



3 November 2020

Mr. Mark White
CEO
Financial Services Regulatory Authority of Ontario (FSRA)
5160 Yonge St., Toronto, ON M2N 6L9

Via: <https://www.fsrao.ca/engagement-and-consultations/fsra-proposed-2021-22-statement-priorities>

Dear Mr. White,

Re: 2020-14 FSRA Proposed 2021-22 Statement of Priorities and Budget

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 2021-22 Statement of Priorities and Budget*. We welcome FSRA's progress towards creating a modern, principle-based framework for Ontario drivers and the insurers that offer them auto insurance.

This has been a year like no other. The COVID-19 pandemic changed the way our members did business. All but the most essential employees moved to work remotely, and it looks as if this practice will continue well into 2021. The magnitude of the pandemic's impact on business operations underlines the need for streamlined, efficient regulatory processes which can adapt to the changing environment – whether in response to innovation or unforeseen global circumstances.

In this context, we appreciated FSRA's acknowledgment of the challenges to training and customer service when employees and independent exclusive agents moved from centralized call centres to work-from-home offices, and with the pandemic's disruption to regular licensing and exam schedules. It is our perception that FSRA staff worked hard to make changes in response to COVID-19 but the framework did not make it easy for them. FSRA's subsequent recognition of trained employees, and those certified elsewhere, went a long way to enabling our members to have more people available to answer customers' calls during turbulent and troubling times.

FSRA's leadership on this issue at pan-Canadian regulatory groups such as the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) is also appreciated. CADRI supports FSRA continuing this level of leadership nationally. CADRI's members have interjurisdictional challenges. Championing them at interjurisdictional fora, such as CCIR and CISRO, will help insurers and regulators to adapt to changing situations and provide superior service to customers and citizens.

Turning our attention to the *Proposed 2021-22 Statement of Priorities*, CADRI generally supports FSRA's cross-sectoral priorities of:

- protecting the public interest,
- enabling innovation,
- modernizing systems and processes, and
- transitioning to principle-based regulation.

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

SECTOR-SPECIFIC: PROPERTY AND CASUALTY (AUTO) INSURANCE

5.1 Empower and protect P & C and auto insurance consumers

CADRI supports FSRA's intent to "enhance consumer choice, promote innovation and foster a more competitive and stable insurance marketplace." We also support "new consumer-focused efficiencies and improvements to continue transformation of auto insurance." To this end, we salute FSRA's recent announcement which will pave the way to more innovation in user-based insurance.

We are confident that FSRA's *Technical Advisory Group for Transforming Rate Regulation* brings significant expertise and insight to the regulators' transformative plans. That group should encourage FSRA to embrace a new perspective on the regulation of rating criteria with the goal of being less prescriptive on a variety of factors including modernizing territory-rating frameworks, using credit information, and reforming Regulation 664. These are topics CADRI would be pleased to discuss with FSRA directly.

Relative to "protecting consumers... unreasonable rates," as we commented in July 2020 on the matter of *2020-6 – Loss Trend Benchmarks for Private Passenger Automobile Major Rate Filings*, CADRI submits that if an insurer can provide the regulator with a just and reasonable rationale for its rates, industry average benchmarks should not be applied. This approach would enable an insurance marketplace where price matches risk, insurer competition exists for consumers and insurer solvency to pay claim commitments is maintained. A regulatory environment that is less uncertain in the long run encourages insurers to be more responsive to both competitive factors and trends affecting loss costs.

CADRI members are large national companies who have strong internal policies and procedures to ensure regulatory compliance and protect their corporate reputations. Their rating systems are complex and seek to best reflect the customers' risk and experience. Further to "establishing expectations for enhanced accountability in rating and underwriting compliance," CADRI seeks clarification from the regulator as to where there are accountability gaps.

CADRI welcomes modernization of the *Unfair or Deceptive Acts or Practices (UDAP)* rule through a transition of authority to FSRA. Our remarks on the matter were provided to the regulator in October 2020.

On the specific matter of take all comers, as we observed in our June 2020 response to the *2020-4: Request for Comment – Auto Insurance Take-All-Comers Rule*, CADRI members are of the view that if there are issues with the application of the *Take-All-Comers* rule, they are reflective of an overall regulatory framework that is unnecessarily restrictive and does not promote a truly competitive market. Ontario is only one of three jurisdictions in North America that have a *Take-All-Comers* rule. CADRI believes that moving to a principle-based, outcome-focused regulatory environment would best serve consumers and eliminate the need for the current rule by creating a more competitive environment.

CADRI is supportive of FSRA harmonizing fair treatment of customers in Ontario with the CCIR and CISRO *Guidance* as outlined in our October 2020 response to *2020-11 – A Common Approach to Treating Insurance Customers Fairly*.

5.2 Support and implement government’s auto insurance priorities

CADRI members participated in many of the auto insurance reform consultations led by the Ministry of Finance. We continue to believe that FSRA brings deep expertise to reform exercises and encourage FSRA to proactively advise the Ministry. CADRI would welcome and support moves by the Ministry to expand FSRA’s rule-making authority and shape a new auto insurance system that benefits Ontario drivers.

5.3 Implement auto insurance data and analytics strategy

Regarding FSRA’s on-going effort to “develop and implement its auto insurance data and analytics strategy,” we presume this is in collaboration with the newly-appointed *Technical Advisory Committee on Auto Insurance Data and Data Analytics Strategy*.

We encourage the regulator to keep as an objective timely access to relevant data that does not unnecessarily add to insurers’ administrative costs. Relevant to “new data and reporting requirements... and supervisory analytical tools with a focus on verifying insurer underwriting and rating compliance, assessing consumer impacts and model fairness... rates,” we recommend that any justifiable new requirements replace rather than add to outdated ones.

PROPOSED 2021-22 BUDGET

In assessing FSRA’s proposed increased costs for the coming year, CADRI focuses on two budget lines: digital transformation and the \$3.2 million increase for “regulatory effectiveness.”

As we have expressed previously, the effectiveness and efficiency of FSRA’s Market Conduct and Licensing department directly and immediately impacts CADRI members’ abilities to ensure an excellent customer experience. CADRI members offer their expertise in other jurisdictions to assist FSRA in creating an efficient, effective online licensing platform.

Regarding regulatory effectiveness, it may be that most of this increase is directed at sectors other than Property and Casualty insurance. However, CADRI encourages FSRA to review its intentions for this proposed growth and look for opportunities to decrease those regulatory costs in the context of making auto insurance more affordable for Ontario drivers. Benchmarking itself against other leading Canadian or international regulators may provide FSRA with useful guidance.

CONCLUSION

CADRI appreciates the opportunity to review FSRA's *Proposed 2021-22 Statement of Priorities and Budget*.

Overall, we support FSRA's general intentions to serve the public interest and increase 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, soundly-based system will bring more benefits to the consumer by creating a more competitive and responsive marketplace.

Yours sincerely,



Alain Thibault
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