

November 18, 2021

Financial Services Regulatory Authority of Ontario  
Auto Insurance Sector  
25 Sheppard Avenue West, Suite 100  
Toronto, ON M2N 6S6

**Re: FSRA Proposed Innovation Framework**

The Insurance Bureau of Canada (IBC) and its member property and casualty insurers welcome the opportunity to comment on the Financial Services Regulatory Authority of Ontario's (FSRA) proposed Innovation Framework (Framework). FSRA's ongoing commitment to encouraging the P&C sector to introduce new, innovative products that benefit consumers continues to be welcome. The Framework outlines many aspects that the insurance industry believes could lead to better outcomes for consumers. These include challenging established structures that stifle innovation, lowering barriers to innovation and, critically, being adaptable to a variety of sectors.

While it is important that FSRA encourage new ideas, an innovation framework cannot be designed to encourage a two-tier innovation ecosystem; one where new entrants are held to lesser entry standards than incumbents. The delay in the Ontario arrival or mass adoption of many innovative insurance products, such as usage-based insurance, was not due to incumbents being unwilling to offer them. It was due to regulatory barriers in place that prevented or discouraged introduction by insurers. IBC strongly supports any moves to encourage greater innovation in auto insurance, whether by new entrants or incumbents, as long as both are held to the same standards.

Finally, the Framework highlights the importance of transparency when dealing with consumers and the broader public. Specifically, it outlines that FSRA will "*publish summaries of all innovations we decide to permit and describe them in as accessible terms as possible.*" Although transparency with the broader public is essential in ensuring trust in Ontario's financial system, pro-actively publishing proprietary information on permitted insurer exemptions would have adverse consequences. Many insurers will spend considerable time and resources developing innovative ideas for a Test and Learn Environment because they believe they will be successful with consumers and give them a competitive advantage. The announcement of too many details around new innovative ideas would notify not only the general public, but competing insurers. Rather than risk innovative ideas being pre-emptively announced and subsequently adopted by competitors, insurers may simply bypass Ontario entirely when testing new ideas.

IBC's specific responses to the additional questions contained in the Framework are outlined below:

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

IBC supports many of the principles outlined in the Framework. It is important that innovation be encouraged and that FSRA not work to direct the substance of innovation. We reiterate our view that it is essential that FSRA equally encourage and permit incumbents to develop new and innovative ideas, and that new entrants not be given special treatment in the belief that this will spur additional innovation.

### **How would you define FSRA creating meaningful and positive impact to enable responsible innovation in the sectors?**

We encourage FSRA to be open to as many new ideas as possible. Many innovative insurance concepts, such as usage-based insurance, largely gained popularity outside Canada before they were adopted in Canada because it was easier for insurers to introduce these products in other jurisdictions. We believe that when FSRA evaluates its role in the success of its Framework, a key metric of success will be how often insurers bring forward innovative ideas to participate in a TLE.

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

The guiding principles outlined in the Framework correctly note that FSRA should not direct the substance of innovation. Instead, it should facilitate a straightforward process for insurers to introduce new innovative ideas while also ensuring consumer protection. Individuals at FSRA must also be comfortable with the reality that new, innovative ideas often lack actuarial data, but that this is a necessary step towards introducing new products for consumers.

Furthermore, as the gatekeeper of which innovative ideas are ultimately approved, FSRA will have a first-hand account of the resulting consumer benefits. For this reason, we encourage FSRA to be open in the future with the government about the consumer benefits that could accrue if the scope of the Regulatory Sandbox were to be expanded to include the insurance product and rate regulation.

### ***What are your most relevant touchpoints with FSRA on new opportunities and what can be improved? What is your preferred 'point of entry' when bringing innovation ideas to FSRA?***

We believe that insurers themselves are in the best position to answer these questions. Regardless of which point of entry insurers prefer, we recommend that FSRA be open to different points of entry. Each insurer has a different business model. It is critical that FSRA give equal priority to new, innovative ideas regardless of which point of entry they come through.

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

The Framework proposes an Innovation Process to 'deliver innovation', and that innovative opportunities will be 'assessed, prioritized and selected based on established criteria.' It is critical that FSRA design a system where innovation is delivered by insurers themselves. The language used in the proposed Innovation Process suggests that FSRA may only permit a set number of innovative ideas to proceed to the testing phase, rather than permitting all innovative ideas that meet established criteria to proceed.

IBC recommends that FSRA permit all innovative ideas that meet its thresholds to proceed to a testing phase, and that as long as insurers are abiding by the necessary rules and regulations. FSRA should not be responsible for determining which ideas are better than others.

### ***How useful is the intake questionnaire?***

We support FSRA's decision to develop a standard questionnaire. We would request that FSRA ensure that all necessary information be included on the questionnaire, and not go back and ask insurers for additional information. Requesting follow-up information that was not originally requested will slow the process down and reduce the amount of new innovative projects available to consumers.

***How can we successfully appraise and manage risks from innovation?***

It is important to maintain an open dialogue with insurers around the risks from innovation. Like with any new product or service, the majority of consumers will likely be happy with their decision, though some will not be. Those consumers that are not satisfied maintain the ability to shop around in a competitive auto insurance market. For this reason, it is critical that FSRA not interpret the existence of a small number of unhappy consumers as a sign that a particular innovation has been unsuccessful. We recommend that if FSRA has concerns with certain risks related to a specific innovative product or service, it speak with the relevant insurer directly before taking any unilateral action to address those perceived risks.

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

The Regulatory Sandbox is a good initiative on the part of both the government and FSRA that should lead to more positive outcomes. Several sections of the Sandbox, such as permitting greater use of rebating and incentives could result in near-term benefits for consumers and have the potential to reshape the auto insurance landscape.

While these sections should improve the environment for consumers, the scope of innovation remains relatively narrow, particularly in comparison to much of the United States and Europe where innovation is more widely permitted. The current Framework is drawn as to exclude the product itself, which is an area badly in need of reform. We recommend that FSRA maintain an open dialogue with both insurers and the government in regards to the eventual expansion of the Regulatory Sandbox. Expanding the Regulatory Sandbox to include aspects such as the product and rate regulation have the potential to greatly improve the insurance experience for consumers.

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

The proposed Framework will lead to insurers bringing many types of innovations to FSRA for approval. Some of these will be large, having required considerable insurer time and resources to develop, while others will be fairly straightforward, having already been common in other jurisdictions. If the process for approving relatively simple innovations is too time-consuming or resource-intensive, it could dissuade insurers from bringing them to FSRA for approval. Accordingly, we recommend that FSRA be open to adjusting the intake and approval process depending on the size and scope of the proposed innovation.

Finally, we reiterate our position that one of the largest roadblocks – if not the largest – to insurers being inclined towards and comfortable with participating in a TLE is the amount of proprietary information that FSRA proactively publishes. While transparency is important, publishing insurer proposals threatens to dissuade them from participating. Rather than risk other insurers having access to proprietary information, some insurers may decide to bypass Ontario entirely and introduce new products or services in other North American jurisdictions that do not publish such information. This would be a loss for Ontario consumers, who would face delays in being able access these new innovations.

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

We support the proposed fee structure, in particular that unregulated entities pay application fees in relation to FSRA's required resources. At the same time, it is important that unregulated entity proposals not utilize so many of FSRA's resources that it threatens FSRA's ability to fulfil its role with regulated entities.

Additionally, if FSRA charges for the time required for its actuarial staff to review more detailed insurer proposals, the rates charged to insurers should be based on market rates.

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

We recommend that FSRA be open to continual dialogue with insurers that wish to bring new and innovative ideas to market. We also recommend that FSRA be open to adjusting its innovation approval process in response to feedback from insurers.

IBC appreciates the opportunity to comment on FSRA's proposed Innovation Framework. Permitting greater scope of innovation will ultimately benefit Ontario consumers and support FSRA's goal of making Ontario a go-to place for financial innovation in Canada. At the same time, it is critical that FSRA ensure the creation of a level playing field between new entrants and incumbents and that both are held to the same standards when introducing new, innovative ideas. Finally, we reiterate our recommendation that any public communication about permitted exemptions not include any proprietary information. Announcing key business details will dissuade insurers from bringing new, innovative products and services to market. If you would like to discuss this further please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K. Donaldson', with a long horizontal flourish extending to the right.

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