

November 11, 2022

Mr. Mark White  
Chief Executive Officer  
Financial Services Regulatory Authority of Ontario  
5160 Yonge Street, 16<sup>th</sup> Floor  
Toronto, Ontario M2N 6L9

**Re: Public consultation on proposed 2023-24 Statement of Priorities and Budget**

Dear Mr. White:

On behalf of the Desjardins Group, I am pleased to respond to your request for comment on Financial Services Regulatory Authority of Ontario's (FSRA) proposed 2023-24 Statement of Priorities and Budget.

Desjardins is the leading cooperative financial group in Canada serving over 7.5 million members and clients across the country. For over 120 years, Desjardins has listened and responded to its members' needs and adapted to change. We provide Canadians with banking, wealth management, life & health insurance, property & casualty insurance, and personal, business, and institutional financial services. In Ontario, the Desjardins Ontario Credit Union (DOCU) is the second largest credit union in the province with 132,000 members, 48 branches, and just shy of 10 billion in assets. Desjardins General Insurance Group (DGIG) is a subsidiary of Desjardins Group and proud to be the leading personal use auto insurer in Ontario. Desjardins Financial Security (DFS) is the fifth largest Life and Health insurer in the country.

While we support the priorities set out by FSRA, we would like to highlight a few key points related to the proposed 2023-24 FSRA priorities and budget, specifically for the credit union and auto insurance sectors.

**Overall Priorities**

**Creating an improved experience for stakeholders interacting with FSRA**

FSRA notes in its environmental scan the many challenges it faces in this period of global economic uncertainty. Financial institutions most certainly feel the effect of high inflation, rate hikes and market volatility and the challenge of navigating in uncertainty. As such, we look to FSRA for predictable and stable regulatory oversight so that financial institutions can focus their energy and resources on delivering quality services to their clients and members and help them navigate through these challenging times. The sector will be far more resilient and stable, and our clients better protected, if FSRA's regulatory approach favors open communication on both sides to ensure each initiative is optimized to avoid undue burden to stakeholder while allowing FSRA to reach its objectives.

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## **5. Property and Casualty (Auto) Priorities**

### **5.1 Execute strategy for reforming the regulation of auto insurance rates and underwriting**

#### **Key Deliverables**

- a) Develop legal framework changes based on consultation feedback to define fairness in rates and underwriting
- b) Act on consultation feedback to implement a new supervisory framework that evaluates and monitors adherence to rates and underwriting requirements

We fully support FSRA's intention to move to a more principle-based and outcome-focused regulatory approach to better serve financial services consumers. Being treated fairly is a foundational aspect of a client relationship and critical to ensure consumer confidence in the auto insurance industry. We look forward to your public consultations intended to define fairness in auto insurance rates and underwriting.

We anticipate that it will be challenging to achieve impactful and practical definitions of fairness for insurance consumers if we deviate significantly from cost-based pricing approaches that are based on insurance claim outcomes. It will also be challenging to precisely identify vulnerable groups in the auto insurance context, given the lack of demographic information collected by insurers at the client-level.

We continue to believe that the prohibited risk factors section of Regulation 664 of the insurance act should be streamlined to those unfairly discriminatory and clearly not in the public interest. Such factors as those found as prohibited grounds of discrimination of the Canadian Human Rights Act (e.g., race, national or ethnic origin, colour, religion, and sexual orientation). We further believe that data used by an insurer to inform its rates and underwriting practices should not include clear proxies for any prohibited factor.

Cost-based auto insurance pricing creates incentives for individual drivers and for governments to change behaviour. When different driving environments in the province produce different claim costs, fairness would dictate that we determine what the true underlying causes are for those different claim costs. Likely we will find things like, a relative lack of convenient public transit that generates higher traffic congestion, poor road design and lack of effective law enforcement or road speed calming tools resulting in more collisions, and bad actors perpetrating organized fraud and abuse tactics on vulnerable communities. Part of the overall solution should be increased insurance consumer education that focuses upon information and actions that are within a driver's control and that can save them money. We believe that these are all examples of the kind of government solutions that should be focused upon to achieve fairness and lower overall costs. Changes that rely upon insurance premium cross-subsidization mask underlying systemic problems and dilute important signals that support public safety.

## 5.2 Develop recommendations and act on reforms of the auto insurance system

### Key deliverables

- a) Work with the Ministry of Finance to develop and implement initiatives to reduce fraud and abuse in the system.

We support FSRA's desire to reduce fraud and abuse in the auto insurance system. The Equite Association recently created by the insurance industry is designed to fight fraud by using advanced analytics, intelligence best practices, and coordinated investigations. We recommend that FSRA's role in the fraud effort be focused upon enabling insurers to effectively deter fraud and abuse and on consumer fraud awareness and education.

We understand that FSRA has interest in creating an industry-wide fraud reporting process to monitor insurer efforts. We should reflect on the goals of such a process and its costs versus the tangible benefits achieved for insurance consumers. Evaluating the financial impact and general effectiveness of fraud prevention is a complex endeavour, even for insurers themselves who have direct visibility into their practices. We caution against FSRA committing resources to attempt to evaluate individual insurer fraud prevention performance.

## 6. Credit unions priorities

### Update on the 5-year work plan

Predictability of regulatory activity is important for our own planning, and especially so in these uncertain times. As such, we look forward to being consulted on FSRA's next 5-year work plan. We recommend including in this next work plan a complete overview of policy, regulatory, and prudential activities, thereby establishing the planned timeline of all major initiatives be they consultations, data collection, inquiries or other. A clear view of the road ahead will allow us to better plan our resources and provide timely and comprehensive responses to FSRA's requests.

### Key deliverables

- b) Incorporate risk data received through the Enhance Data Collection system into the supervisory approach to better analyze, manage and monitor risks.

We fully support FSRA's priority to have a risk-based supervisory approach and recognize how data collection is a key aspect to this objective. It is our understanding following the TAC meeting held on September 23rd, 2022, that initial implementation of the Enhance Data Collection system will be on a "best effort" basis since technical resources required for the implementation are significant. Additional clarity regarding the Enhance Data Collection initiative would also be beneficial in order to address concerns regarding the data to be shared.

- c) Initiate a review of FSRA's Capital Adequacy Requirements Rule to examine and propose updates to areas that require better risk alignment.

Given the current Capital adequacy rule underwent review in 2021, and only came in effect in Q2 2022, we recommend that further work on this guideline be postponed until 2024-2025. The sector is still adapting to the new rule, so to encourage stability and predictability, we believe it would be beneficial to avoid further changes until the sector has demonstrated its resiliency.

d) Complete consultations and issue a new Unclaimed Deposits Rule to bring the CUCPA 2020 framework into effect.

We fully support the proposal to reform the Unclaimed deposit rule in Ontario. We recommend that the proposed reform include a review of the rules regarding account closures and membership termination as these rules are closely connected. In our view, a one-year delay before a courtesy notice for inactivity would be sufficient, followed by a legal notice after three years of inactivity. A shorter delay would be beneficial for our members and clients and lead to a higher amount of account reactivations. A ten-year statutory delay before returning unclaimed deposits is adequate.

Additionally, we believe there should be regulatory mechanisms (instead of legislative) that permit the termination of membership when unclaimed deposits are transferred after the ten years of inactivity have elapsed. Currently, the only option is to exclude the member from the cooperative, which is a disproportionate and administratively burdensome measure. A simpler administrative membership termination option should be added after ten years of inactivity. We believe this would be preferable for both members and credit unions.

b) Update and complete the Differential Premium System methodology to better reflect individual credit unions' risk profiles and publish a revised Differential Premium Score Determination document

We understand FSRA's focus on reviewing the DIRF methodology. However, we caution against a hasty implementation. We believe the unpredictability created by the implementation of an untested system could have an undesirable destabilizing effect on the sector. As such, we recommend a "test year" where credit unions are scored according to both the current and new system while keeping the contribution tied to the current scoring method. This will allow the sector to better understand FSRA's criteria and allow credit unions to plan accordingly.

We thank you for giving us the opportunity to provide feedback on your proposed 2023-2024 Statement of Priorities and welcome the opportunity to discuss our comments in greater detail.

Sincerely,



Giuseppina Marra  
Regulatory Affairs  
Desjardins Group

CC : William Boucher, Chief Executive Officer, Desjardins Ontario Credit Union  
Christian Jobidon, Vice-President, Actuarial & Underwriting Services, and Analytics, Desjardins General Insurance Group