

FSRA

Financial Services Regulatory
Authority of Ontario



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Pursuing a More Innovative Ontario Insurance Sector: Barriers and Opportunities

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Foreword

The FSRA Innovation Office was launched in 2020 to support Ontario's financial services sector in creating strong, sustainable, and competitive innovations that will benefit consumers.

Since launch, the Innovation Office has developed a new, coordinated innovation vision as defined by the [Innovation Framework](#) and the rollout of its [Test and Learn Environments](#) which are designed to help innovators test new products, services, and business models. FSRA has also made a commitment to examine how it can use its regulatory tools to better support responsible innovation.

As part of the examination of FSRA's regulatory tools, the Innovation Office has proactively reached out to stakeholders in the insurance sector seeking input on innovative opportunities in their sector. The Innovation Office has also solicited comments on what barriers they see obstructing the pursuit of innovation.

The following report outlines a summary of what FSRA heard during stakeholder outreach. This information will be used to help the Innovation Office frame the 'state of play' of innovation in the insurance sector and inform FSRA's approach to supporting innovation.

FSRA sees this consultation with Ontario's insurance sector as an ongoing, open-door conversation. Please do not hesitate to reach out with your questions or comments via the [Innovation Office](#).

Executive Summary

Process

FSRA's approach to innovation is guided and defined by the comprehensive Innovation Framework. There are two approaches to supporting innovation identified under the framework: the 'inside-out' approach and the 'outside-in' approach.

The outside-in approach involves FSRA's Innovation Office proactively reaching out to stakeholders to identify sector trends, validate innovation opportunities, communicate FSRA's approaches, and discuss ways of achieving a more innovative Ontario financial services sector.

FSRA's doors are always open to stakeholders for discussions about new products, services, and business models they would like to share or validate. FSRA will work with innovators from across its regulated sectors to create a regulatory environment that supports innovation while adapting regulatory responses to emerging market practices.

The inside-out approach involves FSRA's Innovation Office leading relevant FSRA teams in examining Ontario's legislative and regulatory frameworks with the goal of uncovering and implementing innovation-friendly approaches to using FSRA's regulatory tools. FSRA will ensure it is using its suite of regulatory tools and exercising regulatory discretion where appropriate.

FSRA's Innovation Office has used both approaches to investigate how it can better support innovation across all lines of Ontario's insurance sector. In addition to leading complimentary 'inside-out' research by FSRA subject matter experts, the Innovation Office organized a series of insurance stakeholder roundtables to discuss barriers to and opportunities for innovation.

FSRA's discussions with stakeholders were fruitful, providing context around potential opportunities for innovation and how the regulator could play a role in making them a reality.

Takeaway Messages

The most significant feedback from our stakeholder discussions was that FSRA is not acting as a roadblock to innovation. Stakeholders also did not express concern that FSRA's regulatory approach is creating additional barriers to innovation. We heard a stronger message in favour of FSRA proactively regulating for the future and setting 'rules of the road' that can guide innovation in Ontario and provide Ontario's innovators with clarity around how FSRA will approach emerging technologies and business models in the insurance sector.

This general conclusion does not mean that FSRA cannot work on addressing general barriers to innovation highlighted in this report or act as a catalyst for innovation in the sector, nor does the conclusion intended to contradict feedback from other stakeholder forums about reforms to the *Insurance Act* through other consultations. The Innovation Office will collaborate internally to explore how FSRA can address these barriers and opportunities.

The following discussion includes commentary on how FSRA can support the insurance sector across all lines of insurance in the pursuit of innovation. For ease of reference and to reflect the scope of the comments we received, the discussion is divided into two categories: commentary specific to auto insurance, and commentary on life and health insurance.

The commentary we received from our discussions with auto insurance sector stakeholders highlights three main themes for supporting innovation:

- New mobility solutions;
- Usage-based insurance (UBI) and telematics; and,
- Researching the use of credit information in the pricing of auto insurance.

The commentary we received from our discussions with life and health insurance sector stakeholders highlights three main themes for supporting innovation:

- Digitization;
- Electronic designation of beneficiaries; and,
- Standardization and harmonization.

The Innovation Office also led an internal FSRA team to provide an outline of the insurance sector and some notable considerations that should be kept in mind, as well as conduct a preliminary analysis of the *Insurance Act* itself to identify opportunities to support innovation.

A Path Forward

While this report highlights commentary we have heard so far from these dedicated discussions, the Innovative Office has an open-door approach to dialogue with our stakeholders.

What barriers to or opportunities for innovation do you see in Ontario's insurance sector? Please share your thoughts with the [Innovation Office](#) for consideration.

“What We Heard” – Stakeholder Perspectives

The Innovation Office initiated discussions with insurance sector firms to gain their external perspectives. These perspectives centred on two general topics:

- Identifying regulatory and practical barriers to innovation in the insurance sector
- Identifying opportunities for FSRA to support innovation in the insurance sector

Stakeholder roundtables consisted of two roundtables with external stakeholders representing a range of market participants. This outreach was praised by stakeholders from across the insurance sector, with many noting that FSRA is developing a reputation as a progressive and pro-innovation regulator.

There is strong interest from stakeholders to continue engagement with the Innovation Office and to strengthen these relationships going forward. The Innovation Office shares these sentiments and looks forward to further discussions as we pursue our innovation ambition.

Auto Insurance

Outline

While it is understood that there is potential to support innovation in the auto insurance sector through reform of the *Insurance Act* in general and the Statutory Accident Benefits Schedule (SABS) in particular, the commentary we received from our discussions with auto insurance sector innovators focuses on innovation that FSRA is currently equipped to support without relying on legislative reforms.

This commentary highlights three main opportunities:

- New mobility solutions;
- Usage-based insurance (UBI) and telematics; and,
- Use of credit information in the pricing of auto insurance.

New Mobility Solutions

Innovative digital technologies are driving new business models and creating opportunities for consumers to access vehicles that they neither own nor lease. This has implications for Ontario's insurance market regarding emerging car sharing and car subscription models.

Car sharing is a car rental model where individuals rent vehicles from private car owners for short-term trips, with the car sharing facilitator itself usually being app-based and having no ownership stake in the vehicles themselves. The car sharing model has arisen as a response to demand from urban vehicle renters who do not own a vehicle.

As a result, stakeholders noted that Ontarians may increasingly benefit from on-demand auto insurance that can travel with them on a per need basis – often called 'pay as you go' insurance – to allow them to utilize car sharing services that diverge from the traditional car ownership model. This would be especially useful for drivers who need occasional access to a vehicle for specific needs such as grocery shopping or regional intercity travel, but do not want to carry traditional insurance that presumes they own and regularly operate an automobile.

Car subscription is another emerging model that stakeholders outlined as a potential area of opportunity for Ontario's insurers and consumers. Under most car subscriptions in other jurisdictions, subscribers pay a provider a recurring fee in return for access to a vehicle. Some car subscriptions resemble modified lease models where the subscription fee covers insurance, maintenance, and roadside assistance.

Recognizing the emergence of this model in comparator jurisdictions, FSRA introduced the Approach Guidance regarding Innovative Auto Insurance Products – Subscriptions (IAIP-S) for subscription-based auto insurance products in January 2020. The Guidance outlines FSRA's principles, processes and requirements related to an insurer's application for the approvals and exemptions under the *Insurance Act* that are needed to introduce a new subscription-based automobile insurance solution.

This Guidance signalled FSRA's openness to facilitating the introduction of new products into Ontario markets to allow for wider consumer choice.

The subscription model has yet to take hold in the Ontario market: FSRA remains interested in discussions with innovators but has yet to receive a qualifying subscription model application.

Usage-Based Insurance (UBI) and Telematics

UBI is a type of auto insurance where the policyholder's cost is based on factors like the type of vehicle being driven, frequency of travel, distance traveled, driver's behaviour, and locations visited. Telematics – a combination of 'telecommunications' and 'informatics' – means using sensor and other data automatically reported over a distance by vehicles or other computerized devices.

In the context of auto insurance, telematics can be used to give insurers, directly or indirectly, the information they use to set the owner's cost under a UBI product in which the customer's price is adjusted based on their driving patterns. Driving data is collected either through a device embedded in the vehicle or through a customer's cellular phone.

Some stakeholders noted that pricing solely using telematics data could be a contributor towards fairness in rating because it would not rely on variables beyond a consumer's control: while there are currently variables within consumer control (e.g., conviction history, at-fault claims, driving record, etc.), a material portion of a rating model's predictive power comes from variables beyond consumer control (e.g., age, gender, years licensed, territory, etc.).

Stakeholders flagged another UBI model: the original equipment manufacturers (OEM) underwriting model. In this model, OEMs leverage their vehicles' embedded telematics systems to help underwrite insurance policies which are offered to customers through OEM-led agencies, with the rate primarily based on embedded telematics data.

Discussions with innovators in the auto insurance sector indicate that there is high consumer interest in UBI models, with a considerable increase noticeable since the beginning of the pandemic: a 2021 FSRA survey of insurers offering UBI products indicates that enrolment in UBI programs in Ontario increased by 28% in 2021, bringing overall UBI enrolment to roughly 10%.

UBI offerings were more limited in Ontario at the time of consultation. In light of this, stakeholders encouraged FSRA to facilitate UBI adoption by proactively engaging with both the sector and Ontario consumers. This engagement could act as a catalyst for minimizing barriers to adoption and satisfying the significant consumer interest in UBI products. Stakeholders also did not identify any regulatory barriers to widespread rollout of UBI products.

FSRA has made significant progress in supporting innovation in this regard since removing the FSCO-era guidance – Usage-based Automobile Pricing in Ontario, No. A-16/16 and No. A-05/13 – in late November 2020. The number of active UBI programs in Ontario has almost doubled since then. FSRA approved three new UBI programs in 2022 alone, including innovative UBI programs like the Facility Association’s video-enabled telematics program for Ontario taxi drivers that was rapidly approved by FSRA in July 2022 and came into effect in December 2022.

The past year was the first year since 2015 in which more than one new UBI program was designed and approved. The momentum generated in 2022 appears likely to carry over into 2023. The launch of more and more innovative UBI programs over the last couple of years has led to Ontario becoming the leading jurisdiction in Canada for UBI in both number and variety.

Use of Credit Information in the Pricing of Auto Insurance

Sector stakeholders have highlighted in their discussions with FSRA that while credit score can currently be used in the pricing of property insurance, the same practice has been banned in the context of auto insurance since 2005. This is seen by some sector participants as an unnecessary barrier to innovation in auto insurance.

The relationship between an insured’s credit score and the likelihood of them filing an auto insurance claim has been researched extensively in the context of American markets. By contrast, it does not appear that a comprehensive analysis has ever been undertaken in Ontario regarding how the use of credit information in the pricing of insurance affects, or in the case of auto insurance, would affect different demographic groups.

Life and Health Insurance

Outline

The commentary received from discussions with life and health insurance sector innovators highlights three main opportunities:

- Digitization;
- Electronic designation of beneficiaries; and,
- Standardization and harmonization.

Digitization

Stakeholders were clear in their assessment that digitization of the sale, delivery, and management of insurance product offerings is the main focus of innovation for most insurers.

The pandemic has acted as a catalyst in this regard. Stakeholders noted that while most insurers – especially life and health insurers – have traditionally been slow to adopt consumer-facing digital solutions, the pandemic and the necessary pivot to remote, digital solutions has inspired a growing consumer competence with and desire for these same digital solutions.

Insurance is not immune from this trend and insurers have adjusted accordingly, with stakeholders mentioning that the pandemic has seen significant changes in underwriting practices centred around pivoting to digital approaches. They also have noted that some large insurers have developed customer-facing proprietary digital applications that enable customers to monitor and manage their policies, file and track claims, and avail themselves of advice via integrated AI-enabled chatbots.

Digitization was particularly highlighted as a potential solution to what stakeholders described as an ‘impending retirement wave’ of insurance advisors, with insurance advisory firms characterized as being dominated by more experienced advisors who are not being replaced at an adequate rate by younger advisors. Without digitization and self-service options, stakeholders stressed that many insurance advisory firms will struggle to properly advise their existing clients, let alone attract new ones.

Stakeholders made it clear that this did not mean that consumers were not interested in human advisors and that insurance advisors are obsolete. [A July 2021 survey](#) commissioned by the Canadian Association of Financial Institutions in Insurance indicates clearly that while consumers want more digital tools at their disposal and have rapidly embraced these tools because of the pandemic, the vast majority of Canadians (88%) “... would prefer [the opportunity to deal with financial representatives], especially for arranging loans and insurance.” The takeaway is that consumer-friendly digitization should be about augmenting and streamlining models that retain the human element rather than replacing it.

Despite the evident utility of and support for digitization in the insurance sector, stakeholders noted that digital self-service tools are not widely available in Canada so far, something that prevents consumers from being able to conveniently customize and control their policies. Some barriers to innovation and digitization stand in the way of making digital tools and models commonplace.

One concern exists around insurers’ reliance on third-party technology partners and their potential regulatory responsibilities. Enabling technologies like artificial intelligence (AI) and sophisticated cloud computing are foundational to insurers’ pursuit of innovation and digital solutions, but insurers often do not have expertise and capacity to develop these technological capabilities on their own. As a result, insurers are integrating and partnering with third-party insurtech firms to supply and maintain critical technological infrastructure.

The degree to which these third-party technology partners are regulated by FSRA, however, varies depending on the business model and what role the third-party plays in distributing insurance and interacting with applicants and policyholders.

Stakeholders noted that sometimes there can be confusion regarding how and when a third-party technology provider falls under FSRA’s regulatory scope. This potentially creates barriers to innovation in situations where a new business model emerges but there is a perceived lack of clarity around FSRA’s expectations of the third-party technology partner.

This is a common question posed by the deployment of third-party technology. When insurers decide to use third-party data, deploy tools created by external parties, or hire a third-party to completely develop products for their own uses, insurers should take reasonable measures to ensure oversight of this use of third-party data or services. Insurers retain their regulatory

obligations if they use third-party vendors. Insurers, not their third-party vendors, are accountable to FSRA for consumer outcomes.

Another digitization issue stakeholders referenced was the potential utility of open application programming interfaces (APIs) to facilitate information and data exchange. APIs are sets of rules that govern communication between computers and/or applications. They function as an intermediary between applications and web servers that transfer data between systems.

Open APIs are publicly available APIs that provide developers with programmatic access to a proprietary software application or web service. APIs typically have three main characteristics:

- They are available for use by developers and other users with relatively few restrictions;
- They are backed by open data that is freely available for everyone to use and republish as they wish, without restrictions from copyright, patents, or other mechanisms of control; and
- They are based on an open standard.

Open APIs are the technological lynchpin at the heart of the recent emergence of open banking systems and are predicted to lead to a more developed state of ‘open finance’ when nascent open banking systems are expanded to include most or all financial services sectors.

This paradigm would include open insurance systems wherein open APIs would transform the insurance sector from one dominated by closed proprietary systems to one characterized by dynamism and competition. Smaller firms would be able to avail themselves of these open standards and open data to both directly challenge incumbents and augment incumbent offerings as specialized third-party vendors.

As a sector that is especially premised upon access to information, insurance stakeholders highlighted that the sector would see a wave of innovation if Ontario’s insurers were to adopt an open API standard similar to open banking standards. This would allow consumers greater control over their insurance and health data while allowing challenger firms to obtain consumers’ consent to access and use their data. Properly executed, this could lead to greater competition in the sector and more empowered consumers with access to more tailored insurance offerings. However, there could be barriers to the development of an open insurance API due to the potential for conflicting interests to emerge.

The most immediate barrier stakeholders identified was that there may be resistance from incumbent insurers who would likely see more downside than upside in giving up full control of their proprietary data. Stakeholders also flagged that consumers themselves may not embrace such a system due to the sensitive nature of individual health data, leading to potential adverse consumer reactions to associating the concept of ‘openness’ with such data.

The concept of open banking and open APIs is a cross-sectoral issue for FSRA that has also attracted attention in both the credit union and mortgage brokering sectors. FSRA is continuing to engage on this and will actively explore its likely impacts across our regulated sectors, including insurance.

Electronic Designation of Beneficiaries

Stakeholders expressed that, despite the broad understanding that digital tools and electronic communication are increasingly the norm rather than the exception in life and health insurance, the issue of electronic designation of beneficiaries remains unresolved. This issue was particularly relevant from the perspective of insurance agents, who noted that it presented a source of friction for their clients who wish to transact online.

Stakeholders highlighted that lack of consensus and clarity around how to make a valid electronic beneficiary designation has led to a current industry state of play in Ontario where many insurers are either not allowing electronic beneficiary designations at all or are only allowing them by declaration after the contract begins. Agents advocate for this to change, noting that a pandemic-driven shift has raised consumer expectations that they should be able to transact digitally.

Standardization and Harmonization

Stakeholders keyed in on the importance of two forms of standardization and harmonization:

- Sector collaboration on developing standard approaches and minimizing administrative burden, particularly around standardization of key insurer forms / processes; and,
- Regulatory clarity / harmonization with other Canadian and international jurisdictions.

Regarding industry standardization of key forms and processes, insurance agents stressed that the mandatory forms and questions asked by different insurers in the process of insurance applications can vary, even in cases where similar insurance products are being sold. This lack

of standardization is onerous for both insurance agents trying to facilitate applications and applicants who are forced to track down an unstandardized range of data and information.

Stakeholders stressed that the standardization of key forms and processes in the insurance application process would significantly streamline the process and lead to faster, less stressful application processes. However, a lack of industry co-operation on this issue presents a barrier.

Insurance agents see this lack of co-operation as part of a culture of siloed information among insurers and a preference for guarding their proprietary approaches rather than facilitating greater consumer convenience and choice. In response to this, insurer stakeholders clarified that even in cases where they would be willing to collaborate with one another, they may be constrained from doing so due to the federal *Competition Act*.

Some stakeholders suggested that FSRA could request that Ontario's leading insurers create standardized forms and processes for insurance applications. Alternatively, insurers noted that FSRA could proactively design best practices in this regard, which they believe would be broadly adopted by insurers and potentially become an easily referenced 'stamp of approval' standard.

Regarding regulatory clarity and harmonization, large insurers with pan-Canadian operations are seen as the most likely drivers of innovation in the sector but can face barriers to introducing innovative technologies due to both a lack of clarity over what emerging business models may be permitted in a given province and a lack of provincial harmonization.

Stakeholders noted the perception that there is a lack of reliable 'rules of the road' regarding broad technological innovation in the form of AI, big data, open banking / APIs, and rapidly developing cloud computing. Stakeholders did not express much concern about 'red tape', 'over-regulation', or regulators being too involved in guiding the use of these technologies in insurance. Their main idea was that whatever rules of the road regulators decide upon, innovators want them promptly and want them to be as pan-Canadian as possible.

Conclusion

This Opportunities Report provides a summary of what FSRA has heard from stakeholders about barriers and opportunities for innovation in the insurance sector. The regulator continues to work internally on researching the views and ideas expressed during these consultations in order to confirm where the Innovation Office can follow up with further initiatives to support insurance innovation.

In the meantime, the Innovation Office sees an opportunity for FSRA to actively champion innovation and play a role in supporting the sector's innovators.

In keeping with the 'outside-in' approach to supporting innovation, FSRA remains committed to open dialogue with the insurance sector. The enthusiasm and excitement with which stakeholders shared their ideas and engaged when called upon has not gone unnoticed. FSRA looks forward to continuing these discussions and encourages stakeholders to reach out to the [Innovation Office](#) or their existing FSRA contacts with their innovation-related commentary.

FSRA is particularly interested in your thoughts on the following questions:

- What innovations and trends are you seeing in the insurance sector that could benefit consumers or improve business efficiency for industry players?
- What are the consumer benefits that are intended for these innovations and trends?
- What notable consumer risks are foreseeable from implementation or embrace of these innovations and trends?
- Is Ontario's regulatory environment conducive to innovation? If not, what barriers do you see in the *Insurance Act* or related regulations?
- Would your firm have interest in participating in a FSRA Test and Learn Environment to pursue an innovation opportunity, and if so, what sort of work would you want to pursue?