

18 November, 2021

Mr. Mark White, CEO
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/fsra-releases-its-innovation-framework-public-consultation>

RE: CAFII Feedback on FSRA Consultation Document “All Together Now: FSRA, the Innovation Office, and an Innovation Framework for a More Innovative Ontario Financial Services Sector”

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 the Authority’s consultation document “*All Together Now: FSRA, the Innovation Office, and an Innovation Framework for a More Innovative Ontario Financial Services Sector.*”

Our Association is largely supportive of the Innovation Framework outlined in the consultation document, but we have some advice and recommendations to offer which we believe will help strengthen the framework. Therefore, we have divided our submission into two sections: *Innovation Framework Concepts, Assertions, and Proposals Which CAFII Supports*; and *CAFII Observations, Advice and Recommendations Related To Strengthening Innovation Framework.*

Innovation Framework Concepts, Assertions, and Proposals Which CAFII Supports

- FSRA’s primary role as a regulator is to protect consumers.
- FSRA’s vision for a vibrant Ontario financial services sector (page 4).
- the Innovation Office’s three key tenets/priorities of minimizing friction and reducing regulatory uncertainty and barriers; pursuing responsible innovation by driving greater choice and value for consumers while protecting their interests; and embracing a continuous learning and improvement theme.
- FSRA's innovation strategy and process will open dialogue between innovators and FSRA, providing certainty for innovators and helping to identify their regulatory responsibilities towards a clearer path for approval. This greater clarity will in turn reduce the costs of regulatory compliance and help remedy compliance concerns for innovators (page 8).

- the role and approach outlined for the Innovation Office in managing the Innovation Framework, including the “orchestrator model” (page 11). We concur that for the Innovation Framework to be successful, executives and their departments throughout FSRA must be committed to it; and that FSRA as a whole is responsible for owning and driving the innovation process.
- FSRA’s intention not to direct the substance of innovation, but rather to act as a facilitator for new products and services developed by the private sector.
- FSRA’s intention to “challenge established structures and closed mindsets that stifle innovation.”
- the Innovation Office’s embracing of a “Test and Learn Environment” (TLE) as central to the Innovation Framework, as it will allow for constant learning and adjustment.
- a rigid structure and approach are inconsistent with innovation; and the flexible approach FSRA is adopting will significantly increase the probability of successful outcomes.
- the flexibility which the Innovation Office is building in by allowing regulated entities to choose to pursue an innovation opportunity through the Innovation Office first, or through their existing contacts in their sector’s FSRA Core Regulatory Team first, or to avail of a mix of both avenues in tandem. Providing both options of these dual “outside-in” and “inside-out” approaches will open things up to the best thinking from FSRA and the industry around any particular innovation opportunity.
- FSRA’s intention to tailor its approach to each Innovation Framework participant’s unique characteristics and needs, recognizing that there is no “one size fits all” in the diverse financial services industry.
- existing regulatory tools can be leveraged in advancing the Innovation Framework; and while some new regulatory tools will be needed, the most important tool in promoting innovation is mindset.
- FSRA’s inclusion of a highly illustrative and informative Use Case example in the Innovation Framework consultation document. While the particular Use Case is rooted in the automobile insurance sub-sector of property & casualty insurance, its innovation characteristics are also readily applicable to the life and health insurance sector.
- FSRA’s indication (page 24) that it is interested in supporting and fostering all types of innovation 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 consumer and industry value if addressed.

CAFII Observations, Advice and Recommendations Related To Strengthening Innovation Framework

- handled properly, innovation and consumer protection are not inherently in conflict; rather, innovation can deliver the direct benefit of enhanced competition and increasing options and choices for consumers. Innovation can actually play a role in enhancing consumer protection by strengthening regulatory monitoring and controls, e.g. “regtech.”
- FSRA should consider ways in which the Innovation Office could encourage the BIPOC community and female entrepreneurs to participate in the Authority’s innovation efforts, in order to support and foster diversity, equity, and inclusion in the financial services sector.
- the Innovation Office should constantly scan and monitor the domestic and global business environments for innovations and trends that are emerging inside and outside of financial services; and FSRA should seek out and embrace those innovations that consumers are rapidly adopting, especially if they are readily transferable to financial services and/or to Ontario, as applicable.
- for the Innovation Office to foster innovation optimally such that Ontario can become *best in class* with respect to financial services innovation, it will be necessary for FSRA to allow maximum flexibility and permit embryonic, early-stage tech innovations – from both incumbents and new entrants -- to be tested, supported, and implemented in the province; and not to sit back and wait to see what other jurisdictions do first. The “Test and Learn Environment” (TLE) environment will support that objective, but how the TLE pipeline is structured and managed, and how accessible it is will be key for financial services innovation to flourish in Ontario. Several post-secondary institutions in the province – such as the Rotman School of Management, University of Toronto; University of Waterloo; and Ryerson University – have technology incubator labs which foster and support innovation and start-ups. FSRA should review the work of such labs at Ontario universities, and seek to leverage what works there and would be transferable to a financial services regulator.
- the Innovation Framework’s intention to foster new financial services entrants and facilitate their efforts to drive innovation and enhanced competition is laudable, provided that a path towards a common set of regulatory expectations for all market players – including new entrants as they develop and grow – is designed into the process. It’s important that FSRA’s efforts to foster innovation among new market entrants don’t result in hindering innovation among incumbents. Incumbents are not innately lacking in or behind new entrants in terms of innovation ideas or skills, but rather incumbents are often held back by existing regulations as compared to their more lightly regulated fintech/insurtech counterparts.
- to support innovation in a constant and “by design” manner, FSRA should maintain an ongoing commitment to review periodically its regulatory requirements across all regulated sectors, with a view to assessing whether they are achieving their desired outcomes. Central to FSRA’s role in the innovation process should be the avoidance of stifling innovation due to a complex regulatory environment. FSRA should also not waver from its commitment to principles-based, rather than prescriptive, regulation.

- with respect to the outlined five-step process for assessing risk, FSRA should avoid directing industry innovators as to what risks they should take on.
- with respect to the TLE fee structure, it is difficult to offer informed feedback without more detail and specificity. The concept of cost-recovery from new entrants is sensible, so long as the fees are not so prohibitive as to deter new entrants from engaging in the opportunity.
- in a future iteration of its Innovation Framework, FSRA should make the point that innovation is by its nature inherently risky; and, as a result, success for the Innovation Office does not mean that every innovation which it fosters and facilitates must yield an enduring outcome. It's important to acknowledge that not every innovation will ultimately be adopted by the marketplace or consumers.

Concluding Comments

In closing, we thank FSRA for its continued commitment to open and transparent communication and consultation with the industry, particularly around such a novel initiative as the Innovation Framework.

As part of our commitment to supporting FSRA on this initiative, on November 29, 2021, CAFII will be hosting a webinar featuring Marlena Labieniec, Director of FSRA's Innovation Office, in conversation about the Innovation Framework. CAFII member representatives, colleagues from allied industry Associations, and insurance regulators and policy-makers from across Canada will be invited to attend this education and dialogue webinar.

Should you require further information from CAFII or wish to meet with representatives from our Association on this or any other matter at any time, please contact Keith Martin, CAFII Co-Executive Director, at keith.martin@cafii.com or 647-460-7725.

CAFII and its members remain committed to supporting FSRA in its critically important regulatory work; and we look forward to continuing our involvement as a key stakeholder contributor to your efforts.

Sincerely,

A handwritten signature in black ink, appearing to read 'Rob Dobbins', with a long horizontal line extending to the right.

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; ScotiaLife 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.