



April 28th, 2022

Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, Ontario
M2N 6S6

Subject: Consultation on proposed FSRA Principles-Based Approach Guidance (ID: 2022-006)

Thank you for the opportunity to comment on the Financial Services Regulatory Authority of Ontario's (FSRA) proposed Principal-Based Approach Guidance document published March 16, 2022.

Manulife strongly supports a principles-based approach to insurance regulation. As you are aware, the relationship between a policyholder and insurer is generally a long one that starts with entering a contract that guarantees payment at a later date. The insurer must ensure it has adequate funds to pay claims in the future. As a result, insurance companies are highly regulated and must adhere to strict rules and reporting obligations relating to short and long-term solvency. However, aside from solvency, there are certain aspects of insurance regulation that are better suited to principles-based regulation ("PBR") than a rules-based approach.

It is Manulife's opinion that PBR places appropriate accountability and responsibility on insurance companies to determine the approach best suited to achieve a desirable outcome for both insurer and consumer. Furthermore, PBR allows insurance companies the necessary flexibility to attain the outcome sought while allowing for a more sustainable, flexible approach that is more adaptable to changes and conducive to innovation.

Benefits to Consumers

Aside from federal solvency rules, a large portion of regulations that apply to insurance companies, namely sale and distribution, fall under provincial jurisdiction which remains largely harmonized across Canada. Maintaining a harmonized approach is beneficial for consumers as it allows consumers across Canada to access the same products at the same price and terms, regardless of residency. This consistency allows insurance companies to provide innovative new products and services to all Canadians at the same time. Rules-based approaches are likely to result in fragmented insurance regulation across provinces which would increase the cost of insurance and lead to Canadians receiving different products or prices depending on where they live.

Proactivity

Over the past 10 years or so, collaboration between regulators has increased significantly. FSRA, as well as several other Canadian regulators, are now active members of the International Association of Insurance Supervisors (IAIS). The IAIS is "the global standard-setting body responsible for developing and assisting in the implementation of principles,

standards and guidance as well as supporting material for the supervision of the insurance sector". The IAIS's support of principles-based regulation is evidenced by the use of principles-based statements in its Insurance Core Principles (ICP).

As a member of the IAIS, FSRA is actively contributing to important work in the adoption of international principal-based standards which eventually will find their way into expected Canadian standards of the insurance industry including Ontario's supervisory framework. We believe that increased collaboration ahead of international discussions on standard setting could be beneficial as they allow FSRA to enter detailed discussions on the specifics of industry issues and eventually recommend the adoption of principles that are adapted to the Ontario and the Canadian markets.

Role of Senior Management and Boards

The proposed guidance expects "senior management and board of directors to internalize the requirements in order to achieve desired outcomes". Specifically, the document indicates that:

"...senior management and the board of directors of the regulated entity should communicate transparently and in a timely manner the policies, processes and practices, which have been adopted and implemented to demonstrate how the regulated entity is achieving the desired outcomes and show how it is validating that the desired outcomes are being achieved. FSRA's assessment of adherence will entail whether the regulated entity has taken reasonable and good faith efforts to meet and be aligned with the desired outcome(s)"

Manulife agrees that the role and influence of senior management and the board of directors is critical in a principal-based environment as the "tone" at the top will set the "tone" throughout the organization. However, it is important that the roles of senior management and the board of directors be kept clear and distinct in PBR.

While senior management and the board of directors should have very close ties with fluid and frequent communication, their roles are quite different. While boards of directors should be expected to make major decisions, approve policies submitted by senior management and ensure there are mechanisms to oversee performance and adequate implementation of policies, a board of directors should not be expected to perform management duties. Instead, it is the role of senior management to execute strategies and implement policies adopted by a board of directors.

We suggest further clarity in the PBR guidance as well as other related documents that ensure accountability for specific functions rests at the proper level within the financial institutions.

Conclusion

Life insurance is a relationship based on reciprocal trust, honesty, and good faith. Insurers, including Manulife, must rely on consumers' good faith and honesty during the application process to ensure accuracy of its risk assessment prior to an insurance contract being issued. Customers must trust that insurers will be able to pay benefits at claim time. Principles-based regulation, where the desired outcome is favoured over a prescribed approach, is well suited for an industry such as insurance.



Manulife remains supportive of a principles-based supervisory framework where focus is on the consumer outcome rather than meeting a series of prescribed requirements. We believe PBR serves customers better.

Should you have any questions or would like further details, we would be happy to discuss.

A handwritten signature in blue ink, appearing to read "Michel Paquet", is written over a faint blue oval background.

Michel Paquet, Assistant Vice president and Counsel, Regulatory and Public Affairs