



8 February 2019

Mark White
CEO
Financial Services Regulatory Authority
130 Adelaide Street West, Suite 800
Toronto ON M5H 3P5

Re: FSRA Priorities and Budget

Dear Mr. White,

Thank you for the opportunity to comment on the proposed FSRA Fee Rule. At Intact, we insure 1 in 5 Ontarians, and we're proud to directly employ 4,400 Ontarians. Our goal is to help people, businesses, and society prosper in good times and be resilient in bad times. We are committed to helping you create an auto insurance system that is more fair and affordable for consumers.

We look forward to working with you to address systemic issues in Ontario's auto insurance system, and we are pleased to provide the following recommendations that will help you deliver on your priorities in a timely and cost-efficient manner.

Priority: rate-regulation process

Intact welcomes FSRA's commitment to review and streamline the rate regulation process. We note that staff have been added to support improved auto regulation process such as timelier rate approvals.

While we agree that the current rate approvals process takes too long, we also believe that the best means for reducing the regulatory burden and creating better outcomes for consumers is not through more timely rate approvals but rather through adoption of a *use-and-file* rate regulation system that eliminates the need for rate pre-approval altogether.

In our view, removing the need to analyze every rate filing and instead only focusing on the rates that may appear as 'outliers' will lead FSRA to:

- achieve true burden reduction for the auto insurance industry;
- deliver better outcomes for consumers through a competitive environment; and
- reduce operating costs.

We understand the importance of regulatory oversight, which is why we would like to point to some example jurisdictions where regulatory oversight has been maintained within a use-and-file system.



- Quebec has a “use-and-file” system that allows insurers to use rates immediately and adopt the classification criteria to establish the premium levels they deem are adequate. Under section 180 of the Automobile Insurance Act (R.S.Q., c. A-25), the regulator (AMF) maintains oversight of rate manuals and suggests improvements when needed.
- In South Carolina, government undertook reforms which led to the introduction of a use-and-file rating framework where, for rate changes at or below 7%, insurers could implement them in the market without prior approval from the regulator.

Re: sector budgets

In its breakdown of budget projections, FSRA has indicated that the impact on Life and P&C insurers will be an increase of 6.4% when compared to FSCO’s fiscal 2019 budget. This is a significant cost increase and one that will likely have an impact on insurers. At the same time, we note a 33% reduction in costs for Health Service Providers (HSP), resulting in \$1.8 million in savings on fees and assessments for that sector.

A FSRA priority under insurance conduct is a focus on improving licensing effectiveness and efficiency. We very much support this priority. In particular, we want to highlight a 2017/2018 FSCO audit for market conduct compliance of HSP which found that the sector’s overall compliance rate during on-site examinations was 34 per cent. FSCO considers this compliance rate to be unacceptable. In comparison, the other sectors regulated by FSCO generally maintain compliance levels of over 90 per cent¹.

Given this level of compliance within the HSP sector, we question the merit of decreasing that sector’s compliance costs by 33 per cent or \$1.8 million. Rather, we believe that the HSP sector should pay their fair share, which would lessen the burden on the insurance industry.

Priority: supporting auto reform strategy

We are glad to see that FSRA has made it a priority to support the Ministry of Finance in its reform of the auto insurance product. Repeated efforts to reform the system have not succeeded in bringing down the high cost of no-fault injury benefits, when compared to other jurisdiction in Canada.

FSRA can play a strong leadership role in convening stakeholders and identifying areas requiring additional focus. We look forward to working with you to address systemic issues in Ontario’s auto insurance system, including a renewed focus on:

- identifying and addressing inflationary pressure points in the system;
- reducing transactional costs and the high percentage of court awards that do not directly support victims’ health recovery;

¹Service Providers 2017/2018 Market Conduct Compliance: Examination Results
<http://www.fSCO.gov.on.ca/en/service-providers/Pages/2017-sp-compliance-rpt.aspx>



- harmonizing the prices and expenses that health care providers and assessors can charge based on different payors (private life insurer, OHIP, motor vehicle accident victims);
- limiting awards for contingency and disbursement; and
- increasing transparency for fees charged by lawyers in motor vehicle accident cases.

Priority: innovation

Intact is pleased to see a strong focus on regulatory effectiveness that enables innovation. The current regulatory environment is plagued with unnecessary restrictions and red-tape which limits consumer choice and the economic benefits of industry competition and innovation. We encourage FSRA to act quickly on establishing the Innovation Office, which would help the regulator move in stride with innovation developments in the insurance industry – such as telematics – that meet expectations of today’s consumers. However, FSRA must also ensure that there is a level playing field that does not favor new entrants over incumbents. This means that a focus on innovation should not come at the expense of delays associated with approval of regular auto rate filings or product reform.

FSRA must strike a balance between regulatory oversight and innovation which drives competition for the benefit of customers. Regulatory sandboxes in other jurisdictions have proven effective at balancing regulators’ objectives while fostering innovation in the market.

Insurers are already hubs for innovation, partnering with innovation labs and universities, investing in start-ups and collaborating with technology firms to improve insurance products and services. The insurance industry supports regulatory sandboxes that relax specific regulatory requirements to create safe and conducive spaces for innovative ideas, enabling companies to experiment while containing the fallout of any failure. Any regulatory sandbox must be accessible to incumbent insurers and new market entrants. If the objective of the sandbox is to encourage new innovations, then all parties should be allowed to participate in the exercise.

In addition, FSRA must ensure financial fairness when new entrants wish to participate in Ontario’s auto insurance market. This means a review of fees and assessments associated with innovation, as to make sure that incumbents are not unfairly subsidizing new entrants utilizing FSRA’s resources.

Priority: improved performance

We applaud FSRA’s focus on establishing service standards that meaningfully measure its effectiveness to meet objectives as well as performance of its staff. This will be crucial if FSRA wants to attract top industry talent in helping it meet the needs of stakeholders.



For the past four years, Intact has been recognized as one of Canada's Best Employers and a Top 100 Employer. We were also named a Top Employer for Young People for a third time. We are happy to offer our expertise in this area to help FSRA achieve an effective service standards framework.

Should FSRA require additional information, or clarification regarding the contents of this letter, Intact would be pleased to offer additional assistance.

Thank you and regards,

A handwritten signature in black ink that reads "Julie Nolette". The signature is written in a cursive, flowing style.

Julie Nolette
Vice President, Intact Insurance Personal Lines, Ontario and Atlantic