory Committee (with industry and FSCO representatives) be formed to do this. Any simplified system for filing should ensure the following outcomes: faster speed to market; greater fairness in pricing (i.e. charging prices appropriate to the risk presented); more ability to introduce innovative products to the market.

Improvements to rate regulation are essential if FSCO is to improve its overall efficiency and focus. Adopting a principles approach can set parameters that simplify the process and improve outcomes for consumers.

Licensing of agents

Direct insurers have a specific interest in ensuring efficient and effective licensing mechanisms in all jurisdictions. The direct insurance business model means that companies employ agents that must be licensed in multiple jurisdictions all with different requirements, timelines and continuing education requirements. CADRI members have long advocated for harmonization and coordination of licensing mechanisms across the country in order to increase efficiencies and reduce costs. It is important to note that FSCO has a good system and CADRI members believe that they should continue to have the responsibility for licensing agents in Ontario.

CADRI would not support a recommendation that Ontario move licensing of agents to the RIBO. We would have significant governance concerns if responsibility for licensing agents rested with RIBO. However, it could make sense to move responsibility for all licensing to FSCO if there is a view that consolidation is necessary. FSCO has recently invested in an online licensing system (2007) that is the most effective in the country and could be enhanced to include licensing of brokers. FSCO would require additional resources but it has the expertise to manage all licensing effectively.



Conclusion:

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