



18 November 2021

Mr. Mark White
CEO, Financial Services Regulatory Authority of Ontario (FSRA)
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Via: <https://www.fsrao.ca/engagement-and-consultations/fsra-releases-its-innovation-framework-public-consultation>

Dear Mr. White,

Re: 2021-17 All Together Now: FSRA, the Innovation Office and an Innovation Framework for a More Innovative Ontario Financial Services Sector (Innovation Framework)

Introduction

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.

CADRI was an early advocate for the creation of regulatory sandboxes, having surveyed practices in other financial services sectors and international jurisdictions. We appreciate that FSRA, through the Global Financial Innovation Network, has been able to assess and build on the best practices of creating and running regulatory sandboxes elsewhere in the world.

We are pleased that FSRA's CEO will soon be able to exempt applications from the overall regulatory framework for limited time periods in order to pilot innovative programs.

Moreover, the commitment by FSRA to leverage what it learns from Test and Learn Environments (TLEs) to modernize existing rules and regulations is especially welcome.

Like FSRA, CADRI members want to ensure that the Innovation Framework is welcoming, easy to use and leads to new opportunities for consumers. Our comments, particularly those outlining the need to balance transparency with the safeguarding of proprietary information, seek to assist FSRA in meeting those goals.

Innovation vision and guiding principles

Do the Principles outlined by the Innovation Office resonate with you as a stakeholder?

The seven principles set out by FSRA are thoughtful and thorough.

CADRI members appreciate that the regulator seeks to provide a tool kit and process for financial services innovation and be hands-off in the development of the products and services to be tested. Moreover, the Innovation Office's aspiration to challenge established structures and closed mindsets is also welcomed.

Relative to the commitment to leverage existing regulatory tools, CADRI members welcome the amendment of section 15.1 of Ontario's *Insurance Act* for the purpose of creating a regulatory sandbox. That said, the range of possibilities allowed is quite narrow and members have flagged that other aspects of the regulatory framework are overly prescriptive and ripe for modernization. Given the highly-prescribed nature of the products and services insurers can offer, CADRI recommends that the exemptive power of FSRA's CEO be widened to allow for new products and pricing.

Value proposition

How would you define FSRA creating meaningful and positive impact to enable responsible innovation in the sectors? What does successful innovation look like?

The emergence of new, timely, relevant, competitive choices for consumers will define the success of the Innovation Framework.

Role of the Innovation Office

What role do the sectors want to see FSRA play in facilitating innovation?

CADRI members would like to see the regulator enable an evolving environment wherein insurers can meet their customers' needs and expectations.

Influenced by their experience in other sectors, customers demand ready access to content that is personally relevant, 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. According to a study by BCG Morgan Stanley, between 2014 and 2016 insurers improved customer satisfaction with online experience, reaching average levels compared to other industries.

What are your most relevant touchpoints with FSRA on new opportunities and what can be improved facilitating innovation?

Our members cite varying experiences in bringing innovative ideas to the regulator. Some cite a narrow range of openings for change. Where the relevant policymaker is open to the concept, the time span between first approach and success differs.

The Innovation Process

What is your preferred 'point of entry' when bringing innovations ideas to FSRA?

We welcome FSRA's new Innovation Office and its openness to discuss new market ideas with companies directly. CADRI members may also sound out the policymakers in the Auto/insurance Products branch to gain their initial feedback. The carriers applaud having multiple touchpoints at FSRA.

The Innovation Process and the impact on innovators

Do you see any gaps in our Innovation Process in the development of an innovation opportunity?

In theory the Innovation Process steps seem reasonable. In practice, the process may be somewhat cumbersome during the risk assessment and testing phases. The number of FSRA representatives set out as the TLE working group is extensive.

Moreover, innovation is an iterative process. Perhaps some flexibility for insurers adjusting the concept mid-TLE is envisaged, but not evident in the Framework document.

Intake and the role of innovators and regulated entities

How useful is the intake questionnaire?

The questionnaire appears to be a reasonable outline for a business case for a sandbox/TLE candidate.

Members are open to having multiple touchpoints at FSRA. Depending on the circumstances, they could approach the Innovation Office or policymakers in the Auto/insurance Products branch, for a preliminary discussion prior to building a business case for the intake process.

Members have some questions about timelines and requisite resources for phases like the testing.

Moreover, consumer-facing materials are not usually developed at the application stage. Expecting such materials to be available at the intake phase is curious: engaging advertising, marketing and communications talent for external audiences usually takes place further along in the process. Also, not all of the applicant innovations may directly impact or necessitate customer communications. In place of consumer-facing materials, a summary of benefits and/or impacts to consumers could be summarized.

As mentioned above, adjustments to prototypes usually occur throughout the innovation process. Applicants will wish to be assured that they can adapt to findings without having to reapply.

Risk Framework

How can we successfully appraise and manage risks from innovation?

FSRA has set out a five-step process to assess risk. CADRI posits that if the insurer is transparent about the risks and underlines that a service offering is an individual choice by the consumer, these two factors are risk mitigation strategies that can largely offset most potential risks identified by FSRA.

Use cases

What are some of the critical innovation opportunities you see in your sectors and where do you see barriers to enabling these innovations?

With the preponderance of prescriptive regulation, particularly around the auto insurance product and its pricing, the auto insurance sector seems prime for testing new approaches.

Test and Learn Environments (TLEs)

Are the regulatory tools currently available to FSRA sufficient in allowing FSRA to facilitate innovation while protecting the public interest? If not, what else is needed?

Having adopted the Canadian Council of Insurance Regulators' (CCIR's) and the Canadian Insurance Services Regulatory Organizations' (CISRO's) *Guidance on Insurance Business and Fair Treatment of Customers*, CADRI believes FSRA has sufficient oversight to serve the public interest.

The same standards that currently apply to insurance products and services should be applied to innovations whether they come from incumbent insurers or new market entrants.

Thus, combined with the power of exemption, CADRI believes FSRA has the tools at hand to launch the TLE.

Do you see any roadblocks to innovators being inclined towards and comfortable with participating in FSRA TLEs?

The challenges inherent to regulatory sandboxes and to FSRA's Innovation Framework are not new. We have raised them in previous consultations: timely decisions, steps to market, confidentiality around proprietary information, and the need for an exit strategy.

FSRA has said itself no one has a monopoly on good ideas. Thus, when a company seeks to develop a new program, it is sensitive to the evolution of the marketplace. The uncertainty of a concept idling in a sandbox, rather than progressing through necessary decision-making stages, could discourage participation. Innovators need to be assured that they can easily move from the test phase to market, and that any legislative or regulatory barriers will have been anticipated early in the process and dispensed with.

As mentioned previously, our members are also interested in a fair balance between the transparency required by FSRA, a public agency, and the confidentiality needed by private companies to invest in a new offering and remain competitive. If too much information were to be released about an ongoing pilot, it might inadvertently undermine the potential success of a first-mover company. If insurers perceive this as a real risk, they may be discouraged from participating in TLEs.

Finally, it can take a significant investment and time for an organization to evaluate consumers' interest, operational impacts and the ultimate commercial viability of an innovation. Wrapping up an innovation requires careful communications and a transition plan. Without first engaging in the TLE, CADRI members aren't sure if FSRA has built off ramps into its model.

TLE fee structure

Is the proposed fee structure for participation in the TLEs fair?

FSRA proposal appears fair. It will be critical that FSRA remains committed to its facilitator role to achieve desired outcomes at the lowest possible cost to the innovators and their customers. We agree that the TLE fee structure should not create a barrier to entry and stifle financial services innovations.

Industry engagement and outreach

What are some meaningful ways the Innovation Office can engage with your sector?

We encourage continued outreach by FSRA to stakeholders, including CADRI.

Conclusion

CADRI is pleased to have the opportunity to review FSRA's Innovation Framework. We trust the observations we offer will assist FSRA to fine tune its approach such that new entrants and industry will eagerly join the virtual waiting room for the intake process.

Most consumers do not immediately understand why the practices they are used to in other sectors are not available to them for auto insurance. Trying and testing new approaches is one step toward meeting their expectations.

We would be pleased to engage with FSRA and elaborate on any of these ideas directly.

Yours sincerely,



Geoffrey Beechey
Chairman and CEO, CADRI

cc:
CADRI Board of Directors
CADRI Digital Task Force
CADRI Ontario Committee
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