



**Written Submission for the FSRA Consultation
on an Innovation Framework**

Manulife

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Introduction

Thank you for the opportunity to provide comments on FSRA's Innovation Framework and the work of the Innovation Office. Technological innovation forms a significant component of Manulife's global growth strategy. As such, Manulife strongly supports innovation in the financial services sector. We also recognize the importance of balancing innovation with strong risk management practices.

Manulife Financial Corporation is a leading international financial services provider that helps people make their decisions easier and lives better. With our global headquarters in Toronto, Canada, we operate as Manulife across our offices in Canada, Asia, and Europe, and primarily as John Hancock in the United States. We provide financial advice, insurance, and our global wealth and asset management segment, Manulife Investment Management, serves individuals, institutions and retirement plan members worldwide. We have more than 37,000 employees, over 118,000 agents, and thousands of distribution partners, serving over 30 million customers. As of September 30, 2021, we had CAD\$1.4 trillion in assets under management and administration, and in the previous 12 months we made \$31.6 billion in payments to our customers.

Manulife helps one in five Canadians, offering a wide range of protection, estate planning, banking and investment solutions through a diversified, multi-channel distribution network. We know that Ontario is well positioned to be a leader in financial services innovation, but, from our perspective, it has been unable to leverage its comparative advantage. This has been a missed opportunity.

We are pleased that FSRA is working with new and existing businesses here in the province to examine how to build a dynamic environment to foster the growth of a domestic fintech (financial technology) industry that positions Ontario as a global leader. Fintech will foster innovations that drive efficiency, create new sources of competition and make new types of financial services available in new ways to Ontarians and consumers worldwide.

On Guiding Principles

Our financial regulatory system is very well-respected internationally and has a reputation for being flexible, principles-based and outcome oriented. We boast a number of large, internationally active financial institutions who are interested in working with fintech companies in Canada, the United States and around the world. And we are home to highly skilled workers, deep capital markets, and world-class, technology-focused universities and colleges.

Fintech presents an opportunity to drive efficiency across new and existing products and services, create new competition, and improve the overall experience for our customers. However, it will also require carefully crafted regulation to ensure that consumers remain protected, and that the financial system remains stable.

Fintech regulation should not be prescriptive but should be principles-based and balance the interests of innovation, competition, and consumer protection. Manulife supports FSRA's principle-based approach to innovation. Technology will outpace regulation that is overly prescriptive.

To achieve this balance, the Innovation Framework should apply based on the nature of the product or service being provided rather than the nature of the entity delivering the product or

service. This will ensure that consumers continue to have protection and legal recourse against fraud, misconduct, and insolvency regardless of how they chose to receive their financial service. It will also provide a consistent approach to supervise systemic risk and maintain stability in the marketplace. As technology continues to develop and grow, an agile, outcomes-focused approach will provide the regulatory flexibility needed to keep pace with innovation and consumer demand. Protection of the consumer and the broader public interest should be the core values guiding any approach.

Innovation Process and Innovation Opportunities

Innovation and competition can be driven by existing companies and new entrants, together and separately. FSRA's Innovation Office and Innovation Framework focuses primarily on new entrants but should also take into consideration how partnerships between new entrants and existing financial services companies could be better facilitated in an innovative environment and through more adaptable rules, regulations, and legislation.

Canada has large, global financial services companies that are competing to develop their own fintech solutions or looking to partner with fintech companies that offer innovative ideas or solutions.

Most fintech companies face challenges that are similar to other start-up companies. They have an idea or solution that they want to bring to the market but may lack experience in administration and marketing, have limited distribution capacity, or may have little capital.

In our experience, partnering between fintech companies and financial services companies has been mutually beneficial. Fintech companies bring fresh perspectives and an understanding of new technologies, while companies like Manulife can provide knowledge of financial markets and the needs of consumers. Along with the capital to accelerate fintech solutions to market, smaller firms also benefit from our experience in designing products that align with regulatory objectives.

Appraising, Addressing and Mitigating Risks from Innovation

Innovation and technology risks are increasingly global in nature; FSRA may wish to consider coordination with work underway in other jurisdictions and levels of government in Canada. Many technology risks are not specific to the financial sector. Areas like cybersecurity have seen the development of global standards and frameworks created by large, expert organizations with international scope and insight. Allowing these standards to be incorporated into risk management frameworks will align FSRA with global best practices.

In the case of partnerships between new fintech entrants and existing financial institutions, FSRA may want to consider the following potential risks that fintech firms themselves may face independent of their relationship with a financial institution, many of which may be business risks. For example, fintechs who offer new financial products through new distribution models may be particularly at risk for professional liability concerns. The majority of fintechs also deal with a high frequency of funds movement, leaving them vulnerable to theft. Given the nature of their operations, fintech companies are prime targets for cyber criminals. Finally, innovative technology is essential for fintech companies and is how they have disrupted traditional financial services; this heavy reliance on tech infrastructure, however, leaves them vulnerable to technology failure.

Test and Learn Environments

New market entrants do not have a monopoly on good ideas, existing financial institutions could similarly benefit from participation in relatively low-risk arenas for gauging market response to innovations. Test and Learn Environments, or regulatory sandboxes, are an approach that can also encourage existing firms to develop new ideas under the direct supervision of a regulator within an established framework, with limited exposure to markets, and without immediately incurring all the normal regulatory consequences of engaging in the activity. TLEs should provide opportunities for start-up firms to collaborate with traditional financial institutions and allow open participation from all firms regardless of age, size or partnership. The requirements may be different for new entrants compared to existing companies, who already have governance oversight, operational and regulatory requirements they must follow.

Barriers to Innovation

Regulations may vary between provinces, but innovation should not be bound by provincial borders. Canadian regulators should work collaboratively together and with existing market participants and fintech companies to implement a national version of this sandbox approach; one that is more comprehensive and suited to the entire Canadian market. Ontario's TLE could create a comprehensive framework and a single point of contact for participants to engage with all regulators across the provinces and federally. FSRA could also explore opportunities for cross-provincial regulatory harmonization to support innovation.

We encourage Ontario and FSRA to take a leading role in coordinating with the other provinces and financial services industry to develop a common innovation framework. Regulators should commit to working collaboratively with each other in assessing fintech solutions in order to reduce duplication and facilitate the timely delivery of innovative services across provincial borders and across sectors.

Conclusion

Thank you for the opportunity to provide comments. We welcome ongoing engagement with the Innovation Office as Ontario looks to encourage experimentation and compete with leading international jurisdictions in the rapidly evolving fintech landscape. We would be pleased to meet with you to discuss our comments in more detail. Should you have any questions, you may contact Chris Donnelly, VP and Counsel, Regulatory and Public Affairs at Christopher_Donnelly@manulife.com.