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Re: **21-MOF004 – Proposed new regulation under the *Insurance Act* with respect to the Financial Services Regulatory Authority of Ontario (FSRA) Chief Executive Officer (CEO) exemption orders under section 15.1 of the Act.**

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 product and service innovation so that Canadians can easily choose insurance that serves their needs through the delivery channels of their choice.

CADRI welcomes the opportunity to contribute to the government's implementation of policies announced in the 2020 provincial budget – *The Protect, Support and Recover from COVID-19 Act* (Budget measures) – including amendments to the *Insurance Act* (the Act) which allow FSRA's CEO to exempt entities from the Act, a regulation under the Act or a FSRA rule to enable FSRA to operate a regulatory sandbox.

CADRI endorses Ontario's efforts to clear space for insurers, fintechs and other entrepreneurs to pilot innovative initiatives that may bring new consumer-focused products and services to market more quickly in response to changing consumer needs. We have reviewed international experience with regulatory sandboxes and arrived at a set of parameters for such exercises in Canada.

Setting the stage for a sandbox

In the context of the current regulatory review, we commend Ontario for taking a leadership role and impress upon policymakers that the rules they set today could be adopted by other Canadian jurisdictions.

Firms in a position to participate in the proposed sandbox could likely already operate Canada-wide. CADRI had recommended that the Canadian Council of Insurance Regulators (CCIR) agree to a set of rules so that a pilot could be launched in any of the provincial jurisdictions, and its evaluation would be shared and accepted by regulators in other jurisdictions. To have multiple sandboxes with different rules across the country inhibits a company's ability to develop an application which could be launched in other jurisdictions.

Proposed framework

While proposing a CEO exemption from existing rules for the purposes of a sandbox is a tremendous step, CADRI believes that the province could go even further to encourage the development of innovative pilots and use of the sandbox.

Even with the proposed exemption, there would still be a legislative, regulatory and likely some guidance overlay to these short-term pilot projects.

It may be that FSRA should be encouraged to publish a list of prohibited criteria and if an applicant does not strike any of those factors, it would likely proceed. FSRA would retain the authority to review and approve what is being proposed.

Eligibility criteria for applicants

CADRI believes that both currently licensed insurance companies and fintechs should be allowed to participate in the sandbox. This would foster innovation and new opportunities for consumers as well as providing consumer protection by introducing emerging fintechs to regulatory frameworks and ensuring they operate with the appropriate levels of oversight.

Operation and monitoring

Measures should be put in place to ensure protection of proprietary information/competitively sensitive information throughout the sandbox testing phase and beyond. Firms that are testing something new and innovative will not want competitors to know about it before they can get it to the wider market.

Timing/exit/evaluation

Given the potential investment by backers for sandbox projects, the exit plan is critical even in the early stages of consideration.

We note that there does not appear to be any guidance on how an applicant would be measured or deemed a success. Nor how 'successful' ventures would transition from the sandbox to the marketplace. We suggest that if a sandbox pilot does not present any consumer harms, it be green lighted for offering to the wider marketplace.

We recommend that some consideration of an exit strategy be developed by FSRA and published in due course for comment.

CADRI recommends that FSRA evaluate the appropriate period for the sandbox experience based on the service proposed. It may be as short as six months or slightly exceed the two-year time frame proposed.

So that the sandbox experience is not carried out in isolation without beneficial effect for both the consumer and the regulator, the sandbox should include a requirement to revisit rules and regulations based on data collected and lessons learned during the process.

Conclusion

CADRI supports the implementation of the Budget measures as they relate to enabling FSRA to create regulatory sandboxes.

We encourage Ontario to set out a light-handed framework which can be replicated nation-wide and enables piloted initiatives to roll out across the country.

We recommend that FSRA develop a guidance which places consumer protection first but also allows outside-the-box exploration of projects that are not otherwise possible under the Act, regulations, and guidance.

Finally, a regulatory sandbox offers potential, however, it is one lever. Openness to innovation is a mindset which encourages innovations for consumers on an ongoing basis.

Yours sincerely,



Geoffrey Beechey,
Chair and CEO

cc:

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CADRI Ontario Committee

CADRI Risk Classification Task Force

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