



November 18, 2021

To: Tim Bzowey  
Executive Vice President  
Auto/Insurance Products  
Financial Services Regulatory Authority of Ontario

**RE: Intact Financial Corporation's Written Submission to FSRA – Consultation on Innovation Framework**

Dear Tim,

Please find below written feedback on behalf of Intact Financial Corporation relating to the Innovation Framework that was released by FSRA's Innovation Office for consultation on October 21, 2021.

Overall, we welcome FSRA's innovation strategy and framework, and applaud the Innovation Office's vision to facilitate responsible innovation across FSRA's regulated sectors to help Ontario thrive as a best-in-class market for financial services. After all, and as mentioned in this consultation, fostering strong, sustainable, competitive and innovative financial services sector in Ontario is one of FSRA's legislative objects and part of FSRA's mandate as a modern regulator. We look forward to working with FSRA and the industry to help achieve this.

**I. ROLE OF THE INNOVATION OFFICE**

We support the role and key priorities of the Innovation Office, including the three central tenets outlined in the consultation. With respect to the third central tenet whereby FSRA will continually improve its approach and tools by embracing the future, we believe using foresight thinking and understanding consumer trends to advise on effective regulation of the future are especially important in a post-pandemic reality. As an industry, we need to constantly adapt to changing consumer behaviour in terms of both increased digital engagement with their insurance providers and different driving frequency.

We support the proposed orchestral model and agree with ensuring that both new entrants and existing regulated entities should have at their disposal the same regulatory tools to innovate. Existing regulated entities should not be subject to more regulatory hurdles to innovation opportunities than new entrants.

**II. INNOVATION PROCESS**

**(a) Communication**

In terms of communication of the Innovation Office's decision on specific innovation proposals from market participants, we believe there should be a balance between, on the one hand, transparency and fairness, and on the other hand, protection of confidentiality and competitive information from the market participants that raised the innovation opportunity. On the transparency and fairness point, if FSRA decides to exempt a particular regulated entity from certain regulatory requirements that would



otherwise apply in order to encourage the innovation initiative presented by that regulated entity, to what extent should FSRA share this decision with other market participants that may also be looking into similar innovation opportunities? On the protection of confidentiality and competitive information point, would there be regulatory protections, in addition to the existing regime, with respect to any innovative ideas shared by a regulated entity with FSRA? For example, will these be further protected from freedom of information access requests? We believe further clarity is needed to ensure a proper balance between transparency/fairness and protection of confidentiality/competitively sensitive information when assessing the extent to which FSRA should share innovation ideas proposed by market participants to the industry at large.

### **(b) Intake Questionnaire**

The intake questionnaire is a useful tool to help summarize new opportunities and ensure there is a concrete business plan for innovation. However, we are concerned with the overall “heavy” feel of the requirements. The intake questionnaire, as well as the risk framework outlined throughout the Innovation Process, seem meticulously detailed. Depending on the execution and level of detail required, this process could become cumbersome and essentially requires a “full understanding” of the risks and benefits of a potential project, which is less of a “sandbox” or “experiment”.

Another point of clarification, similar to the point on communication and transparency discussed above – will the intake questionnaire be made public every time an innovator completes and submits it to FSRA?

### **(c) Opportunity Intake**

We seek further clarification on the appropriate channel for innovation opportunities.

We welcome both the 'inside-out' and 'outside-in' innovation opportunities and FSRA’s development of an opportunity intake process, where innovators can bring their innovation opportunity to the Innovation Office directly or to their everyday core Regulatory contact. We understand the Innovation Office and FSRA are still in the process of detailing out this process, including setting up Innovation Liaisons to ensure clear channels of communication between innovators, their core Regulatory contacts, and the Innovation Office. However, at the opportunity intake stage, since both the Innovation Office and the traditional avenues at FSRA are available for existing regulated entities, is there a difference in the two channels for new opportunities proposed by existing regulated entities (for example, sharing economy, car subscriptions, autonomous vehicles, usage-based insurance and dash cam video insurance products)? Is one channel better than the other (e.g. faster)? If a regulated entity approaches their everyday core Regulatory contact for an innovation opportunity, will the regulated entity always be referred to the Innovation Office? If both avenues are used, then would there be duplication?

Under the risk framework, the Innovation Office proposes that if there is a medium level of risk then the innovation opportunity would be sent for testing in a testing environment to resolve uncertainty through experimentation, and after a defined testing period, the Innovation Office would re-assess and then make a go or no-go decision on a proposed regulatory solution. How is this avenue different than TLEs and when should innovators approach the Innovation Office for opportunity intake and when should innovators use TLEs?

#### **(d) Use Cases**

##### Upcoming Legislative or Regulatory Changes

The example provided re use of FSRA CEO exemptive order to allow for a car manufacturer that partners with an insurer to distribute a product that would otherwise require licensing is a good one in the P&C sector. We understand 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. However, in situations where the industry is expecting upcoming legislative or regulatory changes that may impact the regulated entities, rather than FSRA, but are not yet in force, could regulated entities propose innovation opportunities that would otherwise be prohibited under the current regulatory regime, ahead of the coming into force of the said legislative or regulatory changes, via the Innovation Office's Innovation Process (such as the intake questionnaire), or via TLEs?

##### Critical Innovation Opportunities in the Auto Insurance Sector

Flexible transportation without the hassle or cost of owning a personal vehicle will be the most important long-term trend. Over time, personal vehicle ownership will decline and be replaced with the Transportation-as-a-Service model. Autonomous driving will be the most important opportunity and barrier. Autonomy will scale slowly; however, it will come sooner than we think, and insurers need to be prepared with a product. The IBC Automated Vehicle Framework, which lays out the important components and product development, should be accelerated.

### **III. TEST AND LEARN ENVIRONMENTS (TLE)**

#### **(a) Communication and Transparency**

We support implementing TLEs to temporarily allow market participants, both regulated entities and new incumbents, to offer products, services or new business models for a trial period within a special regulatory context. We understand more details will come when FSRA publishes its Approach Guidance on how TLEs would work. The point of clarification we seek on TLEs is with respect to communication and transparency – similar to the points we raised above. FSRA proposes proactive publication of its decisions on TLE admission, the scope of exemption or discretion and allowed flexibility from current legal requirements.

The breadth of information being disclosed and the suggestion that information might be disclosed throughout the process could compromise a participant's competitive advantage. Similar to the point made earlier, there should be a proper balance between transparency in communicating TLEs to the industry at large and protection of competitively sensitive information that the innovator shared with FSRA via the TLE. FSRA should consider reducing the scope of disclosure and/or refrain from disclosing until a final decision is made or closer to the end of the TLE. FSRA should always consult with the TLE participant first before sharing or publishing a TLE decision to avoid the inadvertent disclosure of confidential or proprietary information of the TLE participant.



**(b) Fee Structure**

We agree with the need to balance (i) fairness in fees imposed on regulated entities and unregulated entities and (ii) level-playing field between incumbents and new market entrants. The fee structure should, in particular, address scenarios where the TLE participants are jointly regulated entities and non-regulated entities, or where the TLE participant is an unregulated entity in which a regulated entity may have a substantial investment or equity interest (many fintechs and insuretechs may enter into increasingly more strategic alliance arrangements with traditional insurers with different corporate models).

**IV. CLOSING REMARKS**

In closing, while we support the Innovation Office and its mandate, the framework as set out seems quite ambitious and we hope that these additional initiatives and processes will not adversely impact the efficient day-to-day administration of FSRA's ordinary course regulatory activities.

We thank FSRA for this consultation and the opportunity to provide feedback, and we look forward to working with the Innovation Office. We are available to discuss further.

A handwritten signature in black ink that reads "Julie Nolette". The signature is written in a cursive, flowing style.

Julie Nolette  
VP, Personal Lines Ontario West & Atlantic