

November 11, 2022

Mr. Mark White, CEO; and
Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, Ontario M2N 6S6
mark.white@fsrao.ca; and
<https://www.fsrao.ca/engagement-and-consultations/consultation-proposed-2023-24-statement-priorities-and-budget>

Re: CAFII Feedback on Proposed FY2023-2024 Statement of Priorities

Dear Mr. White:

The Canadian Association of Financial Institutions in Insurance (CAFII) thanks the Financial Services Regulatory Authority (FSRA) of Ontario for the opportunity to provide comments on FSRA's *Proposed FY2023-2024 Statement of Priorities*.

In this submission, we have focused our comments largely on those sections of the consultation document which are of direct relevance to our Association's members, i.e. the Environmental Scan, FSRA-Wide Priorities, Life and Health Insurance Sector-specific Priorities, and FSRA's Proposed Fiscal Year 2023-24 Budget.

CAFII largely agrees with FSRA's observations in its Environmental Scan and, in particular, its views on the ongoing impact of the COVID-19 pandemic:

The COVID-19 pandemic continues to have a profound impact on the global economy and social interaction, and FSRA remains committed to managing its impact on regulated sectors and the people on which they rely. Rather than a return to business-as-usual, Ontario's financial services and pension plan sectors have transitioned to a "new normal." Fully remote or hybrid workplaces and increased reliance on digital technologies have greatly impacted the sectors that FSRA regulates, including consumer interactions.

We believe that there is considerable uncertainty in the economy, which is creating challenges for the industry. Those challenges include inflation; rapidly rising interest rates; talent acquisition and retention; changing employee expectations around working remotely versus in the office; heightened health issues among the workforce and consumers, including mental health issues; elevated consumer expectations to be able to conduct all insurance and financial services transactions digitally; climate change; and supply chain and other international challenges that significantly impact both global and local economies. CAFII held a webinar with Pollara Strategic Insights Vice-President Lesli Martin on October 5, 2022 which provided corroboration of heightened stakeholder concerns around many of these issues, including a remarkable research finding that 45% of women would quit their jobs if forced to return to full-time work in the office¹.

In light of these unprecedented pressures in the economy and society, CAFII applauds FSRA's commitment to burden reduction and to focused, appropriate, meaningful regulation of the industry.

¹ The presentation deck and recording from the October 5/22 webinar can be found on our website at www.cafii.com/research.

Our Association is currently monitoring the role of inflation, wage pressures, housing costs and general economic uncertainty on the propensity of people to purchase life and other insurance to protect themselves and their families in the event of death, disability, critical illness, or involuntary loss of employment.

By way of further CAFII-specific background, the Authorized Insurance/credit protection insurance (CPI) products offered by CAFII members enable Ontarians to avail themselves of optional group insurance related to a specific borrowing need such as a mortgage or line of credit, and to secure protection against financial loss related to death, disability, critical illness, or involuntary loss of employment. The consumer target market for CPI is principally unserved and under-served Canadians – people who typically do not have access to a licensed insurance advisor due to their modest financial assets and net worth – who appreciate CPI’s affordability, convenience/accessibility, and simplicity. The availability of CPI in the marketplace helps to address the societal issue that a significant proportion of Canadians are under-insured or even totally uninsured with respect to life and health insurance. In 2019, according to LIMRA, half of Canadian adults did not own any life insurance coverage.

We currently have a consumer research survey in the field that asks consumers if they are cutting back on insurance purchases due to higher inflation and interest rates; and we plan to publish the results of that research in early 2023. Reduced purchasing of insurance puts consumers at risk and can have catastrophic consequences for families in the event of the death, disability, or critical illness of an income earner who is not insured.

CAFII takes note of FSRA’s comments on suitability-related issues, and we agree with the importance of consumers being offered the right products. We wish to emphasize, however, that CPI -- which CAFII members offer under the federal Bank Act and related Regulations, but which is also provincially regulated -- cannot be offered by licensed individuals and product recommendations cannot be offered to consumers considering these optional products. As such, CAFII members are not able to assess “suitability” for customers interested in the protection provided by CPI, but rather can assess “eligibility.”

We concur with FSRA’s observation that consumers have heightened expectations about being able to engage with insurance providers digitally. We commissioned research with Deloitte Canada, released in 2022, on how CAFII member companies can offer the best digital CPI experience to consumers, and we held a webinar on June 29, 2022 which shared the findings with insurance regulators and policy-makers².

With respect to the concerns which FSRA cites around third-party outsourcing, we note that there are multiple regulatory expectations which industry must live up to around outsourcing, including CCIR/CISRO’s *Guidance: Conduct of Insurance Business and Fair Treatment of Customers*. CAFII members have extensive controls and systems in place to ensure that outsourcing does not impact the fair treatment of customers.

² A recording of this webinar can be found on our website at: <https://www.cafii.com/research/?video=4389>; an executive summary of the Deloitte Canada research findings can also be found on our website at <https://www.cafii.com/best-practices-in-the-digitization-of-credit-protection-insurance-presented-by-deloitte/>.

CAFII agrees with FSRA's views stated in the section on Environmental, Social and Governance (ESG) that the issues under that banner will continue to grow in importance for the industry. We have made the point that climate change undoubtedly has an impact on the life and health insurance industry, and we held June 2020 and September 2021 webinars with expert panelists on that important topic³.

CAFII supports FSRA's strategic framework and we believe that the four related pillars specified are appropriate. With respect to the strategic priorities itemized under the four pillars, we support FSRA's stated commitment to strengthen its consumer focus.

We particularly encourage FSRA to continue to engage in independent, third-party consumer research and data analysis so that the Authority will be well-briefed and prepared to respond to the trends that will impact consumers, given that consumer preferences are evolving rapidly in response to societal and technological change.

In that connection, CAFII would be willing to offer its services as a 'research sounding board and advisor' to FSRA, should the Authority wish to avail itself of our offer, given that our Association has significant experience in conducting independent, third-party consumer research via our research partner Pollara Strategic Insights, a firm which we believe is also FSRA's professional services provider in this area; and given, as well, that CAFII member companies have significant depth and breadth of experience in conducting consumer research that delivers actionable insights.

CAFII has also previously communicated to FSRA our support for the following initiative: *"Implement existing FSRA guidance by building processes to use revenues retained outside of the Consolidated Revenue Fund under the Financial Services Regulatory Authority of Ontario Act, 2016 for educational, research and knowledge or information-enhancement initiatives"* (page 12).

CAFII supports FSRA's commitment to "modernize systems and processes," and, in that connection, we particularly appreciate the following commitment: *"...FSRA will also work with regulated sectors to improve data collection, reduce reporting and administration by sector participants. Better data will improve FSRA's ability to efficiently provide regulatory oversight"* (page 14). We encourage FSRA to try to address known industry data needs through CCIR's Annual Statement on Market Conduct (ASMC), to avoid duplicative data collection initiatives. Finally, we believe that this section would benefit from an explicit reference to FSRA's possible direct use of technology to enhance regulatory monitoring and supervision initiatives, including the use of RegTech.

With respect to the "Enable Innovation" priority, CAFII strongly supports FSRA's ongoing efforts in this area. The digitization expectations of consumers and industry players are constantly increasing and shifting, thereby challenging the regulatory system to adapt faster than current mechanisms can keep up. The deliverables and outcomes specified by FSRA under this priority are appropriate in our view, and we continue to believe in the benefits of "regulatory sandboxes" that provide a safe, monitored space within which to test innovative products and services while ensuring consumer protection.

³ The recording and presentation deck from the June 9/20 webinar and the presentation deck from the September 29/21 webinar can be found on our website at: <https://www.cafii.com/research/>

Our Association fully supports FSRA's commitment to enhance its own talent management framework, as we believe that FSRA is already facing or will soon face the same challenges which the industry is facing -- arising from heightened retirements, a shrinking talent pool, and new employee expectations including enhanced flexible work arrangements such as working remotely versus from the office. We are encouraged by the high calibre of the FSRA management team and we believe that the Authority has, since inception, recruited a talented employee team which has been, and will continue to be, critical to enabling the Authority to fulfill its mission and mandate.

With respect to the life and health insurance sector-specific priority "Enhance Market Conduct Oversight to Protect Consumers," we support the initiatives outlined therein. In that connection, we want to highlight that CAFII members have made, and will continue to make, investments in systems, processes, oversight, monitoring, employee training, and controls to ensure that FTC expectations are achieved.

CAFII was pleased to learn that FSRA has become a member of the International Association of Insurance Supervisors (IAIS). Stemming from that very positive development, we took note of the many references in the *Proposed FY2023-2024 Statement of Priorities* to FSRA's learning from and, as appropriate, aligning with the practices of international bodies (such as the IAIS), and we fully support that thrust.

That said, we encourage FSRA to ensure that Ontario's particular circumstances are fully considered when applying internationally-developed standards to the province's marketplace. Canadian business culture is different from that found in many other countries partly because of its alignment with regulatory expectations. Correlated with that, FSRA and the other provincial insurance regulator members of CCIR have created and operate a professional, proactive, effective, and properly funded regulatory framework.

CAFII also encourages FSRA to play a leadership role in IAIS' deliberations. In that connection, we were delighted to learn that in October 2022, you, Mark, had been appointed Chair of the IAIS' Market Conduct Working Group.

CAFII has, in the past, extended kudos to FSRA for adopting CCIR/CISRO's *Guidance: Conduct of Insurance and Fair Treatment of Customers* as the document which outlines the Authority's expectations of industry with respect to FTC, without the need for a separate FSRA Guideline in this area. By doing that, FSRA set an important example, to be emulated, of supporting national co-ordination and harmonization. In that connection, we support FSRA's many references to FTC in the *Proposed FY2023-2024 Statement of Priorities*; and we encourage the Authority to continue to emphasize the fact that such references are consistent with the CCIR/CISRO *Guidance*, making it clear that a harmonized approach continues to be prioritized.

With respect to FSRA's proposed 2023-2024 Budget, we note that while the industry-funded revenue it calls for will increase by 2.8% over the 2022-2023 budget; and while the proposed fee assessments overall will be 3.6% higher than the prior year, the life and health insurance market conduct variable revenue line will be up by 9.6% over 2022-2023. The COVID 19-dominated 2022 year has been another very challenging one for the life and health insurance sector, and the industry has made considerable efforts to respond to shifting and heightened consumer needs and expectations in these difficult times. The industry continues to face considerable challenges. We encourage FSRA to keep those factors in mind when it is finalizing its 2023-2024 Budget.

In closing, CAFII again expresses its appreciation for FSRA's continued commitment to open and transparent communication and consultation. We look forward to offering further CAFII commentary on FSRA's *Proposed FY2023-2024 Statement of Priorities* and its related *2023-2024 Budget* through the Life and Health Insurance Sectoral Advisory Committee's meetings, in which our Association actively participates.

Sincerely,



Rob Dobbins
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 credit protection, travel, life, health, and property and casualty insurance across Canada. In particular, credit protection 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 which helps ensure that Canadian consumers have access to insurance products that suit their needs. Our aim is to ensure that appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII's members include the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Insurance; National Bank Insurance; RBC Insurance; Scotiabank Financial; and TD Insurance – along with major industry players Assurant; Canada Life Assurance; Canadian Premier Life Insurance Company; Canadian Tire Bank; CUMIS Services Incorporated; Manulife (The Manufacturers Life Insurance Company); Sun Life; and Valeyo.