

August 30, 2018

Mr. Ron Fullan, Chair  
Canadian Insurance Services Regulatory Organizations (CISRO)  
5160 Yonge St., Toronto, ON, M2N 6L9

[cisro-ocra@fsco.gov.on.ca](mailto:cisro-ocra@fsco.gov.on.ca)

Dear Mr. Fullan,

**Re: CISRO Strategic Plan 2019 – 2022 (Revised August 30, 2018)**

The Canadian Association of Direct Relationship Insurers 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.

We appreciate the opportunity to contribute to the development of CISRO's Strategic Plan.

**CADRI's Strategic Planning**

CADRI and its members operate in the same environment as the CISRO and its provincial, regulatory members.

That environment could be characterized as:

- rife with technological change,
- shaped by high consumer expectations,
- continuing a trend of mergers and acquisitions,
- creating new, unforeseen business models, and
- challenging business and regulators alike to be forward thinking.

In this context, CADRI has the following vision:

*That Canadians can choose from a variety of insurance products and services offered directly to them through modes of distribution that suit their preferences. Those products and services are designed based on modern data collection and risk modelling and enabled by nimble, flexible government supervision from coast to coast to coast.*

Both CADRI and CISRO embrace the general principle of serving the consumer and the public interest. To do so, CADRI has set out three strategic priorities: to modernize, to harmonize and to engage. These strategic priorities can equally apply to the CISRO's framework.

### **The CISRO *Strategic Plan 2019 – 2022***

CADRI urges CISRO to recognize the pan-Canadian, interjurisdictional licensing regime as a single system that requires assessment and management by CISRO. We submit that this system be efficient and effective for all industry players, and that benchmarks and goals be set against which to evaluate its impact. CADRI members perceive that improvements could be made to increase the system's efficiency through modernization, harmonization and engagement.

#### Modernization

Netflix, iTunes, Expedia, Trivago, Turo, Uber and Zipcar are all recognizable brands. They represent businesses that have responded to consumer demand and technological possibility to challenge incumbents and regulators alike. Each has thrived in an increasingly connected environment with the expanding availability of broadband and wireless smart phones.

In this environment, Canadians are increasingly comfortable doing a myriad of transactions online and on their smart phones. In fact, customers are now expecting to do more and more in the wireless, mobile environment. They are demanding this kind of evolution from service providers such as insurance companies. If faced with an impediment to fast, efficient, customer-friendly service, consumers take advantage of new options – whether or not the industry or regulations have caught up.

We seek to work with the CISRO and its members to adapt quickly to changes in consumer behaviour so the industry and regulators can keep pace with demands. We have attached as Appendix 1, "Perspectives on Innovation", which we would be pleased to present to CISRO as a conversation starting point about evolving consumer expectations and technological change.

#### Harmonization

CADRI respects the Canadian constitution and its division of powers between federal and provincial jurisdictions. Canada's 35 million people are spread across an immense territory and our members comply with rules and regulations set out in 13 separate provincial and territorial jurisdictions. In our experience, the varying levels of insurance licences among the jurisdictions add administrative layers without necessarily contributing significantly to enhanced consumer protection. In this context, CADRI seeks to encourage consistent rules, regulations, processes and administrative practices across the country.

CADRI members frequently cluster customer service personnel in hubs or call centres which serve customers in several jurisdictions. These centres have structured, tiered staffing models to ensure adequate supervision of all employees – regardless of their level of experience. Prior to making contact with customers, agents undergo thorough background checks and rigorous training to ensure compliance with regulations, company policies and delivery on customer service commitments. Thus, the very nature of direct-relationship insurers' corporate structures provides layers of internal controls such as regulatory compliance, risk mitigation, internal audits and the necessity to provide excellent customer service.

Currently each agent employee must obtain the appropriate accreditation for each and every jurisdiction they serve. Each province may well have different criteria for accreditation or licensing. This current approach to licensing means that if an agent's applications or renewals for a licence is out of sync among the jurisdictions, an agent may sit idle, unable to answer calls and serve customer inquiries coming from that part of the country. Yet, no matter where these agents are situated in Canada, their core function is fairly similar.

CADRI has in the past called for the harmonization of licensing rules for these agents. Harmonization would mean that CISRO members recognize the interjurisdictional licensing regime as one system. Thus, the rules in one province would be the same as the next. Consumers and other financial services providers including the investment industry, have benefited from national practices for some time.

As you will learn from our submission to CISRO relative to its review of licensing qualification requirements for general insurance, CADRI is calling for a single base licence and a single renewal for agents who operate in more than one jurisdiction. We believe CISRO could take steps toward this goal by focusing on the common elements of a licence across jurisdictions. Once a satisfactory curriculum and examination regime is put in place, modules could be developed to accommodate jurisdictional specifics or depth of knowledge required for specialties, such as commercial.

An even more efficient approach would be to license the parent corporation or entity, rather than each and every employee agent for the territory served. This method would be more streamlined for the regulator, the insurer and the consumer. As you can see from Appendix 2, "Customer Care in a Pan-Canadian Context", CADRI's member companies have strict compliance standards and oversight which would ensure that all agents would have the skills, knowledge and supervision to provide the highest-standard of customer service. We would be pleased to walk through Appendix 2, "Customer Care in a Pan-Canadian Context", with your members to elaborate on the strengths of the direct-relationship business model and the challenges presented by differing rules for licences across jurisdictions.

We are reminded that the Canadian Council of Insurance Regulators, in its 2017 - 2020 Strategic Plan, set as a goal to "partner with industry stakeholders to identify opportunities to increase regulatory and supervisory harmonization where practicable and appropriate." One such endeavor is CISRO and CCIR's partnership on a common Guidance to govern fair treatment of consumers. We encourage CISRO to continue to partner with regulators and industry stakeholder on this and other matters.

CADRI recommends CISRO make regulatory harmonization a strategic priority of its 2019 – 2022 Strategic Plan. Efficiencies in this administrative area would make business operations more scalable and flexible. We also anticipate cost savings to be reflected in consumers' premiums.

### Engagement

CADRI seeks to partner with stakeholders to ensure consumers are in a position to make informed decisions.

To ensure that licensing requirements continue to protect consumers and are considered fair and useful by participants and insurers, CADRI recommends that CISRO continue to have ongoing dialogue with industry stakeholders as it adjusts its activities to future demands.

Recognizing that CISRO is an umbrella group that has just embarked on a large project in its revision of General Insurance Licensing Qualifications, CADRI would be pleased to contribute to an industry/regulator group to walk through and identify areas warranting improvement which could be tackled as small projects by CISRO, while work is also done to make long-term changes in modernization, harmonization and engagement.

### Conclusion and Summary of Recommendations

Once again, CADRI appreciates the opportunity to contribute to CCIR's planning process. We believe there are ample opportunities for industry and regulators to work together and serve Canadian consumers and the public interest.

In sum, CISRO should:

1. Consider the interjurisdictional licensing regime as a whole to be managed and assessed by CISRO.

### Modernization

2. Invite CADRI to present "Perspectives in Innovation" to its members as context for the consumer and business environment in which we work.
3. Ensure its Strategic Plan seeks to foster practices which enable insurers and their agents to meet consumer service expectations in an increasingly fast-paced and digital environment.

### Harmonization

4. Set as a goal the encouragement of consistent rules, regulations, processes and administrative practices across the country.
5. Invite CADRI to present "Customer Care in a Pan-Canadian Context" to explain the impact on customers of the current varying regulations across Canada.
6. Seek to set a common standard for agent licensing across jurisdictions by focusing on the common elements of the licence across jurisdictions.
7. Reflect jurisdictional or specialty requirements through additional modules.
8. Model this transformation on CISRO's updated version of the Life Licence Qualification Program.
9. Consider the licensing of parent companies rather than individual employee agents.
10. Partner with CCIR to identify opportunities to reduce interjurisdictional barriers.

Engagement

11. Continue to exercise transparency by consulting with insurers in advance of important changes to the regulatory framework.

Thank you for your consideration of these recommendations.

Yours truly,

A handwritten signature in black ink, appearing to read 'Alain Thibault', written in a cursive style.

Alain Thibault  
Chairman and CEO

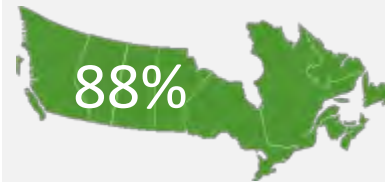
cc: CADRI Board of Directors  
CADRI Licensing Task Force  
Joanna Reading, Policy Manager, Regulatory Coordination Branch, FSCO

# Perspectives on Innovation

# 1. Insurance consumers' behaviours are evolving

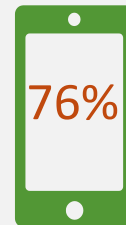
# The vast majority of Canadians are now digital customers

- Canadians are among the highest internet users worldwide
- They are used to shopping and buying online
- They increasingly use mobile devices to do so
- And they expect a consistent experience across channels



of Canadians use the internet

**57%** of Canadians buy products online weekly or monthly



owned a smartphone in 2016, vs. 55% in 2015



**24%** of Canadian consumers purchase products at least monthly via smartphone

Sources: ITU (2015), CIRA (2016), comScore, PwC (2016,2017), Catalyst (2016).



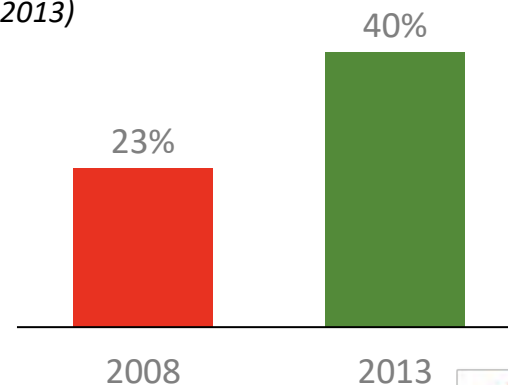
# Consumer expectations are evolving, in line with other sectors

- Influenced by their experience in other sectors, customers expect ready access to content that is **personally relevant**, at **anytime**, **anywhere**, in the **format** and on the **device** of their choosing. They expect a **seamless** customer experience, forcing companies to **simplify** product and process.
- Evolution in the insurance sector supports this trend towards digital

**70%** of Canadian consumers use some form of digital research (e.g. price comparisons or social media scans) before buying insurance



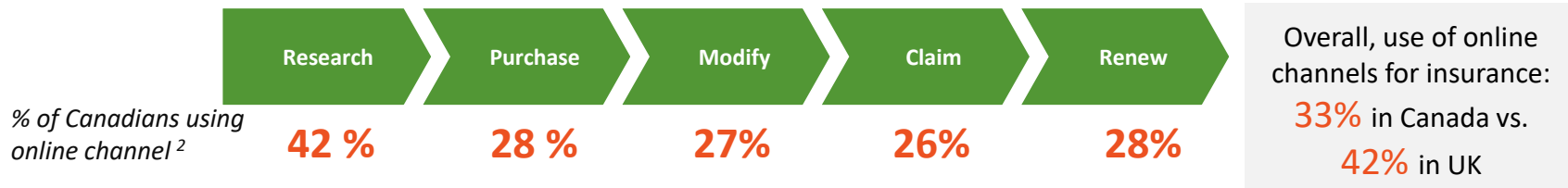
**Percentage of Canadian consumers obtaining insurance quotes online**  
(%, 2008-2013)



Sources: Forrester (2015), Deloitte (2015)

# The insurance industry is shifting gears

- The industry has been massively investing in recent years to close the gap (customer centricity, quick quoters, new websites, etc.)
  - Insurers have improved customer satisfaction of digital experience between 2014 and 2016, now reaching average levels compared to other industries. <sup>1</sup>
- However, traditionally, insurance lagged other sectors in terms of relative customer satisfaction and adoption of digital technology.
  - Historical focus on risk management, lack of alignment within the industry itself around the importance of digital, and certain regulatory constraints have contributed to this lag.
  - Canadians' use of online channels for insurance is limited past the research stage



- Customer satisfaction also tends to decrease along the customer journey

Sources: <sup>1</sup>BCG Morgan Stanley (2016): global survey compared the following industries: Search Engine, Bank, E-Retailer, Motor Insurer, Social Media, Mobile Company, Energy Company, Broker/Agent. <sup>2</sup> BCG worldwide data (2014).

# Insurance customers are eager for digital and novel solutions

- Insurance consumers in Canada say they are digitally ready

Nearly **70%** of Canadian consumers would be willing to download and use an app from their insurance provider

**28%** of Canadian consumers say they use online channels to purchase insurance

- And insurance consumers worldwide are increasingly open to new models and processes in the sector

**74%** are very or somewhat willing to receive **computer-generated advice** about the type of insurance coverage to purchase

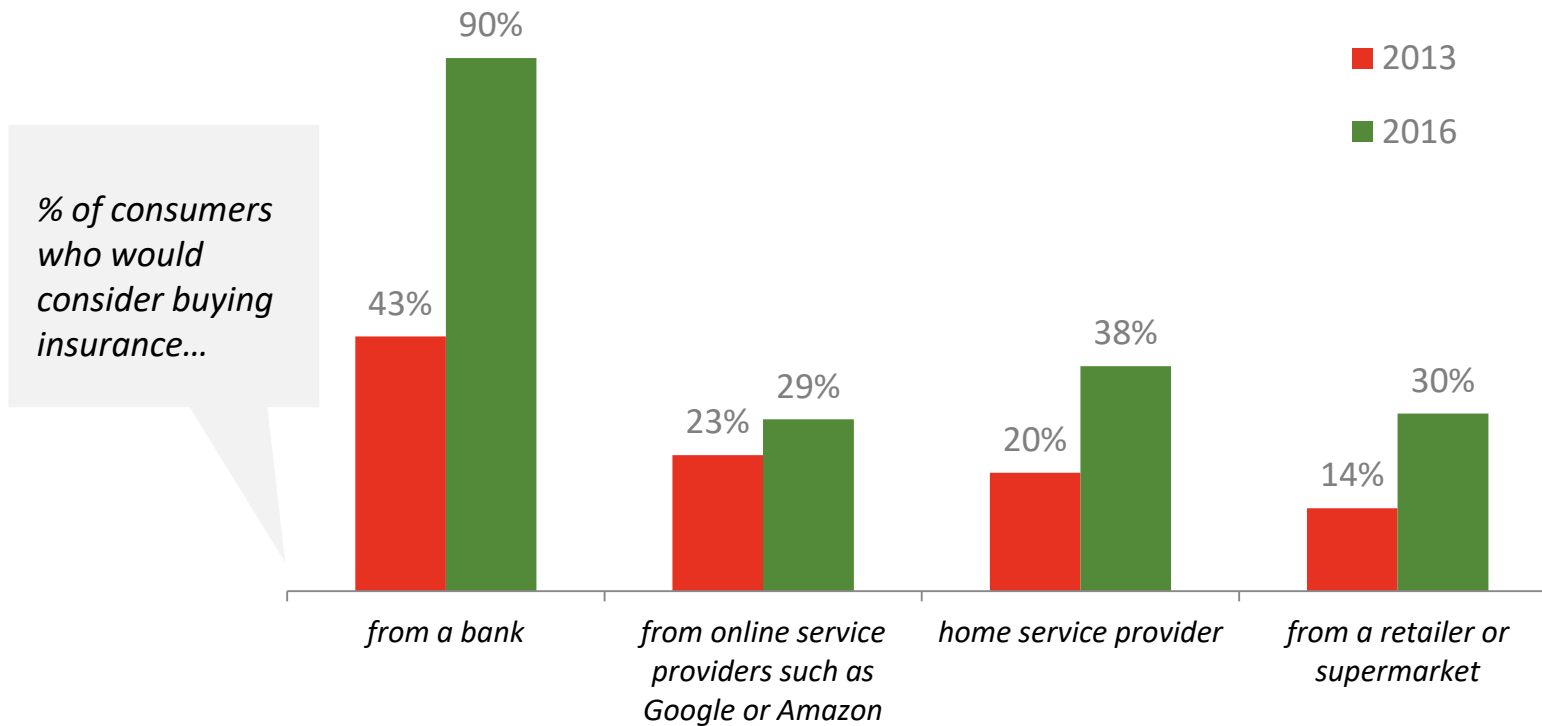
**38%** would consider **P2P auto** insurance,  
**32%** for **P2P household** insurance

Sources: Deloitte (2015), CADD (2016), Accenture (2016, 2017), BCG (2014).  
Note: P2P: peer-to-peer

# And are increasingly open to new players

## Consumers are open to buying insurance from providers other than insurance companies

(% of respondents, 2013-2016)



Sources: Accenture global survey (2017)

2. The industry is innovating at a fast pace to adapt

# Innovation is impacting products and processes

Examples:

## Products

- On demand insurance



*On-demand, customizable insurance for belongings*



*Pay-per-mile insurance based on telematics data*

- Internet of Things (IoT) and Telematics

*Connected smart sensors in home and auto can improve behaviours and prevent losses*



- Sharing economy / peer-to-peer



*Pooling similar consumer profiles in small groups*



BOUGHT BY MANY

*Enables people with niche interests to club together to get a discount on insurance*



*100% digital, AI-enabled, P2P home insurance, with rapid settlement*

## Processes

- Simplified shopping and buying experiences

*Quick quotes*

*Online binding*



- Automated tasks with Robotics Process Automation or Artificial Intelligence



*Chatbot "Allie" by Allianz Australia, offers 24/7 online assistance*

- Drones used in the claims process



*Used to assess flood damage in the UK in 2016*

## Improved customer outcomes

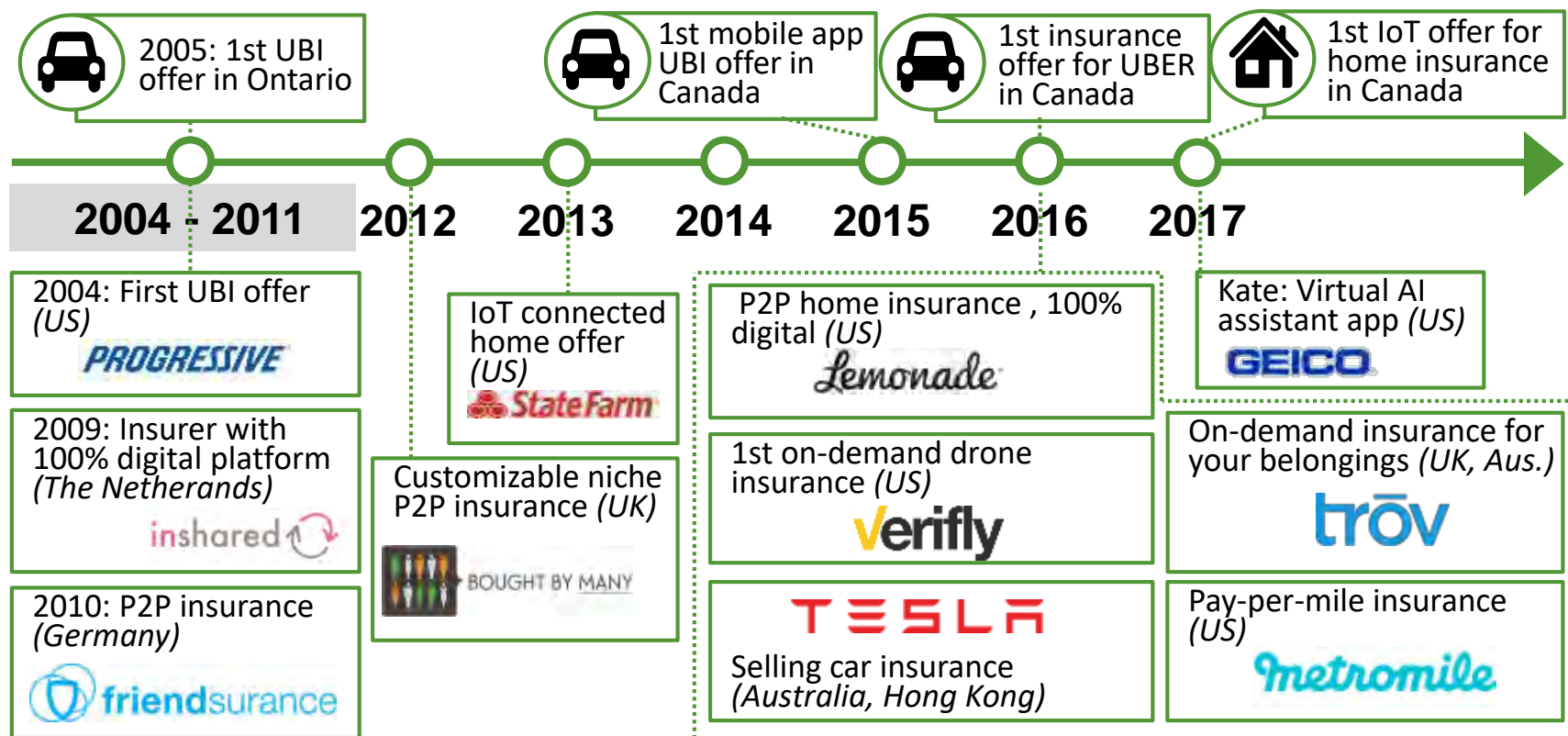
Sources: PwC (2016), press review and insurance company websites.



# The pace of change within the industry is unprecedented

## Illustration: Innovation in the P&C insurance market – Canada and Global

\* Non-exhaustive list



Sources: Press review and insurance company websites.

# New entrants are changing the landscape

## Distribution

## Underwriting & Product Manufacturing

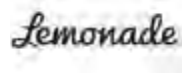
## Claims

## Risk Capital & Investment Management

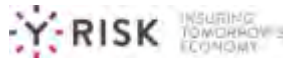
### Operations & Tools



### Peer-to-Peer



### On demand



### Claims process



### ecommerce



### Aggregators & online agencies



### Telematics



Besides well-known players who are innovating, new entrants are carving out their place throughout the value chain

\* Note: Non-exhaustive list



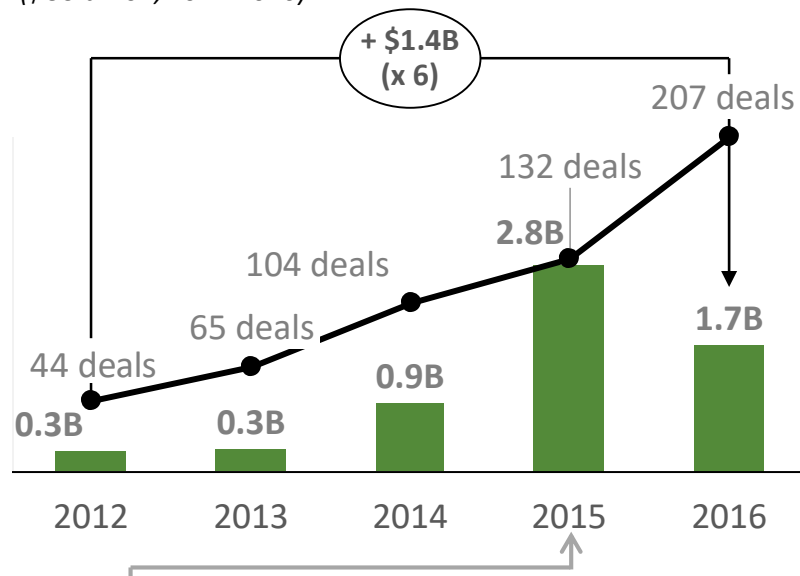


# Insurtechs are thriving, with growing investments

- Investments in Insurtech have multiplied more than six-fold over the last 5 years and should continue to grow

## Insurance Tech Funding - Global

(\$US billion, 2012-2016)



Funding peak in 2015 mostly attributable to 2 major deals: Zhong An (\$931M) and Zenefits (\$534M)

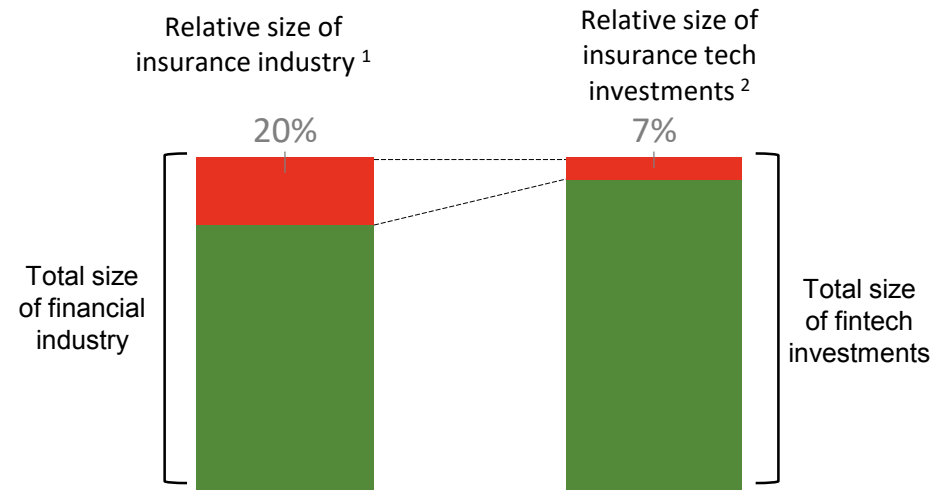
Sources: CB Insights, McKinsey, MSCI

Notes: <sup>1</sup> Relative market capitalization of the insurance industry vs. the financial industry. <sup>2</sup> Relative investments in insurance tech vs. fintech

- Insurance is still lagging behind the rest of the financial industry

## Relative Size of Insurance Tech vs. Fintech - Global

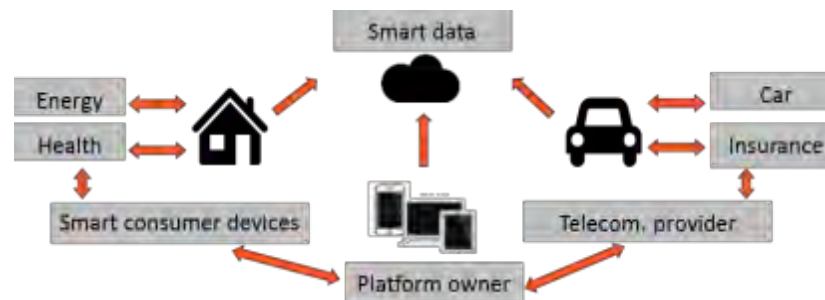
(% of market capitalization, % of total investments, As of June 2016)



# To keep the pace, P&C insurers are engaging in partnerships

- Leading insurers worldwide are creating or joining new ecosystems. Some are teaming up with start-ups or other players outside the sector.
  - 62% of insurers say they are either already active or currently setting up a corporate venture capability as a way to build technical capabilities <sup>1</sup>
  - Several insurers have launched labs around the world or have developed a physical presence in the Silicon Valley
  - Some car manufacturers have partnered with pay-per-use insurance providers
    - › They configured vehicles to share usage data with the insurer with the consumer's consent

## Illustration: an example of a digital ecosystem <sup>2</sup>



Source: <sup>1</sup>KPMG (2017): survey of 200 executives in the insurance industry (P&C and Life). <sup>2</sup>BCG Morgan Stanley (2014)

### 3. Flexible regulation fosters client-centric innovation

# Treating Customers Fairly with flexible regulatory approaches

- As shown in section 1, customers are demanding digital enhancements from all their service providers and the insurance industry is lagging behind in meeting their demands
- We need a flexible regulatory approach to innovation that puts the customers' needs and interests at the centre:
  - Using technology to improve service offers convenience, affordability, and improved access for underserved groups
  - Engaging customers in new and better ways that prompt them to consider their risks and how to mitigate them will improve awareness and increase coverage
  - The current regulatory framework is strong enough to ensure consumer protection regardless of the sales or communications channel they choose
  - Insurers already work to ensure appropriate consents are obtained from customers and that transactions are secure, and will continue to do so as channels evolve

# Improving consumer outcomes using emerging technology

- Providing customers with clear information during every interaction:
  - Continuously evolving technology offers new and innovative ways to disseminate information, allowing service providers to offer content in multiple languages, in accessible formats, and catering to a variety of learning styles
  - Increasing financial literacy is essential to informed decision-making, and we are doing a disservice to consumers if we fail to embrace technology as a medium for education
  - Consumers who are forced to engage through channels they don't like or aren't comfortable with may rush transactions and end up with unsuitable coverage
- Allowing consumers to choose their preferred channel increases the likelihood of product suitability and access to advice (either live or via reference tools) can be provided through any channel
- Complaint handling procedures would not change but customers would have more communications channels available to them, resulting in simpler, more accessible processes

# Raising the service bar to new heights

- Broadening the use of technology will enable providers to offer increased privacy options to their customers
- Increased self-service options will reach a wider audience
- Customers expect to be able to use digital and emerging technology, to their benefit, in their interactions with all service providers
- While their communications needs are evolving, so are their insurance needs and the industry must innovate on both fronts to remain relevant and effective

## 4. Conclusion



# In review

- The pace of technological change has vastly increased
- Canadians are digital customers
- Insurers are innovating with products and processes that are focused on their customers' needs and expectations
- New entrants and insurtech are changing the landscape



# What are the implications for regulators? (1/2)

- Digital innovation must be viewed in a new light:
  - as an opportunity for the consumer rather than as a threat from which customers must be protected
- Innovation should be embraced holistically, governed by over-arching principles:
  - E-proof of insurance, user-based insurance, and online binding are currently being examined one at a time
  - Some regulators are involved in tactical implementation rather than allowing the industry to determine the most-customer centric solution

# What are the implications for regulators? (2/2)

- To succeed in this environment, a regulator requires:
  - a renewed, diverse mix of talent
  - a mindset to foster innovation and competition
  - the authority to provide frameworks which apply to all the players
  - the ability to adapt to change quickly
- Customer-centric regulation enables innovation so the consumer has expanded choice and continued confidence in the industry and in the government



CADRI

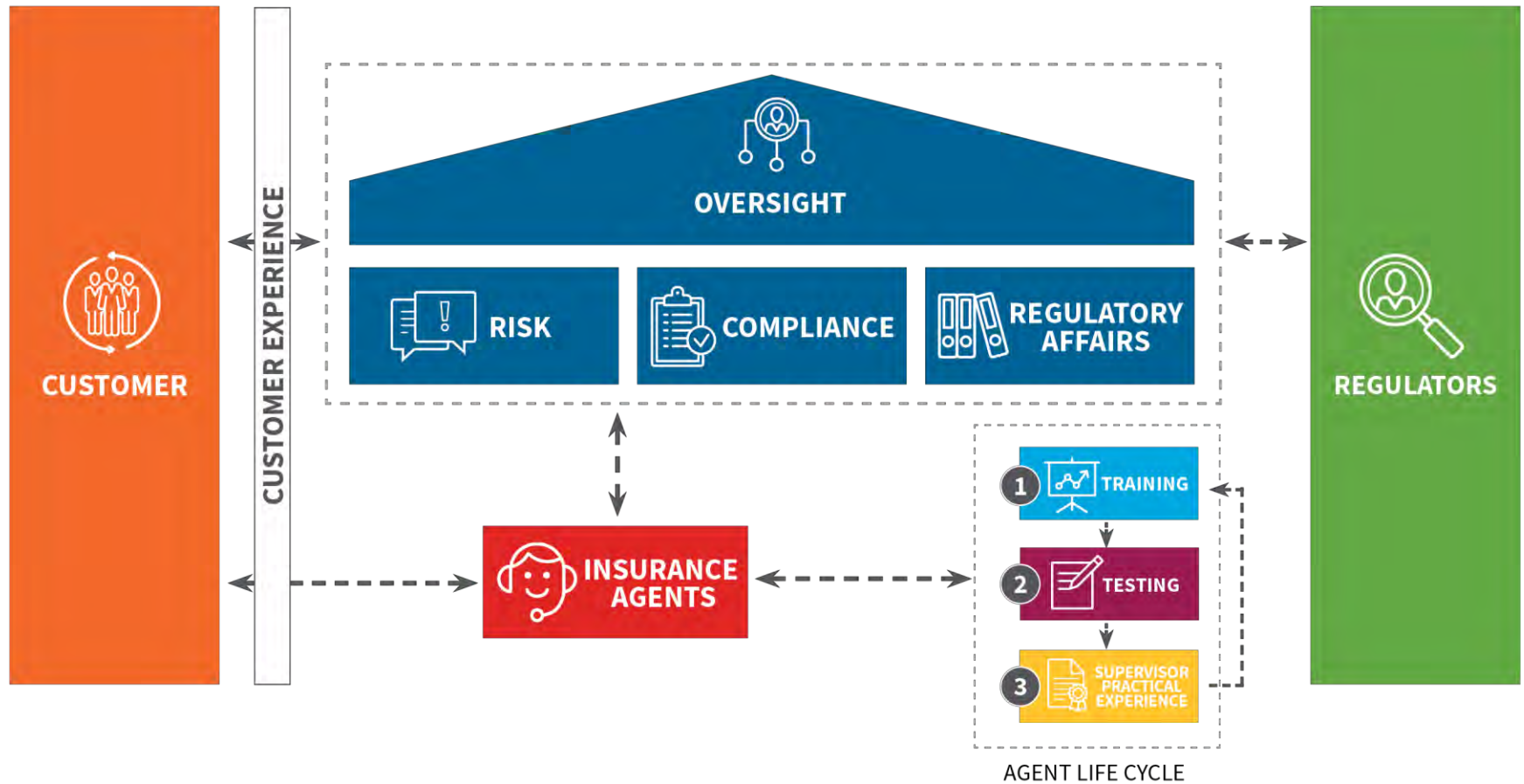
CANADIAN ASSOCIATION  
OF DIRECT RELATIONSHIP  
INSURERS

# Customer care: agent licensing in pan-Canadian context

# Value of the direct-relationship model



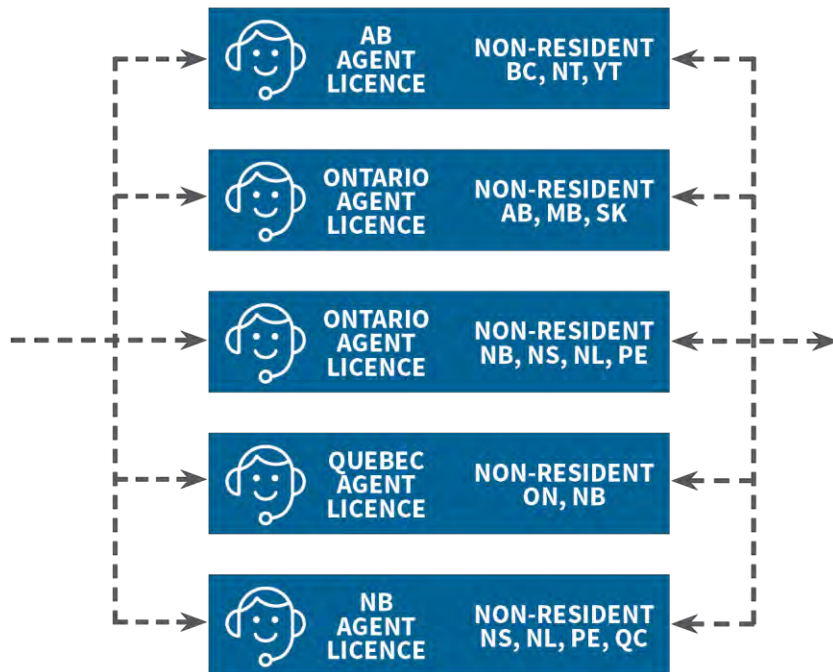
# Ensuring consumer protection





# Impact of licensing process on customer experience

## CUSTOMER CARE CENTRE



## OPTIMUM LICENSING CYCLE



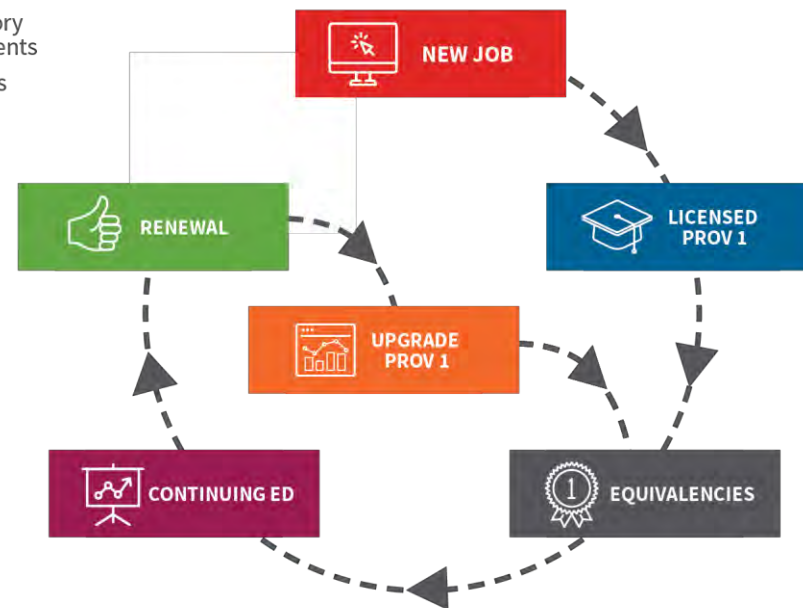
## PROCESS DELAYS:

- PEOPLE ON HOLD WITH MUSAK
- TIME ZONES
- CALL VOLUMES
- NATURAL CATASTROPHIES
- EMPTY DESKS
- PHONES UNANSWERED

# Pan-Canadian complexity



- Variations in qualification, supervisory and continuing education requirements
- Differing standards for non-residents



	BC	AB	SK	MB	ON (FSCO)	ON (RIBO)	QC	PEI	NS	NL	NB	NU	NT	YT
LICENSING LEVELS	Three	Three	Three	Three	One	Four	One	One	Three	Three	Three	One	One	One
ONLINE APPLICATIONS	-	✓	✓	✓	✓	-	✓	-	-	-	✓	-	-	-
PAPER APPLICATIONS	✓	-	✓	-	-	✓	✓	✓	✓	✓	-	✓	✓	✓
INDIVIDUAL ADJUSTER LICENSING	-	✓	-	-	-	-	✓	✓	-	✓	✓	-	-	-
PROCESSING TIME	-	-	-	-	-	-	-	>30 days	-	>30 days	-	>30 days	>30 days	>30 days
PAYMENT OPTIONS	Cheque & Credit Card	Cheque & Credit Card	Cheque & Credit Card	Cheque	Cheque, Money Order, Credit Card	Cheque	Cheque & Credit Card	Cheque	Cheque & Credit Card	Cheque	Cheque & Credit Card	Cheque	Cheque	Cheque

\* Levels are not harmonized between jurisdictions and equivalencies vary