



FSRA Innovation Framework

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Introduction

The Co-operators Group Limited (“The Co-operators”) is a leading Canadian, diversified, integrated, multi-line insurance and financial services organization. As a co-operative, our 46 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians.

Our footprint in Ontario is strong: we insure approximately 704,000 private passenger vehicles, 363,200 homes, 10,200 farms and 45,000 businesses, and employ over 3,700 staff. The insurance and financial products and services provided by The Co-operators are delivered primarily through our independently contracted but exclusive financial advisor channel. We have independent distribution contracts with 250 financial advisors in the province who operate agencies in 310 locations. In turn, these independent financial advisors hire their own office staff and employ or independently contract with over 1,028 associate insurance and financial advisors.

We are proud to provide insurance and financial services to more than two million Canadians. We are even prouder that we provide financial security to Canadians in their communities while staying true to our co-operative values.

We appreciate the opportunity to provide feedback on FSRA’s Innovation Framework.

The Innovation Office

We commend FSRA for its focus on responsible innovation and look forward to working with the Innovation Office, and FSRA as a whole, on the development and introduction of new or improved products, services and business models.

Having reviewed the Innovation Office's vision, mission and guiding principles, we believe you have positioned yourself well to be the central driver and co-ordinator of innovation work within FSRA. This directional overview helps to frame our anticipated interactions with the Innovation Office and set the standard for how the regulator and regulated entities, including insurers, can develop and action client-focused innovation.

At The Co-operators, we are guided by six overarching principles in our approach to achieving the ideal insurance product and system for our clients, and all drivers:

- Security** At its most basic level, insurance provides peace of mind. To provide peace of mind, insurance must provide adequate coverage and have an appropriate measure of financial protection.
- Affordability** Insurance must be affordable for a compulsory insurance system to work.
- Availability** Insurance consumers have the right to expect reasonable access to a variety of providers who can meet their coverage needs.
- Simplicity** Insurance consumers have a right to understand the product they are purchasing and the benefits to which they are entitled if they are injured.
- Agility** Ability to meet consumers' service expectations in the manner they prefer to conduct business.
- Innovation** **Insurers need regulatory latitude to adapt to the changing environment and develop new products that meet the evolving needs of consumers.**

We view innovation as the opportunity for insurers to develop and use new technologies, business models, and other client-centric solutions, justified by the information, science and data available to us, without process roadblocks and regulatory challenges. Given the changing environment and evolving needs of our clients, our ability to respond and create quickly, without undue restrictions and delays, is key to successful innovation.

A continued transition to **principles-based regulation** will support increased innovation, providing a more flexible and less prescriptive operating environment. We urge the Innovation Office to advocate that this transition remain a stated priority within FSRA's annual business plan.

As part of your role to facilitate innovation, we strongly recommend the Innovation Office work **collaboratively** with regulated entities, providing feedback and advice on opportunities and approaches insurers can undertake as part of the innovation process that would be considered acceptable and compliant. This includes keeping an open mindset with respect to innovative proposals and supporting innovation beyond the role of the final decision maker on innovation proposals.

Most importantly, we hope the Innovation Office will demonstrate **leadership in challenging long-held processes and removing restrictive rules that inhibit innovation**, ultimately promoting responsible experimentation and innovation. It is imperative the focus be on meaningful, client-centered innovation, rather than incremental small changes that reinforce existing rules and processes.



The innovation process

We believe the high-level innovation process outlined within the Innovation Framework captures the appropriate steps and allows for a meaningful appraisal of an innovation opportunity. Our feedback on specific aspects of the innovation process is detailed below.

Intake

We recognize FSRA's intent to standardize the intake of innovation opportunities. In reviewing the proposed questionnaire, we believe it covers the key information that would be central to a proposal. That said, before an organization goes through the full process of investing time and resources into a thorough business case and completing the questionnaire, we recommend the Innovation Office provide a more informal opportunity for innovators to share their ideas and receive feedback from FSRA. This will assist in determining whether an idea has the merits to gain the necessary approvals prior to undertaking the work required of a major proposal, as well as the opportunity to incorporate FSRA's feedback and proactively address any queries and/or data requests as part of a full proposal.

To facilitate a successful intake process, we further recommend the Innovation Office share the full set of established criteria that will be used in your decision-making process to ensure innovation proposals are substantive and aligned with the goals of responsible innovation. Moreover, if proposals are deemed by the Innovation Office to be medium or low confidence level and not immediately approved, we are hopeful FSRA will continue to promote innovation by working with the organization, providing feedback and assistance to support the progress of the innovative idea.



Approval and implementation

While the Innovation Framework outlines detailed information about the intake process and risk assessment, we note there is limited information on the approval and implementation process if an innovative idea is not sent for testing.

For innovative proposals, both within and outside of the test of learn environments, we are interested to know how the Innovation Office plans to handle similar proposals by different insurers, and whether multiple insurers will be approved to trial or implement the same or very similar innovative ideas.

Similarly, if an innovative proposal is approved outside of a test and learn environment, will the organization that originally developed the proposal maintain a competitive advantage for a set period of time prior to others being able to implement a similar idea?

As part of the Framework, the inclusion of additional details on approvals and implementation outside of test and learn environments will help to inform organizations' approaches to innovative proposals.

Innovation opportunities

With the introduction of the Innovation Framework, we look forward to action and progress on some of the most critical innovation opportunities that we have advocated in support of for many years.

Use of credit score and credit information

We support a risk-based approach to rating where rates charged are proportionate to risk. We believe this supports fairness, innovation and road safety. Credit score is an indicator that is predictive of risk, and its use in other jurisdictions improves insurers' segmentation, allowing insurers to allocate costs more fairly through premiums that are commensurate with risk and therefore reduce rate subsidization.

Regulations including the *Unfair or Deceptive Acts or Practices Regulation* (UDAP) and the *Automobile Insurance Regulation* (Regulation 664) have directly restricted our innovation potential by prohibiting the use of credit score, credit history, credit rating and other financial and rating variables. While the government included a commitment in the 2019 budget to allow drivers the choice to lower their premiums by allowing insurers to consider their credit history, there has been no action to date on this innovative proposal, and FSRA's draft UDAP rule is set to actually strengthen the prohibition to apply to all stages of the auto insurance process and made it a UDAP to ask a person to provide consent for credit information aside from situations of establishing a monthly payment plan.

We recommend the Ministry of Finance and FSRA implement the budget commitment allowing the use of credit history as possible to allow for greater consumer choice, and that the proposed changes related to credit information in the draft UDAP rule be removed to allow a prompt transition once credit information is approved for use.

We further support FSRA's previously shared idea to transform Regulation 664 into a FSRA rule, which will allow for greater innovation, allowing insurers to develop new client-focused changes and bring them to the market quickly, benefiting consumers.

Territory segmentation reform

In line with our risk-based approach to rating, we strongly support territory segmentation reform. As set out in Bulletin A-01/05, the restrictions on the number of territories insurers may use, combined with contiguity requirements, restrict innovation, competition and client choice. FSRA has the unilateral ability to rescind this bulletin, and we believe this should be prioritized and completed as soon as possible to allow insurers flexibility to undertake a risk-based approach to rating.



HCAI strategy

We have been pleased to contribute to the modernization of the Health Claims for Auto Insurance (HCAI) strategy.

Addressing data quality issues through the new HCAI strategy is necessary and presents an opportunity for innovation, introducing the measurement and reporting of health outcome measures to the Statutory Accident Benefits Schedule (SABS) med/rehab system. Notably, there is currently no usable system-wide data on the incidence and criteria for catastrophic impairment determinations. This is a major gap in Ontario insurance data.

We believe if implemented, the HCAI strategy presented to FSRA by the insurance industry working group will help to achieve better and more timely health outcomes for injured individuals, improve accuracy in claims adjusting, reduce disputes and associated legal costs, and enhance the ability to identify performance issues and fraud within the med/rehab services and supplies field.

We were pleased to see the inclusion of the improvement of the HCAI system as a key deliverable in FSRA's proposed 2022-2023 priorities and look forward to continued work on this innovative strategy that will contribute to the improved care and rehabilitation of injured clients. While its implementation may not require any action through the formal innovation process, it certainly presents an opportunity for FSRA to support ongoing client-focused innovation work.

Product reform

The most impactful innovation opportunity for drivers across the province is auto product reform. A product centered around the client that allows additional choices in terms of coverage and benefits, with a focus on quick and efficient access to care, removing costly litigation and addressing fraud, will better protect drivers, reduce system costs and be more sustainable and viable over the long term.

Meaningful product reform will also serve as an **incubator for innovation**. Insurers will compete to differentiate their products in the market, expanding the insurance options available to drivers. Insurers will also have more direct control over their claims spend and will look to innovative technology and process efficiencies to compete on price and service.

We remain committed to working with both FSRA and the government to achieve reform that will provide affordability, security and choice for drivers.



Test and learn environments

We strongly support the introduction of test and learn environments (TLEs) to pilot innovative initiatives that bring new consumer-focused products and services to the market more quickly. With Regulation 704/21 set to come into effect in January 2022, we look forward to the opportunity to pilot innovation opportunities within the defined exemptions but continue to urge **greater authority for FSRA** through further exemptions—both to the *Insurance Act* and its regulations and to other pertinent legislation and regulations, such as those that affect our ability to address fraud. This enhanced scope of regulator authority would be similar to the approach taken in other jurisdictions including New Brunswick.

While we're encouraged by the innovation potential established through TLEs, we do anticipate a number of potential roadblocks to participation, the largest being the **uncertainty around the potential for permanent change** at the end of a pilot project

As part of the framework for TLEs, we recommend the Innovation Office outline how the success of a pilot will be measured, the criteria or benchmarks success will be measured against, and over what period of time success will be measured. If a pilot is deemed to be successful, we are particularly interested to know how that success will translate into permanent long-term changes.

While some of these resulting permanent changes may be within FSRA's purview, we anticipate many will require regulatory changes at the discretion of the government, or even legislative changes that will require the support of the legislature. Given the resources and time that will need to be invested in these pilots, this uncertainty around the potential for permanent change serves as an almost inevitable roadblock. Moreover, the timeline associated with regulatory and/or legislative changes, even if eventually introduced, could force a pilot to go dormant after its exemption period ends, which will be a challenge to the pace of innovation.

Ultimately, the potential for an innovative idea to be implemented in the general marketplace and the speed at which it is made available to consumers will be integral to the use and success of TLEs.





In addition to the opportunity for a lasting benefit to consumers and a nimble and speedy approach to market, the overall timeline of a project within a TLE could pose a challenge. Given the exemptions are time limited, an innovator must consider the time necessary to set up a pilot, the time required to demonstrate success, and the time that could be spent waiting on approval for permanent changes. For those pilots where it is deemed changes will not proceed or where the wait for approval extends beyond the exemption period, the risks associated with unwinding the innovation, including the transition, cost and impact to clients, also present a significant concern and roadblock.

In our initial review of the exemption order during the government's regulatory consultation, we had questions around the transparency of pilots taking place within a TLE and are pleased to see this is being considered by the Innovation Office. We encourage a balance between protecting competitive advantage and ensuring benefit to consumers. We also recognize the consideration of a fee structure, and based on the high-level information provided, believe it incorporates the principle of fairness.

One important outstanding question with respect to a pricing-related innovation being trialed within a TLE is whether it would require a subsequent full filing in addition to proof of concept, which would add additional processing time to the pilot, or whether it could go through a normal filing process once success has been demonstrated.

As the Innovation Office proceeds with the development of TLEs and the Innovation Framework as a whole, we continue to advocate for a collaborative, responsive engagement process that facilitates a high degree of innovation benefiting consumers across the province.



Concluding remarks

We appreciate the opportunity to provide feedback on FSRA's Innovation Framework.

As a co-operative insurance and financial services organization, we believe we bring a unique perspective to public policy consultations. We are not a member of the Insurance Bureau of Canada (IBC) and prefer to participate in the public policy process directly. We are a member of the Canadian Association of Direct Relationship Insurers (CADRI) and support the feedback they have shared directly.

If you have any questions or require clarification, please do not hesitate to contact our Associate Vice President of Government Relations, Maya Milardovic, at maya_milardovic@cooperators.ca.

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