



FSRA 2023-2024 Priorities and Budget

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Introduction

The Co-operators Group Limited (“Co-operators”) is a leading Canadian, diversified, integrated, multi-line insurance and financial services organization. As a co-operative, our 46 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians.

Our footprint in Ontario is strong; we insure approximately 704,000 private passenger vehicles, 363,200 homes, 10,200 farms and 45,000 businesses. We employ over 3,700 staff and have independent distribution contracts with 250 advisors, who in turn operate their own agencies and employ or independently contract with over 1,028 associate insurance and financial advisors.

We are proud to provide insurance and financial services to more than two million Canadians. We are even prouder that we provide financial security to Canadians in their communities while staying true to our co-operative values.

We appreciate the opportunity to provide feedback on FSRA’s draft 2023-24 priorities and budget.

Cross-Sectoral Priorities

We commend FSRA for the work that has gone into developing the 2023-24 proposed priorities. We remain committed to working collaboratively to improve the financial services system, including the auto insurance system, to best serve Ontario clients.

Strengthen the consumer focus

Co-operators is committed to ensuring the client is at the centre of our decision-making and solution delivery, and we support FSRA's ongoing initiative to protect consumers and apply a consumer lens to key policy and oversight activities.

We firmly believe insurance consumers have a right to understand the product they are purchasing and the benefits to which they are entitled if they are injured. Therefore, we recommend FSRA focus on applying consumers' feedback to support more informed decision-making related to their policies, empowering them to make decisions that best meet their personal needs.

Modernize systems and processes

Delays in the processing of new licence applications and the renewals of licences are a serious challenge, impacting our agents' ability to work with clients. Given the ultimate client impact, we are pleased to see FSRA's focus on modernizing its systems and processes, with a planned outcome of improving turnaround time for licensing processes. Improving the licensing process and modernizing other key systems such as ARCTICS will enable us to best serve our clients.

Enable innovation

We commend FSRA for its focus on responsible innovation and challenging long-held processes and restrictive rules that inhibit client-focused innovation.

FSRA has demonstrated strong leadership on the transition to principles-based regulation and a more flexible and less prescriptive operating environment that is conducive to innovation. We support FSRA's intent to develop stronger ties with peer regulators to help create an innovation "community of practice".

Regulatory burden counteracts the potential for innovation, and FSRA's ability to work collaboratively with other regulators to enable greater innovation and harmonization will help to establish the regulatory latitude insurers need to adapt to the changing environment and develop new products that meet the evolving needs of consumers.

Property and Casualty (Auto) Priorities

With respect to the specific property and casualty sector priorities, we recognize FSRA's overarching priority to improve the auto insurance system. This is an important objective that will enable insurers to best serve our clients, and we look forward to continuing to work in collaboration to achieve the key outcomes and deliverables.

5.1 Execute strategy for reforming the regulation of auto insurance rates and underwriting

Reforming the regulation of auto insurance rates and underwriting rules

We are pleased to be working with FSRA on positive transformation of the regulation of auto insurance rates and underwriting. Increased competition can be driven by transforming the rate regulation process, enabling insurers to bring changes to market quicker through less regulatory red tape. This is key to FSRA's focus on regulatory effectiveness and efficiency to better serve Ontario drivers.

As part of the strategy execution, we urge FSRA to continue to consult with industry to determine the scope of data and analysis that will be required to inform processes and responsibilities moving forward. We also recommend ongoing dialogue with industry about the potential legal framework to define "fairness", with a goal to prevent any additional complexity within the regulation of auto insurance rates and underwriting.

Moreover, we continue to **strongly recommend FSRA rescind the territory rating bulletin**. We support a risk-based approach to rating and recommend allowing insurers to segment using a number and distribution of territories that better aligns rates with risk. As FSRA has the unilateral ability to rescind this bulletin, we believe this should be prioritized and completed as soon as possible.

We also recommend the transformation of Regulation 664 into a FSRA rule, which will allow for greater innovation, allowing insurers to develop new client-focused changes and bring them to the market quickly, benefiting consumers. There is also opportunity for further action to improve regulatory transparency, improve the benchmark review process and extend the standard filing to commercial and recreational vehicles.

Empowering consumers

Co-operators supports efforts to empower consumers to make more informed decisions by enhancing transparency and increasing the general understanding of auto insurance.

We strongly believe insurers should have the flexibility and regulatory support to implement consumer education to best meet the needs of their clients. For example, recent regulatory changes have permitted communication through electronic means, allowing us to better serve our clients through their preferred communication method. We would expect similar allowances to support consumer education and information sharing, particularly as digital services allow clients to visually learn about and assess how coverage changes can impact their premiums.

We look forward to ongoing collaboration to better understand FSRA's expectations, responsibilities and communication avenues for consumer education initiatives.

Both within this priority and throughout the statement of priorities more generally, we note significant plans for upcoming consultations with stakeholders. This heavy agenda will impact industry's ability to participate, and ultimately, FSRA's ability to deliver.

To facilitate continued partnership and collaboration, we would appreciate a **detailed roadmap of the planned consultations, milestones and key deliverables linked to each of the priorities**. This will help us plan for the capacity and resources necessary to support our approach to the consultations and any associated change management.

5.2 Develop recommendations and act on reforms of the auto insurance system

In 2023-24 and beyond, FSRA will continue to have an important role in supporting the implementation of legislative changes to reform auto insurance regulation and providing expert advice to government on key trends and opportunities to improve regulatory effectiveness, efficiency and outcomes for consumers.

Reduce fraud and abuse

We have been pleased to partner with the Ministry of Finance and FSRA to address the prevalence of fraud, abuse, intimidation and violence throughout the system. Following the 2022 budget, we have appreciated the opportunity to participate in the FSRA consultation on the development of its fraud reporting tool, and continue to urge FSRA to balance these measurement efforts with a strong and active enforcement role. Central to addressing fraud and organized crime is alignment between all system actors, including the government and regulator, to support fraud reduction, as well as the focus, resources, data analytics and the ability to take action (e.g. suspend or remove fraudulent providers).

We remain committed to working together to address the prevalence of fraud and abuse to better protect our clients and sustainably reduce system costs that drive up auto insurance premiums.

Improve the Health Claims for Auto Insurance system

We are pleased to see the ongoing inclusion of the improvement of the Health Claims for Auto Insurance (HCAI) system as a key deliverable. This is a priority for the industry and something Co-operators has been actively working towards as a member of the industry HCAI Strategy Implementation Working Group.

We strongly recommend data integrity should be the top priority for HCAI. The current errors and poor data quality are a significant and longstanding issue, and the sustainability of HCAI and its potential for consumer benefits rests on improving the data quality and its consistency. An improved system will allow for greater efficiency and improved analytics, which benefits clients in their treatment progress and outcomes. This must be addressed before introducing further outcomes to the platform.

Direct Compensation-Property Damage coverage

We support the government's commitment to increase choice for auto insurance consumers. **However, we are concerned that the presented regulatory amendments to allow consumers to opt out of Direct Compensation-Property Damage (DCPD) coverage will increase administrative burden and cost without any tangible benefit for a large number of drivers.**

Having reviewed the potential impact on our own book of business, we find that approximately 40% of our clients lease or have a lien on their vehicles, making them ineligible to remove DCPD coverage. Given the financial risk of removing DCPD coverage from an auto insurance policy, we anticipate only a small subset of those eligible would opt to remove it. Therefore, as this change would be limited to a relatively small group of drivers, it would not result in comprehensive or significant cost savings for our clients. Moreover, the associated requirement to update our systems, train our staff, and prepare client education material would represent a large new administrative burden, particularly when compared to the limited uptake potential.

Ontario has been a leader in protecting drivers through DCPD coverage, and its demonstrated success continues to encourage other jurisdictions to implement a similar system. Allowing removal of this coverage would limit this protection and impact rates for all drivers without significant benefit for many of our clients. While we recognize the intent of this change is to provide more choice to those drivers who deem their vehicle does not require DCPD coverage and are willing to undertake potential financial risk, we do not believe this should come at the expense of all other drivers.

Transformational auto insurance reform

We commend both the government and FSRA's work to improve the auto insurance system for consumers, including approval of the use of electronic proof of auto insurance, increased usage based insurance flexibility, the introduction of test and learn environments for innovative proposals, new towing and storage services legislation, and regulatory amendments allowing the use of electronic communication. These changes have already resulted in positive impacts for consumers. **However, to substantively reduce rates and establish long-term rate stability, transformational product reform is required.**

Ontarians pay the highest auto insurance premiums in Canada on account of the product being among the richest in North America, leading to expensive legal disputes, a high level of fraud and significant system complexity. Insurers' ability to reduce rates for drivers requires transformational product reform to address these cost pressures throughout the system.

We urge FSRA to serve as an advocate and expert advisor to government in support of transformational product reform to provide comprehensive coverage, affordability and security for Ontario drivers. We look forward to working with both FSRA and the government in pursuit of this overarching priority.

5.3 Ensure the fair treatment of property and casualty consumers

Protecting P&C consumers, and auto insurance consumers specifically, and ensuring their fair treatment, is an integral aspect of FSRA's role, and we support the concept of this priority.

5.4 Achieve supervisory excellence for the Ontario-incorporated insurance companies and reciprocals sector

We are committed to continuing to work closely with FSRA to protect the rights and interests of consumers and enhance sector resilience and stability.

Credit Union Priorities

6.1 Achieve supervisory excellence for Ontario's credit union sector

As a co-operative financial services organization with credit union central members, we welcome changes that allow consumers greater access and more choice.

We have worked closely with the Ministry of Finance and FSRA to develop regulations, rules and guidance under the *Credit Unions and Caisses Populaires Act, 2020*, and welcomed the Act's implementation earlier this year.

We remain focused on ensuring greater choice for consumers, the fair treatment of consumers and a level playing field for all industry and credit union stakeholders.

Financial Planners & Financial Advisors Priorities

10.1 Ensure the effectiveness of the title protection framework for financial planners/financial advisors

Over recent years, we have been pleased to work closely with FSRA and the Ministry of Finance in the development and implementation of the title protection framework for financial planners and financial advisors. We commend the work FSRA has dedicated to protecting consumers through this title protection framework and appreciate that many of our recommendations were incorporated into the final rules.

Following the implementation of the legislation and framework earlier this year, we urge FSRA to continue engaging with potential credentialing bodies to ensure financial planners and financial advisors have the necessary opportunity to apply their existing credentials to maintain use of their titles within the transition period.

Importantly, given FSRA's strong leadership position on title protection, we commend your collaboration with other Canadian regulators on this issue and urge a harmonized approach to title protection across the country.

Budget

Having reviewed the cost projections and sector fee assessments, we do not have any significant concerns to present.



Concluding Remarks

We appreciate the opportunity to provide feedback on FSRA's draft priorities and look forward to further discussions as you pursue the stated deliverables and outcomes. As a co-operative insurance and financial services organization, we believe we bring a unique perspective to public policy consultations.

If you have any questions or require clarification, please do not hesitate to contact our Associate Vice President of Government Relations, Maya Milardovic, at maya_milardovic@cooperators.ca.

A handwritten signature in blue ink that reads "George Hardy". The signature is fluid and cursive.

George Hardy
Vice President, Home and Auto Insurance
Co-operators