



CADRI

CANADIAN ASSOCIATION
OF DIRECT RELATIONSHIP
INSURERS

11 November 2022

Mr. Mark White
CEO
Financial Services Regulatory Authority of Ontario (FSRA)
25 Sheppard Avenue West, Suite 100
Toronto, ON, M2N 6S6

Via: <https://www.fsrao.ca/engagement-and-consultations/consultation-proposed-2023-24-statement-priorities-and-budget>

Dear Mr. White,

Re: 2022-12: FSRA Proposed 2023 – 2024 Statement of Priorities and Financial Plan (Statement of Priorities)

INTRODUCTION

The Canadian Association of Direct Relationship Insurers (CADRI) is the voice of insurance enterprises that offer automobile, home and commercial insurance directly to Canadians. We advocate for flexible and evolving regulatory and legislative frameworks governing automobile, property and commercial insurance to enable product and service innovation so that Canadians can easily choose insurance that serves their needs through the delivery channels of their choice.

CADRI is pleased to review and comment on FSRA's *Proposed 2023 - 2024 Statement of Priorities and Financial Plan* and to work collaboratively to improve the auto insurance system to better serve Ontario families. We continue to welcome FSRA's principle-based and outcomes-focused approach.

Overview

We agree with FSRA's assessment of the 'new normal'. Our members are continuing to offer remote and hybrid work environments for employees. The effect of inflation, higher physical damage costs, and the return to pre-pandemic driving habits on the auto insurance system, as well as the affordability of insurance, also concerns our members. This evolving operating environment underlines the need for streamlined, efficient regulatory processes which are adaptive – whether in response to innovation or unforeseen global circumstances.

Our review of the *Statement of Priorities* indicates that FSRA has significant plans for upcoming consultations with stakeholders. To facilitate continued collaboration and transparency, CADRI recommends that FSRA publish a road map for its planned consultations, milestones and key deliverables. This will assist the industry to participate in the consultations as well as allow our members to plan for any change management associated with FSRA's decisions.

In addition to the priorities outlined, CADRI encourages FSRA to promote a national dialogue on a harmonized approach to regulation. FSRA's leadership at pan-Canadian regulatory groups such as the Canadian Auto Insurance Rate Regulators (CARR), Canadian Council of Insurance Regulators (CCIR), and the Canadian Insurance Services Regulatory Organizations (CISRO) is well respected. CADRI supports FSRA continuing this level of leadership nationally.

As national companies, our members' agents are frequently licensed in several provinces or territories. The more the rules are similar, the more member companies can streamline training and enable agents to focus on the consumer.

Championing for harmonized, principle-based and consumer outcome-focused regulatory approaches at interjurisdictional fora, such as CARR, CCIR and CISRO, will help insurers and regulators adapt to changing situations and provide superior service to customers and citizens. A case in point would be the system FSRA put in place to allow insurers to use out-of-province adjusters during storms in Ontario in the Spring. We recommend that FSRA retain this process as a standard operating procedure. For our part, we will encourage other jurisdictions to adopt the model. Regulators should be comfortable relying on the approvals and licences issued by their peers across the country.

FSRA-WIDE PRIORITIES

Turning our attention to the *Statement of Priorities*, CADRI generally supports FSRA's cross-sectoral priorities to:

- strengthen consumer focus,
- modernize systems and processes,
- enable innovation, and
- enhance FSRA's talent management framework and strategy.

Relative to the application of these priorities to Property and Casualty Insurance, we have the following observations.

1. Consumer focus

The *Statement of Priorities* identifies vulnerable persons, and their need for enhanced consumer education, among its emerging issues. Furthermore, it commits to undertaking and publishing research related to outcomes for the vulnerable.

The vulnerable in our communities are everyone's concern. However, CADRI members seek clarification from the regulator about fair treatment of vulnerable communities in the context of auto insurance. We agree the system should be fair. It is important to note that how fairness is defined can shift the marketplace one way or another.

2. Modernizing systems and processes

We support the modernization of FSRA's processes and systems. Delays in processing new agents' licence applications and renewals of licences are serious challenges and effect our members' capacity to serve their clients' needs.

We welcome the promise of a new FSRA portal to improve licensing and registration processes.

As we have articulated to FSRA's Market Conduct and Licensing team, our members would be pleased to discuss user needs and user experience for the licensing of agents and corporations, as well as take part in any system trials or pilot.

As mentioned previously, we recommend that FSRA adopt the approach it used earlier this year to license out-of-province adjusters with minimum red tape, as a standard practice. Doing so will enable insurers to respond more quickly to customers' needs and showcase a gold-standard model for regulators in other jurisdictions.

3. Enabling innovation

CADRI welcomes the expansion of the regulatory sandbox or test-and-learn environment set out. It would be useful to have more details on the scope and timing of expansion.

We welcome FSRA's intent to expand connections with peer regulators to help create an innovation 'community of practice' to compare regulatory approaches and address mutual challenges.

As stated above, CADRI is a proponent of the harmonization of regulations and licensing across jurisdictions.

SECTOR-SPECIFIC: PROPERTY AND CASUALTY (AUTO) INSURANCE

Specifically, we will focus our comments on priorities 5.1 and 5.3 directed to Property and Casualty (Auto) Insurance.

5.1 Execute strategy for reforming the regulation of auto insurance rates and underwriting

CADRI members are large national companies with strong internal policies and procedures to ensure regulatory compliance and enhance their corporate reputations. Our members' rating systems are complex and seek to best reflect their customers' risk and experience. We recently supported the adoption by FSRA of its proposed Operational Risk Management framework so that the industry and the regulator had a common understanding of risk management.

Generally, fairness and transparency are principles which would appear to benefit consumers, the regulator and industry. At the same time, our members understand that these concepts can be viewed from different perspectives. For instance, CADRI members suggest that it will be challenging to achieve practical definitions of fairness for insurance consumers if we move away from cost-based pricing approaches that are informed by insurance claim experience.

Moreover, insurers don't collect a lot of demographic information from clients, which makes it hard to identify vulnerable groups in the auto insurance context. However, CADRI supports prohibition under Regulation 664 of the *Insurance Act* of risk factors that are unfairly discriminatory and clearly not in the public interest. Our members also strongly support prohibition under the *Canadian Human Rights Act* of discrimination based on factors including race, national or ethnic origin, colour, religion or sexual orientation. We also believe insurers must not use proxies for any of the above to inform rates and underwriting practices.

Insurers strive to ensure that consumers understand their choices in obtaining auto insurance and their coverages. In our members' experience, consumers spend the most time with their insurance policies at point of sale, renewal and when making a claim. Insurers are, therefore, careful to provide customers with the information they need when they need it. Thus, our members would be interested in learning more about FSRA's process to define transparency as it relates to:

- 5.1(c) "... to promote informed decision-making and increase transparency throughout the sector to create more accountability";
- 5.1(d) "...consumer satisfaction benchmarking in support of informed decision-making and increased transparency", and
- iii) "... informed decisions by enhancing transparency..."

Overall, CADRI recommends FSRA consider future deliverables relative to fairness and transparency, and where they intersect, in the context of a principle-based framework.

In addition to the steps outlined in its *Statement of Priorities*, CADRI encourages FSRA to continue its research and policy development relative to modernizing territory-rating frameworks, allowing credit information as a risk variable, and streamlining Regulation 664 to a minimal list of variables as referenced above or transforming the regulation to a rule.

5.2 Develop recommendations and act on reforms of the auto insurance system

CADRI's members' input on these reforms will be communicated directly or through other stakeholder groups.

5.3 Ensure the fair treatment of property and casualty consumers

CADRI appreciates FSRA taking an outcomes-focused approach to monitoring conduct. We strongly support a principle-based approach to enable insurers to flexibly manage risk and meet consumers' needs. FSRA's adoption of CCIR-CISRO's *Guidance: Conduct of Insurance Business and Fair Treatment of Customers* provides such a framework.

5.4 Achieve supervisory excellence for the Ontario-incorporated insurance companies and reciprocals sector

CADRI's members' input on these issues will be communicated directly or through other stakeholder groups.

CONCLUSION

CADRI appreciates the opportunity to review FSRA's *Proposed 2023-2024 Statement of Priorities and Financial Plan*.

Overall, we support FSRA's general intentions to increase fairness and transparency for consumers and efficiency for both the regulator and industry.

Specifically, we will continue to emphasize that a transformation of auto insurance is necessary and that a less-prescriptive, outcome-driven system will bring more benefits to the consumer by creating a more competitive and responsive marketplace.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Geoffrey Beechey". The signature is written in a cursive, flowing style.

Geoffrey Beechey
Chairman and CEO, CADRI

cc:

CADRI Board of Directors

CADRI Licensing Task Force

CADRI Market Conduct Task Force

CADRI Ontario Committee

CADRI Risk Classification Task Force

Tim Bzowey, EVP, Auto/Insurance Products, FSRA

Huston Loke, EVP, Market Conduct & Licensing, FSRA

Kim Donaldson, VP, Ontario, IBC