

FSRA

Financial Services Regulatory
Authority of Ontario



ARSF

Autorité ontarienne de réglementation
des services financiers

www.fsrao.ca



All Together Now: FSRA, the Innovation Office, and an Innovation Framework for a More Innovative Ontario Financial Services Sector

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1. Welcome remarks and purpose of the consultation

A vibrant Ontario financial services sector is an innovative Ontario financial services sector. In a rapidly-evolving landscape with new and existing entrants, products, and services testing our assumptions of how financial services and products should be delivered, FSRA must be a regulator that encourages experimentation and works with our regulated sectors to ensure Ontarians have access to world-class offerings from world-class innovators while also protecting the public interest.

The purpose of our consultation is to outline how FSRA and its Innovation Office will make this a reality.

For both regulated and non-regulated entities, we will outline our approach to working with sectors and pursuing innovation opportunities. By the end of the consultation we hope to have communicated that we are approachable, coordinated, and are willing to collaborate on ensuring that Ontario's financial services sector is able to pursue innovation and be competitive with comparator jurisdictions across the globe.

For the public and consumers, we will outline our approach to ensuring that innovation by Ontario's financial services sector is pursued with protection of the consumer and the broader public interest as the core value guiding our approach. By the end of the consultation we hope to have communicated that innovation can and will be responsible, ensuring that new products and services are tested and deployed with rigorous standards and accountability.

2. Introduction to the Innovation Office

Innovation Office's North Star

The Innovation Office was launched in 2020 to act as FSRA's dedicated champions of innovation thinking and innovation initiatives. While FSRA's innovation ambitions are owned by the regulator as a whole, the Innovation Office will be the central driver and coordinator of innovation work. We will lead innovation research, promote innovation thinking, advocate for a pro-innovation ethos, and most importantly, lead the newly-standardized innovation process to ensure that innovators bringing new ideas and approaches to FSRA are treated consistently and collaboratively regardless of the point of entry the innovator chooses.

The Innovation Office's vision is:

Limiting risk to consumers and members.

New/improved products, services, and business models.

To facilitate **responsible innovation** across our regulated sectors to help Ontario thrive as a **best-in-class** market for financial services.

Attracting and retaining investment, alongside sustainable and accessible financial services; making Ontario the go-to market for financial innovation in Canada.

For FSRA, 'responsible innovation' means managing risk to consumers and members of the following sectors: property and casualty insurance, life and health insurance, credit unions and caisses populaires, loan and trust, mortgage brokers, health service providers as they relate to auto insurance, and financial planners and advisors while supporting the development and introduction of new or improved products, services, and business models.

Developing a best-in-class market for financial services means attracting and retaining investment in financial services innovation while ensuring that these new and improved products, services, and business models are sustainable and accessible. Ultimately, the goal is to ensure Ontario is the go-to market for financial innovation in Canada and can compete with leading international jurisdictions.

Our Innovation Framework shares our strategy and long-term view for how we want to support innovation in Ontario's financial services sectors. We recognize that our tools and

processes (further explained in Section 5) outlined in this document will take time to build, refine and scale, with the Innovation Office testing and learning as we go. At all times we will work with our stakeholders and with the Ministry of Finance (MOF) to ensure the Framework protects consumers and incentivizes responsible innovation.

Innovation vision and guiding principles

Under the *Financial Services Regulatory Authority of Ontario Act, 2016* one of FSRA's objects in respect of the financial services sectors is to foster strong, sustainable, competitive, and innovative financial services sectors in Ontario. Supporting innovation in Ontario's financial services sectors is a foundational part of our mandate as a regulator.

This mandate to support innovation is balanced and shaped by our other statutory objects, including contributing to public confidence, monitoring and evaluating trends, promoting public knowledge and education, promoting transparency and disclosure of information, deterring deceptive or fraudulent conduct, practices, and activities in the regulated sectors, and cooperating and collaborating with other regulators where appropriate. Our object of fostering innovation coincides with the objects to promote high standards of business conduct and protect the rights and interests of consumers.

FSRA recognizes that as a regulator responsible for guiding innovation in Ontario's financial services ecosystem, we must develop our own robust internal approach to innovation, installing guardrails where appropriate that will ensure consistency and fairness when we interact with our external sector stakeholders.

The Innovation Office is shaping the innovation culture at FSRA to ensure the regulator lives and breathes innovation, fostering a culture that acknowledges the importance of the innovation mission while treating innovators consistently and fairly.

With this in mind, the Innovation Office has developed seven guiding principles for FSRA's innovation journey to ensure that the pursuit of responsible innovation is aligned with FSRA's broader responsibility as the regulator of financial services in Ontario.

- FSRA will facilitate responsible innovation in the regulated sectors without directing the substance of innovation. This principle stresses that our role is to set a toolkit and process for financial services innovation, not to be involved in the hands-on

development of new products and services. Our role is to make decisions on how innovation can be facilitated while managing risk to consumers and ensuring that intended outcomes are connected back to first principles and the broader FSRA regulatory mandate.

- The Innovation Office will challenge established structures and closed mindsets that stifle innovation. We will play a challenge function role both within FSRA and in Ontario's financial services sector, pathfinding for innovative and new ideas and services when the established approach would otherwise act as an obstacle.
- Innovation will be an integrated function across the Core Regulatory and support teams coordinated by the Innovation Office. FSRA as a whole is responsible for innovation, with everyone owning and driving the innovation process, and each team leveraging their expertise and knowledge to help define and pursue our innovation mission. The Innovation Office will act as the coordinating body and 'orchestrator' of this mission. This will be further explored in Section 3.
- FSRA will facilitate innovation so that the sectors can better serve the needs of consumers and members. Our primary role as a regulator is to protect consumers and members. While facilitating innovation, we must ensure that the innovation being facilitated aligns with this central responsibility.
- FSRA will lower barriers for new entrants to drive innovation and competition while supporting the market in evolving sustainably. Ensuring that new entrants can introduce new products and services to the market is fundamental to driving financial services innovation. However, there can be consumer risk when a financial services market does not have strong standards guarding sectoral stability. FSRA will be cognizant of balancing the need for disruption and the need for stability when pursuing its innovation ambition.
- The Innovation Office will leverage existing regulatory tools to create meaningful impact and build trust over time. We do not have to wait for brand new tools to facilitate financial services innovation. While new regulatory approaches will be explored and considered, the Innovation Office will explore new ways to utilize the existing regulatory toolkit.

- FSRA's innovation strategy and process will be adaptable to the diversity of its regulated sectors. We recognize the diversity of industry stakeholders, as well as their variable relationships with and appetites for risk. Our principles will be interpreted within the context of each regulated sector.

Value proposition

For innovators and sectors, FSRA's innovation strategy and process will open dialogue between innovators and FSRA, providing certainty for innovators and helping identify their regulatory responsibilities to a clearer path for approval. This greater clarity will in turn reduce costs of regulatory compliance and remedying compliance concerns for innovators.

Through a Test and Learn Environment (TLE), innovators will also have access to a relatively low-risk arena for gauging the market response to their innovations and practicing data-driven design.

The Framework will allow for earlier identification of new consumer-focused innovative products and services, as well as early warnings of unintended consequences and potential compliance complications, thus managing the scale of risk from innovation and incentivizing greater innovation.

For Ontario's consumers and the public, this open dialogue between innovators and FSRA should help mitigate risk to consumers by identifying potential risks early and collaborating to manage risk. This will promote the development of a more responsive Ontario financial services landscape that provides more accessible, affordable, and tailored products and services to Ontario's consumers.

This is a benefit in and of itself, but the knock-on benefits of investment attraction and the improved efficiency of financial resource allocation are also notable benefits to Ontario's economy.

Our overall vision is to facilitate responsible innovation across our regulated sectors to help Ontario thrive as a best-in-class market for financial services. We recognize that this statement will mean different things, inspire different hopes, and present different concerns to different stakeholders.



For discussion: What does successful innovation look like?

We are interested in hearing from you on what a successful innovation impact would look like. What would the successful pursuit of responsible financial services innovation look like to you? What tangible successes and changes would you want to see?

3. Role of the Innovation Office

Innovation Office mission and key priorities

Safeguarding the public interest and ensuring confidence and trust in financial services is at the forefront of everything we do in enabling financial services innovation. With this as our North Star, the Innovation Office's mission has developed three central tenets.

The first is to enable and support innovation across our regulated sectors by fostering a conducive environment for responsible innovation. We will do this by minimizing friction, reducing regulatory uncertainty and barriers, developing risk assessment tools, and facilitating market entry for innovative new firms, products, and services. We will also proactively collaborate, and support Ontario's 'Open for Business' agenda through an active presence and collaboration with the ecosystem and building an experimental environment.

The second is to pursue responsible innovation by driving greater choice and value for consumers while protecting their interests and managing risk and uncertainty. We will do this by listening and adapting, establishing constructive two-way information sharing and communication mechanisms that support timely, inclusive, and outcome-driven action and adaptation in regulation.

The third is to harness the resources available to us for the Innovation Office to continually improve our approach and tools, delivering better outcomes for sectors and consumers. We will do this by embracing the future, using foresight thinking, harnessing deeper technological expertise, and understanding consumer and social trends to advise on effective regulation of the future. We will also advance for industry, promoting creative thinking that is critical to organizational advancement and industry innovation.

Innovation Office: Our Mission and Priorities

Enable and support innovation across the sectors by fostering a **conducive environment** and the right conditions for them to thrive.

Foster **responsible innovation** by driving greater choice and value for consumers while still protecting their interests, **managing risk and uncertainty** accordingly.

Harness the resources available for innovation to **continually improve approach and tools**, delivering better outcomes for sectors and customers.

Minimize friction



Reduce regulatory uncertainty and barriers, develop risk assessment tools, minimize friction for innovative new entrants, products, and services.

Embrace the future



Embrace foresight thinking, harness deeper tech expertise, understand consumer and social trends and new models to advise on effective regulation of the future

Proactively collaborate



Support Ontario's open for business agenda through active presence and collaboration within the ecosystem and building of an experimental environment.

Listen and adapt



Support Ontario's open for business agenda through active presence and collaboration within the ecosystem and building of an experimental environment.

Advance for industry



Inspire, encourage, and promote creative thinking that is critical to organizational advancement that would translate into industry innovation.

Safeguard **public interest, confidence and trust in financial services** is at the **forefront** of everything we do in enabling innovation.

These strategic themes apply across the following regulated financial services sectors:

- Property and casualty insurance.
- Life and health insurance.
- Credit unions and caisses populaires.
- Loan and trust.
- Mortgage brokers.
- Health service providers as they relate to auto insurance.
- Financial planners and advisors.

We know our regulatory jurisdiction is not uniform, with different appetites in different sectors for risk, different relationships with consumers and members, and different regulatory schemes. While there are some common principles that hold these different sectors together, our innovation approach will be interpreted contextually for each sector.

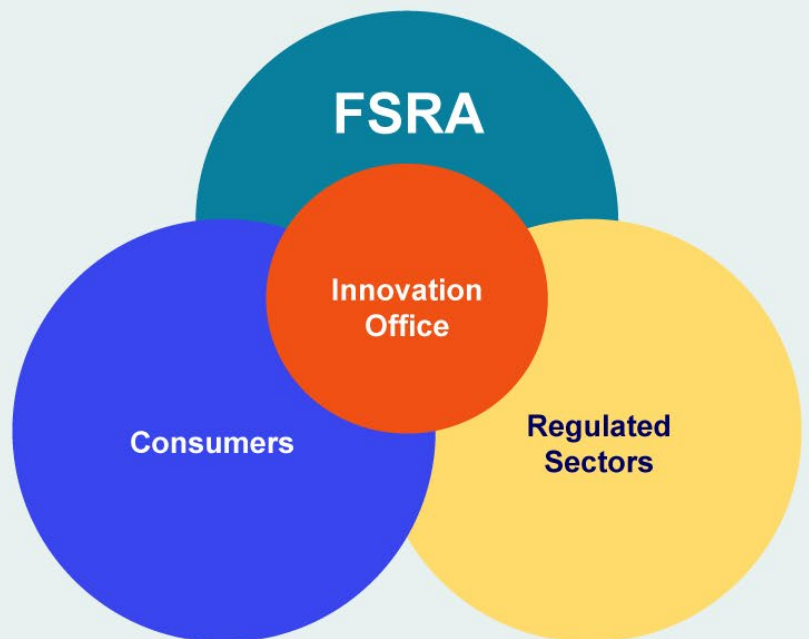
Orchestrator model

Given the current organizational structure of FSRA and the regulator-wide ownership of FSRA's innovation mandate with the Innovation Office playing the role of champion and driver, the Innovation Office will follow an 'orchestrator model' of managing and coordinating a portfolio of innovation initiatives across FSRA while leveraging the knowledge and resources of FSRA's many sectoral experts.

How will the Innovation Office operate **within FSRA**?



What will this mean for the way the Innovation Office **interfaces externally**?

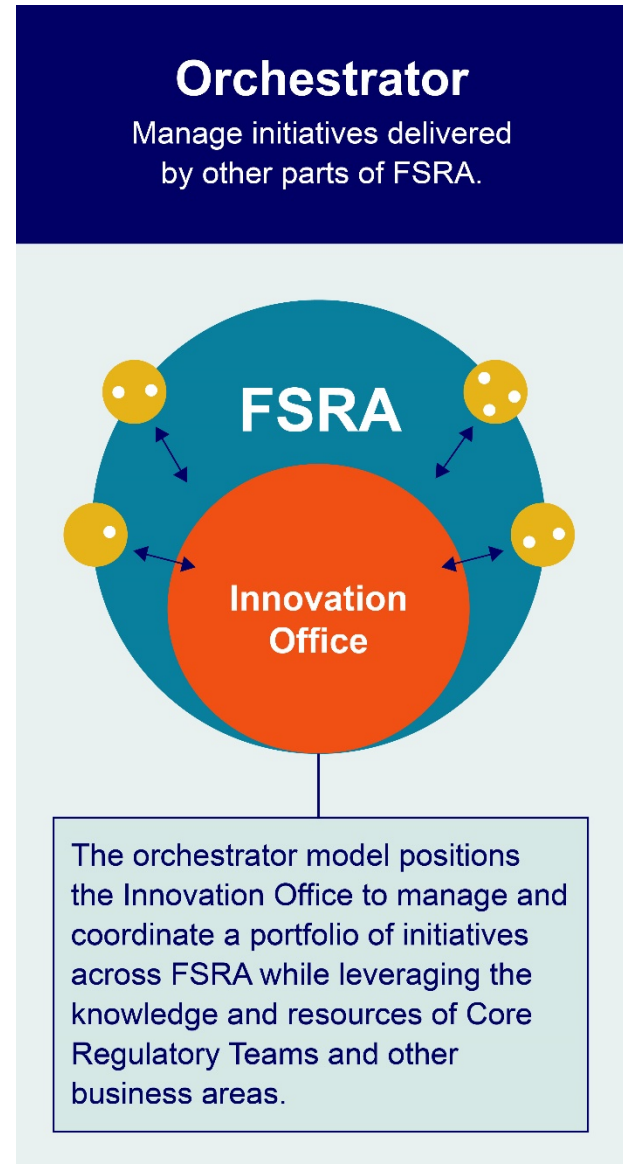


There is a clear need for centralized coordination of innovation projects across FSRA, with one central node for making cross-sector connections and aligning innovation opportunities, prioritizing work and managing the project pipeline based on FSRA's overall innovation ambition, and balancing resource capacity.

The use of the orchestrator model will allow the Innovation Office to fulfill several organizational needs regarding FSRA's innovation mandate. It will provide for clear ownership and decision-making at key steps along the innovation process while working to foster an expanded risk appetite and the removal of internal roadblocks to innovation. It will also facilitate integration of FSRA's many internal and external stakeholders where appropriate at various points along the innovation process, which will be discussed in Section 4.

New market entrants seeking to pursue an innovation opportunity will come to the Innovation Office as their point of entry to collaborating with FSRA unless they have decided to become licensed or registered as a regulated entity to facilitate their innovation. On the other hand, regulated entities seeking to pursue an innovation opportunity will have the option of coming to the Innovation Office first, bringing the opportunity through their existing contacts in their sector's FSRA core regulatory team, or coming to both at the same time. The Innovation Office will work with appropriate teams from across FSRA to action innovation opportunities whether they come to our notice directly from the innovator or indirectly through other teams.

However, the orchestrator model does not mean that the Innovation Office will be simply coordinating the work of other teams. We will be proactively identifying innovation pain points, researching emerging regulatory, technological, and enterprise trends that affect the Ontario financial services sector, conducting regular outreach to innovators, and pursuing opportunities to develop more innovation-friendly regulatory approaches at FSRA through both the 'inside-out' and 'outside-in' approaches discussed in Section 4.





For discussion: What role do the sectors want to see FSRA play in facilitating innovation?

The Innovation Office's primary concern will naturally be ensuring positive outcomes for consumers and the public interest. However, we also recognize that we have a unique role in advocating for innovation as a component of the public interest. We must balance remaining impartial and objective while also not being too 'hands off' and removed from innovation on the ground.

With this in mind, what can FSRA do to facilitate better innovation outcomes through more adaptable rules, regulations, and legislation?



For discussion: What are your most relevant touchpoints with FSRA on new opportunities and what can be improved facilitating innovation?

We talked earlier about how innovators can bring innovative ideas to FSRA through many different points of entry, with the Innovation Office acting as the orchestrator for all innovation opportunities.

To this point, have you felt encouraged and comfortable bringing innovative ideas to FSRA? If so, through what channels have you done so? Did you feel that your ideas were actioned and engaged with by FSRA?

4. The Innovation Process

'Inside-out' vs. 'outside-in' approach

As part of our commitment to uncovering and implementing new, innovation-friendly regulatory approaches that will allow Ontario's financial services innovators to compete and thrive, the Innovation Office coordinates proactive 'inside-out' examination of our regulatory frameworks.

The inside-out approach is not how innovation in the financial services sector will occur, but rather is about how FSRA can better support innovators using our regulatory tools.

Leveraging the expertise and insights of teams from across FSRA and the Ministry of Finance, we will endeavour to ensure that FSRA is, in accordance with the existing legislative and regulatory framework, using its full suite of regulatory tools and exercising regulatory discretion where appropriate and strictly on an as-needed basis. The objective is to level the playing field for incumbents and new entrants, incentivize financial services innovation in Ontario while ensuring that Ontario's consumers and public at large are protected from the risks inherent to innovation.

This work will be conducted through internal consultations geared at surfacing trends, concerns, and solutions that our core regulatory teams have noticed and developed in their day-to-day interactions with industry. It will also be conducted through external discussions with our industry stakeholders and advisory committees to signal-check and validate our internal perception and ideas.

The Innovation Office is also excited to work with our stakeholders to identify and validate new innovation opportunities from the 'outside-in'. This approach is how FSRA will more directly support innovators as they pursue new financial services and products to benefit consumers through competition, choice, ease of access, and new benefits. FSRA would not dictate or prescribe what innovation should look like in the sectors. Rather, FSRA would work with innovators from across our regulated sectors to facilitate a regulatory environment that is conducive to innovation while continuously improving and adapting regulatory responses to emerging market practices.

In this sense, these approaches are complimentary but distinct methods of supporting innovation in Ontario's financial services sectors. Used together, the two approaches will ensure that FSRA is both setting the stage for and actively supporting the development of innovative financial products and services in Ontario.

We have developed our Innovation Process to rationalize and standardize how both 'inside-out' and 'outside-in' innovation opportunities are appraised and actioned at FSRA. This process will be followed whether the innovator brings their innovation opportunity to the Innovation Office directly or to their everyday Core Regulatory contact. The Innovation Office has socialized the Innovation Process across FSRA and is working to set up Innovation Liaisons across the regulator to ensure clear channels of communication between innovators, their Core Regulatory contacts, and the Innovation Office.

The Innovation Process and the impact on innovators

FSRA's pre-existing approach to actioning innovation opportunities brought to us by innovators is largely ad hoc. Relying on specific relationships between innovators and their touchpoint core regulatory teams, these ideas and opportunities are considered by a sector-specific core regulatory team and acted on within the established norms of regulating that specific sector. The approach to considering these ideas and opportunities can vary significantly from sector to sector.

The Innovation Process is designed to standardize and coordinate this process with a desire to pursue innovation as an animating feature of our approach. As FSRA's innovation orchestrator, the Innovation Office will co-ordinate this bespoke five-step process to manage and deliver innovation.

The Innovation Process steps are:

- 1. Opportunity intake:** wherein innovation opportunities are discovered and explored.
- 2. Prioritization and management:** wherein innovation opportunities are assessed, prioritized, and selected based on established criteria.
- 3. Opportunity definition and solutioning (concurrent with Step 4):** wherein innovation opportunities are further validated and assessed for what regulatory tool should be used to address the opportunity.
- 4. Risk assessment and testing (concurrent with Step 3):** wherein innovation opportunities are scrutinized for potential uncertainties and risks that require further testing and validation through tools like the TLE.
- 5. Communication and measurement:** wherein innovation opportunities are communicated out, outreach plans are developed to engage with stakeholders, and the Innovation Office's impact is measured through consumer, sector, and regulatory benchmarks.



For discussion: Do you see any gaps in our Innovation Process in the development of an innovation opportunity?

Processing an innovation opportunity requires a fulsome appraisal of its merits and risks. Do you think the process outlined above weighs these two considerations well? If not, what changes would you recommend?

Intake and the role of innovators and regulated entities

To facilitate 'outside-in' intake of innovation opportunities from innovators, the Innovation Office will be publishing an intake form on the FSRA website. This form will standardize the information we will be seeking as a preliminary starting point.

The intake form will ask innovators to provide information on the proposed product, service, business model, or a hypothetical question with regards to a product, service, or business model. The intake form will cover universally adaptable fields and sector-specific customizations.

Field	Description
Opportunity name	A brief and generalized description of the essence of the opportunity.
Organization	The legal entity name and trade name of the organization proposing the opportunity.
Sector	Select from the FSRA regulated sectors, and 'Cross-sectoral' if applicable (primary sector required).

Organization registration Indicate if the organization has completed the statutory registration requirements for the specific (primary) sector with FSRA. If not, the opportunity may be eligible for Status TLE.

Opportunity statement The main body of the proposal must include the below aspects:

- Issues/problem/friction the organization is trying to address.
- Solution being proposed.
- Outcomes the Applicant is hoping to achieve through the testing (if admitted).
- Perceived complexity or friction attributable to regulation in the form of preliminary legal analysis on why FSRA should contemplate this issue.

Value proposition The value proposition must include the below aspects:

- How is this promoting innovation or an improvement?
- How is this potentially beneficial to consumers in Ontario?
- What risks, especially potential harms to consumers, would the proposed solution entail, and what are the mitigation plans?

Targeted consumer segment Describe the ideal consumer segment(s) for the test to be conducted (if applicable) and explain the reason for selecting/prioritizing such group(s). Preference or prioritization can be based on behavioural traits. Discrimination based on protected grounds pursuant to OHRC will not be allowed.

Specific sector relevance and required details Indicate if the application is intended for a specific sector. If so, additional information should be provided pursuant to the corresponding specific TLE appendix or sector-specific inquiry form.

Operational mechanisms Upload a document detailing how the product/service/business model would work and an estimated timeline for the testing.

Pricing plan and rationale

Upload a document detailing how the entity plans to charge consumers and for what.

Sample materials

Upload a set of most relevant sample materials (especially consumer-facing) to demonstrate the client experience from this or equivalent product/service/business model.

Confirmation of readiness (not applicable to inquiries)

By checking this box, the Applicant confirms that relevant personnel have reviewed this Appendix and the body of the Guidance, and the Applicant, if admitted to a TILE, is to dedicate the resources required to work with FSRA in subsequent stages of the Innovation Process.

The innovator proposing an innovation opportunity is ultimately responsible for the innovation opportunity. The Innovation Office will work with innovators to talk through and outline these opportunities, as well as to provide context on what regulatory approaches would be palatable to FSRA. However, innovators will be entirely responsible for the actual development and pursuit of the opportunity and should come to FSRA with a good idea of what they wish to do, why the opportunity should be pursued, what the risks are, and how that risk can be managed.



For discussion: How useful is the intake questionnaire?

Does the intake questionnaire overlook any important considerations? Alternatively, would any of the information requested be too onerous for an innovator to provide? Why?

Risk framework

In our drive to facilitate responsible innovation in Ontario's financial services sector, the 'responsible' aspect of the mission is every bit as critical as the 'innovation' aspect. While

risk is a fundamental component of all innovation and can never be fully avoided, FSRA's role as a regulator requires that we make all prudent, reasonable efforts to ensure that innovation-based risk is recognized and mitigated to the fullest possible extent and aligns with the intent of the legislative/regulatory outcomes of the regulated sectors. Protecting consumers and the public at large is always at the forefront of our regulatory approach, as is ensuring full confidence in the safety and reliability of Ontario's financial services markets. This means that FSRA and the Innovation Office must consider risk to the customer, the industry, and itself.

Managing and assessing risk requires a balanced approach across all three areas. This also means scrutinizing tolerance thresholds for different levels and types of risks, weighing the likelihood against the severity of a given risk, and balancing potential benefits against potential risks in making go or no-go decisions, all while considering the specific regulatory outcomes outlined in the legislation, regulation or rules of a given regulated sector. To avoid blind spots and unintended negative impacts, our understanding of risk and appropriate mitigation is and always will be informed by open dialogue between FSRA and innovators, consumers, and other implicated stakeholders.

The Innovation Office has developed a five-step process for assessing risk. With input and support from teams across FSRA, the following process will be followed:

1. Identifying the risk actor, wherein FSRA will outline perceived and known risks, who is accountable for those risks, and who would be impacted. FSRA will interrogate the comprehensiveness of our information, allow the innovator to provide input or feedback on risk, and outline whether the risk groups fall under our regulatory purview.
2. Understanding liabilities, wherein FSRA will map out where liability and responsibility exists in the exchange or use of the innovative product or service, as well as how value is being generated. FSRA will interrogate whether all parties involved are aware of the liability and risks associated with the innovation opportunity.
3. Assessing associated risk, wherein FSRA will conduct a weighted risk assessment to understand to whom the risk has proportionate impact. FSRA will interrogate whether any of the risks outlined pass a threshold that is not acceptable.
4. Assessing risks-benefit balance, wherein FSRA will weigh the potential benefits of the proposed regulatory solution against the potential risks and their relative likelihood,

again flagging any risks that may exceed a reasonable threshold relative to the potential benefits. FSRA will interrogate whether risk is disproportionate to one actor and broadly assess whether the potential risk outweighs the potential benefit.

5. Identifying uncertainty, wherein FSRA will validate sources of information for assumptions that were used to inform a confidence level of a given risk, identify informational gaps, and identify remaining uncertain risks that should be explored. FSRA will interrogate what assumptions need to be tested and what biases the teams involved in assessment may hold that would show up in the risk assessment.

The outcome of the risk assessment will decide how an innovation opportunity is processed forward. Interpreting risk contextually, we will demand that innovators develop strong, testable mitigation plans for all significant risks identified during the process.

In cases with a high confidence level where the risks are clear and relatively minor, the innovation opportunity can be tweaked with minor additional actions based on the assessment before a go or no-go decision is made on a proposed regulatory solution.

In cases with a low confidence level where the risks are murky, numerous, or large scale, these areas of concern will be highlighted. If the risks can be ameliorated or clarified sufficiently, then the opportunity would be sent for testing in a testing environment. If not, it would be returned to the intake stage until the innovator can provide more satisfactory answers regarding risk.

In cases where there is a medium confidence level and information sources could require further validation, the innovation opportunity would be sent for testing in a testing environment to resolve uncertainty through experimentation. After a defined testing period, the Innovation Office would assess whether the information gained has resolved the uncertainty. If the uncertainty were resolved, the data from the testing would be used to make a go or no-go decision on a proposed regulatory solution. If the uncertainty were not resolved, the Innovation Office would assess whether further testing would be likely to solve the uncertainty or whether it would be wiser to halt testing.



For discussion: How can we successfully appraise and manage risks from innovation?

We have outlined our approach to appraising potential risks from pursuing innovation opportunities and ensuring that those risks are addressed and mitigated. Given your practical experience in your sector, do you think that our approach is proper? If not, what changes would you suggest?

Use case

A hypothetical use case was created to illustrate the Innovation Process in motion. This use case is simply to provide a high-level visual of how the Innovation Process may play out in a real-world condition and is not meant to indicate approval of any given practice. The prerequisites for the use case to stand, such as Government proclamation of certain statutory provisions and release of relevant regulations, are deemed to have been completed following appropriate authorization process for the purpose of illustration and should not be interpreted as guarantees.

The Government of Ontario has amended s. 15.1 of the *Insurance Act* for the purpose of establishing a regulatory sandbox, which would enable the CEO of FSRA to issue exemption orders on the application of a person or entity if, in the CEO's opinion, it would not be prejudicial to the public interest. In light of this, the first specific TLE will focus on the automobile insurance sector leveraging exemptive authorities and be considered an activity-based TLE (explained further on page 18).

S. 231 of the *Insurance Act* prohibits the sale of insurance by an individual selling or financing automobiles. The intention underlying s. 231 is to protect consumers from having a broker sign consumers up for automobile insurance, for the purposes of selling an automobile, where either a consumer cannot afford the insurance or the application has been improperly filled out (underwriting fraud by the salesperson to make insurance appear more affordable).

Based on Government proclamation of s. 15.1 of the *Insurance Act* and the release of relevant regulation, FSRA's CEO now has the authority to grant Exemption Orders to

exempt applicants who can demonstrate viable and bona fide business plans from the requirement stipulated in s. 231 of the *Insurance Act*, allowing auto dealership employees to sell a vehicle and enroll the purchaser into an insurance contract without being licensed to do so, facilitating the introduction of new distribution models of auto insurance. Given the lack of a license, employees could not provide advice and would refer all consumer questions to the insurer.

Following FSRA's announcements on the auto insurance-specific Activity TLE, Car Manufacturer X – through X's dealership network entities and with a confirmed partnership with Insurer A – has submitted an application to launch its own brand-specific auto insurance and vehicle care package with, the insurance underwritten by Insurer A and the vehicle care services to be delivered through its authorized service providers.

This proposed innovation opportunity has gone through the elaborated innovation process, including a comprehensive risk and uncertainty evaluation to identify risk items and confirm mitigation plans. One of the identified risk items is that during an automobile purchase, a consumer is most likely to be offered and likely accept certain financing options, which would require the consumer's consent for the financing service provider (through the dealership) to check credit score and report. However, there is an express prohibition in the *Insurance Act* on insurers using credit files for underwriting purposes. Hence, the mitigation plan is proposed as separating the person handling vehicle purchase financing and the person handling enrollment of the purchaser to an insurance policy and a Chinese wall in recordkeeping and information sharing.

FSRA announced the admission decision of the said project on its website as a part of its transparency commitments of administering TLEs. The signing of the Testing Agreement constitutes the granting and activation of the Stage 1 Exemption Order with the permitted duration and conditions the same as that of the admitted TLE test. FSRA and TLE Participant X then confirmed all the details in the Testing Plan, a technical document detailing all the parameters of the test and data reporting obligations.

TLE Participant X, with the Exemption Order, works with its partnered insurer, announces the launch of the proposed product in accordance with the test parameters and conditions, included produced the FSRA-required mandatory consumer disclosure alongside the product facts, signed the declaration of data authenticity and non-tampering guarantees, and reported the required precautions and baseline data.

Throughout the testing period, through data analytics and evidence collection, the TLE working group (with representatives from the Innovation Office, Auto Policy Division, Auto Core Reg Area, Legal and Enforcement, and Public Affairs) would determine whether the claimed merits and risks would be realized, and the regulatory concerns in relation to the proposed innovation opportunity would be assuaged or be confirmed, in accordance with the success criteria listed in the Testing Plan.

When anomalies are detected, FSRA will discuss with the Test Participant to determine the cause and the impact, order correction or remediation, and adjust the imposed consumer protection guardrails accordingly.

With adequate reason, the test can be terminated by either the Test Participant X or FSRA. If the test is terminated prematurely, precautions will be activated to minimize the impact to affected consumers (including migrating affected consumers to the most similar product pursuant to the current legislative and regulatory framework requirements). If the test is maturely concluded, a decision regarding whether to allow the practice for future use (in or outside of TLE) will be rendered with conditions or areas of attention imposed based on test learnings. The Exemption Order, upon mutual confirmation, can be renewed into Stage 2 with a duration subject to reasonable business needs and the maximum allowed duration of Exemption Orders pursuant to s. 15.1 of the *Insurance Act*. FSRA will simultaneously discuss the test learnings with MOF. If such discussions would identify necessary amendments to statutes or regulations, FSRA will make recommendations to MOF for consideration.



For discussion: What are some of the critical innovation opportunities you see in your sectors and where do you see barriers to enabling these innovations?

Every sector presents its own dynamics and concerns in enabling innovations. At the Innovation Office, we are always on the lookout to pursue new and innovative opportunities and tackle barriers to pursuing these opportunities.

We are interested in all opportunities, from 'quick wins' that can be addressed concretely in the short or medium term to more structural, long-term opportunities that require more detailed analysis but could unlock significant value if addressed.

For your sector, what innovation opportunities excite you the most? Where do you see barriers to innovation? What actions could the Innovation Office – and FSRA more broadly – take to address these opportunities or barriers?

5. Test and learn environments (TLEs)

Balancing incumbents and new market entrants

The traditional prescriptive regulatory approach has been consistently identified as a barrier to innovation by Ontario's financial services sector. Prescriptive regulation can become too focused on to-the-letter compliance and become unmoored from the intent of the regulatory framework, opening up room both for bad actors to be compliant while incurring harm and for good-faith innovators to be deemed non-compliant while trying to create new, beneficial products and services.

Principles-based regulation (PBR) has been defined as an antidote for this dynamic, with greater reliance on broad-based standards in preference to detailed rules and a move to more outcomes-focused regulation.

FSRA's innovation ambition values challenging approaches that stifle innovation and clearing barriers to allow new entrants to drive competition in Ontario's financial services markets. The TLEs are a critical component of our pursuit of responsible innovation providing an adaptive, pro-innovation test environment while ensuring consumers are protected through built-in regulatory guardrails.

Incumbents in our regulated sectors are important industry leaders with significant capacity and willingness to innovate. We look forward to working with them and welcoming them into our TLEs, spearheading important innovation initiatives to continue benefitting Ontario's consumers. However, incumbents do not have a monopoly on good ideas. It is important that new market entrants and non-traditional market participants can compete on relatively equal terms and bring their innovative products and services to Ontario's consumers too.

With this in mind, we strongly encourage the participation of new market entrants in our TLEs, whether they are participating independently or as part of a larger product led by a sector incumbent. The TLEs, starting with the automobile insurance TLE leveraging the exemptive authorities that were announced by government, are designed to foster innovation and competition in Ontario's financial services sector and provide a venue for testing new products, services, and models.

New market entrants will be important participants, developing solutions and offerings for Ontario consumers while forcing incumbents to adapt and be innovative with their own solutions and offerings. Through our TLEs, we are seeking to develop a new 'middle layer' for testing by innovators who would otherwise lack the resources, capacity, or regulatory cover to test their innovative products in the market.

Digital transformation and adoption will continue to be drivers of financial services innovation. Ontario's financial services sector is not immune from the worldwide, cross-sectoral trend away from the dominance of traditional brick and mortar models and towards more agile, adaptable digital models. New market entrants across FSRA's regulated sectors will be important players in this transformation, with our TLEs as a potentially invaluable staging ground.

For more information on the TLEs, please be advised that there will be an Approach Guidance published providing specificities on the general approach of how TLEs would work. This Guidance will be open for consultation following the 'test and learn' learnings, i.e. the learnings from operationalizing the TLEs will be incorporated into the continuous improvement of this endeavour. Depending on the underlying authority granted, specific TLEs will be created from time to time and sector by sector to address different objectives.

An early example of this will be the auto insurance TLE leveraging the power of FSRA's CEO to grant exemption orders under a new regulation being drafted by the Ministry of

Finance pursuant to s. 15.1 of the *Insurance Act*. When additional specific environments are created, appendices of that Guidance will be updated with specific configurations.

Overview and objectives of the TLEs

TLEs temporarily allow market participants – both regulated entities and entities that wish to conduct financial services activities intended to be regulated by FSRA – to offer products, services, or new business models to consumers for a trial period within a special and time-limited regulatory context. Regulators and businesses both use this experimental phase to gather information about how an innovation behaves in a real market. The results of these tests can yield crucial information to FSRA's regulatory response.

FSRA's TLEs can be seen as a form of 'regulatory sandbox 2.0' because FSRA, through the Global Financial Innovation Network (GFIN), has been able to emulate the tried and true practices of establishing and running regulatory sandboxes by leading regulators around the globe. In addition to examining the merits and intrinsic risks of innovator-proposed new products, services, or business models and providing data-driven and evidence-based confidence to decision-making, TLEs allow FSRA to facilitate a regulatory environment that is more conducive to continued innovation rather than taking a pre-defined stance on what qualifies as innovation by leveraging adaptive regulation. Regulators and businesses both use this experimental TLE phase to gather information about how an innovation behaves in a real market within pre-defined parameters. The results of these tests can yield crucial information to FSRA's regulatory response.

TLEs provide an experimental and safeguarded environment for testing new products and services. They are a critical tool in FSRA's responsible innovation toolbox, allowing for innovative products and services to be tested in the market within the guardrails established by FSRA to mitigate risk to consumers and the public. Two main types of testing environments have been defined as potential applicable options for FSRA, depending on the regulatory challenge an innovator faces:

- Activity TLEs, which support TLE Participants to test otherwise not permitted business activities under the current regulatory framework through deliberate utilization of available and appropriate regulatory tools on a strictly as-needed basis.

- Status TLEs, which simultaneously ensure regulatory oversight, uphold statutory licensing and registration requirements and level the playing field for all market participants' proposed innovation opportunities through time-limited and scope-restricted conditional approvals of specific activities enabling the test market validation of such products and services carried out. Status TLEs do not apply to individuals nor accept applications intended to bypass the statutory requirements and standards on knowledge, examination, and professional conduct.

How would FSRA establish TLEs

FSRA's TLEs are available to FSRA-regulated sectors including: Property and casualty insurance, Life and health insurance, Credit unions and caisses populaires, Loan and trust, Mortgage brokers, Health service providers as they relate to auto insurance, and Financial planners and advisors as an adaptable yet customizable innovation validation mechanism. Specific TLE vehicles that suit sector-specific objectives and leveraging regulatory tools available to the sector must be established individually to ensure the most relevant procedures and safeguards are put in place. FSRA may use exemptive authority pursuant to s. 15.1 of the Insurance Act and, where appropriate, exercise regulatory discretion to facilitate innovation in the auto insurance sector. The use of such tools will be a case-by-case decision by FSRA consistent with the overall statutory objects and not prejudicial to the public interest. Please note that FSRA's ability to use exemptive authority pursuant to s. 15.1 of the *Insurance Act* is contingent on s. 15.1 being proclaimed into force.



For discussion: Are the regulatory tools currently available to FSRA sufficient in allowing FSRA to facilitate innovation while protecting the public interest? If not, what else is needed?

Transparency and Consumer Protection - TLEs will be built with a commitment to responsible innovation.

It is important that decisions made with the TLEs are transparent to ensure sectoral and public confidence in the objectivity and impartiality of the TLE. While FSRA may have to protect the proprietary information, business secrets, and interim work of specific innovators involved in the TLE, all regulatory decisions affecting the sector will be communicated publicly and clearly.

In addition to publicizing FSRA's decisions in the course of administering TLEs to a variety of stakeholders, FSRA will mandate responsible innovation-drive practices by innovators during the operation of TLEs to ensure adequate protection of the public interest. The practices may include, but are not limited to:

- **Transparency**
 - Proactive publication of FSRA decisions on TLE admission, authorities invoked, legal grounds, scope of exemption or discretion and allowed flexibility (from current requirements).
 - Per-request disclosure on more information of the tests.
 - Regular engagement with sector participants and consumer advocates.

- **Responsible innovation**
 - Aggregated market conduct scans.
 - Intervention during TLE testing.
 - Continued monitoring for TLE projects after decision-making.

- **Consumer protection**
 - Consumer protection parameters in the design of a test.

- Mandatory Consumer Disclosures.
- Consumer feedback on TLE projects.



For discussion: Do you see any roadblocks to innovators being inclined towards and comfortable with participating in FSRA TLEs?

We believe that our TLE approach provides a proper balance between providing access to our testing environments while ensuring commitment and good-faith participation from innovators. However, there may be real-world practical considerations that innovators face, but we have not considered. Does anything in our approach unnecessarily 'screen out' potential good faith applicants to the TLEs?

TLE fee structure

FSRA is a self-funded regulator that operates on a cost-recovery basis. In establishing a fee structure for the TLEs, the fees must align with the FSRA Fee Rule vision and principles and recover the cost for establishing, operating, and maintaining the TLEs. Costs could include FSRA employee labour, IT and other direct infrastructural costs, and ad hoc costs.

While costs incurred by the participation of regulated entities in the TLEs can be recovered through general assessment, costs incurred by participation of unregulated entities in the TLEs may be recovered through fees. Fees will charge for activity or scope-specific regulatory approvals where outcomes or enrichment are enjoyed by specific entities or persons. In addition, while FSRA would take necessary measures, including setting a cap on the fees for TLEs to ensure any proposed fees would not become a barrier for innovators to enter and leverage TLEs, excessive use of TLEs by one or few market participants would also hinder the fair use of TLEs by other market participants.

Some leading considerations include deterring abuse of the infrastructure while not deterring participation, deterring the use of the TLEs as a free incubator or accelerator for early-stage ideas to test commercial viability, and leveling the playing field for participants.

Please note that the following fee approaches are only for consultation. The current FSRA Fee Rule does not allow the following types of fees to be charged. These approaches are provided as examples of potential future approaches subject to the Fee Rule. For Activity TLEs, the outcomes will be shared across the sector in question. There would be no additional fee for regulated entities, given all costs can be recovered from the general assessment.

For regulated sector entities, the first TLE application submitted by a market participant would be free of charge. For any additional or spin-off applications, at the point of application, a nominal fee per application that reflects additional work required for FSRA to process and assess such application will be imposed before said application can be processed. For currently unregulated entities, a flat fee may be charged upfront per accepted testing project to utilize the TLE. We are in the process of defining what this flat fee would be. The amount would be anchored to recovering the cost of quantifiable additional administrative / processing workload based on recent and referenceable time-tracking results divided by the estimated quantity of total projects. The amount would also be adjustable to ensure it is not prohibitive to participation.

For Status TLEs, outcomes are entity specific. In light of this, any TLE participant that 1) does not currently hold the necessary FSRA approval or license to carry out the intended business, and 2) is leveraging a TLE admission for a test-gearred, activity-specific approval to launch its product or service into the testing environment, is subject to licensing fees

The fee amount will be determined by the FSRA resources allocated to address the request, as the benefits of such approvals accrues to the applicant. However, the Status TLE fee can be waived if 1) a project is concluded successfully, 2) the product or service continues to operate, and 3) the entity has decided to pursue the regular licensing pathway.



For discussion: Is the proposed fee structure for participation in the TLEs fair?

While FSRA must recover the costs incurred by innovators participating in the TLEs, we are also committed to a fee structure that is fair to all prospective participants. Does the proposed fee structure treat prospective participants fairly? If not, what would a fairer fee structure look like?

6. Industry engagement and outreach

Proactive and ongoing engagement

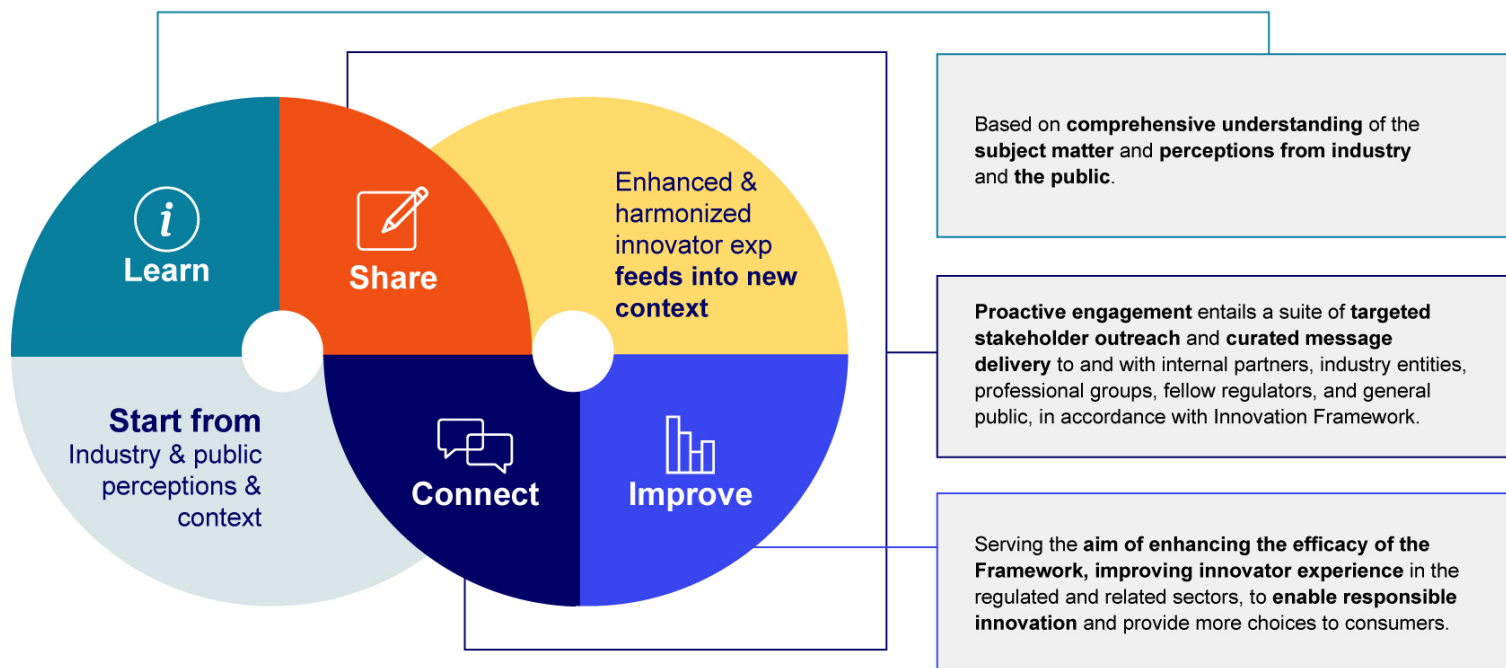
The Innovation Office understands that proactive and ongoing engagement with our stakeholders will be critical to deriving meaningful insights and building a reliable evidence base from which to refine our approach to innovation.

Proactive and ongoing engagement will allow FSRA the opportunity to validate our current thinking, test the value proposition of innovation approach, establish an active presence among innovators, and collect input and feedback to refine our approaches on the fly. The Innovation Office will pursue opportunities to socialize and test our value proposition to sector participants and consumers, and grow our network of relationships with innovators, collaborate for the mutual benefit of consumers, sectors, the regulator, and the public interest.

Starting by building a solid evidence base, will we learn as much as we can from available information, developing a comprehensive understanding of relevant subject matter and critical industry and public perception.

Once we are prepared to share and signal-check our understanding, we will proactively engage with internal partners, industry stakeholders, professional groups, fellow regulators, and the general public through a suite of targeted stakeholder outreach approaches.

Taking this input away, we will review it and integrate it into our innovation approach, serving the aim of enhancing the efficacy of the Innovation Framework and improving innovator experience in the regulated and related sectors to enable responsible innovation and provide more choices to consumers.



The Innovation Office also recognizes the role that we can play in convening members from across sectors to solve mutual issues. Drawing on our touchpoints with innovators from across the financial services sector and enabling sectors, we will play an active role in driving innovation-focused conversations and solutioning.

Learn (What's at issue)	Accessibility Limitations Complaints	Ambitions Uncertainties Challenges	State of Innovations Advocacy Deemed Red-tape	Deemed Risk Approaches Boundaries
Share (What's new/response)	Availability Actions Intent	Reg Clarity: Current Forward-looking	Risk Framework Priorities Levers	Opinions Actions Mindset
Connect (Different Perspectives)	Through Advisory Bodies Operational Forums Underpinning Infrastructures (See Presence/Channel Elaborated page)			
Improve (Referencing and harmonization)	Choices, Trust and Benefit to Ontarians and the Economy	Responsible Innovator/ Innovation Enablement	Burden Reduction, Confidence and Allyship with Ecosystem	Info Sharing with Regulators and Harmonization

The engagement process we have utilized in socializing our Innovation Framework has been reflective of these values, beginning with a round of internal FSRA roadshow presentations followed by more formal internal FSRA consultations to signal check our assumptions.

Turning observations into implications

Conducting consultation with a diverse set of stakeholders will result in a great deal of information with varying degrees of relevancy. It is our job in the ‘research process’ to cluster, organize, and assess the information to determine how it can inform implications to the innovation framework and the role of innovation at FSRA.



Observations

The sector participant’s perspective

Accept people at face value: their perception is their reality. An observation is a description of what was seen or heard, without judgment!



Insights

Innovation Office perspective

Insights are interpretations we make from one or more observations. They describe what we think is beneath the words or actions we have observed.



Implications

FSRA’s perspective

An implication is a set of considerations that must be addressed to improve the service or offering (the innovation framework).

Mindsets for external consultation

Champion

Proactively and firmly present the role of innovation to external stakeholders.

Connect

Ensure the appropriate participants are included and represented during the external consultation.



Challenge

Expand the current thinking of the sectors and consumer by challenge the 'that's how we do things' mindset.

Coach

Facilitate a conversation that allows sector/consumers to learn and understand the new way of thinking.

Engagement methods

Individual touchpoints

Dedicated time (30-60 mins) to discuss and understand an individual's perspective.

Codesign session

A collaborative working session focused on walking a topic/idea through the design process.

Focus group

A guided discussion with a small and diverse group of people.

Engagement surveys

A survey to collect data on a topic and/or to measure the level of engagement with consumers/sectors.

Webinars

A virtual event broadcasted to a select group of people.

Transparency will be our guiding light throughout our engagement with sectors and with the public, only constrained by our obligation to not violate the business confidences of innovators and to protect the intellectual property of innovators that we work with.

To ensure transparency with our regulated sectors, FSRA will communicate publicly where and why we have used our regulatory tools to stand up an Activity TLE or allowed a non-regulated entity to innovate through a Status TLE. We commit to this transparency so that all potential innovators can understand how and why we deploy our TLEs while, avoiding the appearance of favouritism or unfairness and allowing all innovators to consider how they could avail themselves of our TLEs as part of their innovation journeys.

Complimentary to this, we will also communicate why we have declined to grant innovation support by granting access to a TLE. This will allow innovators to understand the boundaries FSRA is creating for pursuing innovation opportunities. It will also allow stakeholders to hold FSRA accountable to our statutory objects, demand consistency in our decision-making, and learn how to govern themselves within the boundaries FSRA is establishing for innovation.

FSRA is also committed to transparency with consumers and the general public. This is a bedrock component of ensuring public support and legitimacy for innovation approach. We will publish summaries of all innovations we decide to permit and describe them in as accessible terms as possible. These summaries will outline what innovation is being permitted, what regulatory tools we have utilized to support the innovation, and why we have determined, after identifying and mitigating risks, that the innovation is consistent with FSRA's statutory objects and other requirements. This commitment to transparency with consumers will allow consumer advocates and stakeholders to fully understand our innovation practices and hold us accountable for how we use our regulatory tool to support innovation.



For discussion: What are some meaningful ways the Innovation Office can engage with your sector?

The Innovation Office is committed to proactive and ongoing engagement with our stakeholders as a crucial source of insights that we will use to build a reliable evidence base and guide our understanding of the concerns and opportunities faced by innovators in Ontario's financial services sector.

What does 'proactive and ongoing engagement' mean to you? What methods and formats would you hope to see the Innovation Office deploy in our discussions with stakeholders?