



CADRI

CANADIAN ASSOCIATION
OF DIRECT RELATIONSHIP
INSURERS

13 November 2023

Mr. Mark White
CEO
Financial Services Regulatory Authority of Ontario (FSRA)
25 Sheppard Avenue West, Suite 100
Toronto, ON, M2N 6S6

Via: <https://www.fsrdo.ca/engagement-and-consultations/consultation-fsras-proposed-2024-2025-statement-priorities>

Dear Mr. White,

Re: 2023-12: FSRA Proposed 2024 – 2025 Statement of Priorities and budget (Statement of Priorities)

INTRODUCTION

The Canadian Association of Direct Relationship Insurers (CADRI) is the voice of insurance enterprises that offer automobile, home, and commercial insurance directly to Canadians. We advocate for flexible and evolving regulatory and legislative frameworks governing automobile, property, and commercial insurance to enable product and service innovation so that Canadians can easily choose insurance that serves their needs through the delivery channels of their choice.

CADRI is pleased to review and comment on FSRA's *Proposed 2024 – 2025 Statement of Priorities and budget (Statement of Priorities)* and to work collaboratively with FSRA and the provincial government to improve the insurance system to better serve Ontario families.

Overview

We agree with FSRA's assessment of the financial forces shaping Ontario's economic outlook. The effect of inflation, natural catastrophes, higher auto physical damage costs, auto theft, and the return to pre-pandemic driving habits on the auto insurance system also concerns our members. Particularly as the combination of these factors influence the affordability of insurance. This evolving operating environment underlines the need for streamlined, efficient regulatory processes which are adaptive – whether in response to inflation, innovation, or unforeseen global circumstances.

As we reviewed FSRA's priorities and budget, two main issues come to the forefront:

- The time it's taking to complete and implement FSRA's review of auto rate regulation, and
- An implied increase of administrative burden embedded in the priorities and the budget.

The combined uncertainty of the strategic review's outcome and the potential for increased regulatory interaction negatively affect insurers' ability to plan, to mitigate risks and to balance their customers' needs with affordability issues.

A third issue which is absent from the priorities, is FSRA's leadership nationally. CADRI encourages FSRA to engage in a national conversation on overcoming the fragmented approach to insurance regulation across the country. FSRA's leadership at pan-Canadian regulatory groups such as the Canadian Council of Insurance Regulators (CCIR) and the Canadian Insurance Services Regulatory Organizations (CISRO) is well respected.

As national companies, our members' in-house agents and adjusters are frequently licensed in several provinces or territories. The principles and best practices of insurance should not vary by jurisdiction. The more the rules are similar, the more member companies can streamline training and enable agents and adjusters to better focus on the consumer.

We have recently joined with colleagues such as the Canadian Independent Adjusters' Association, the Canadian Insurance Claims Managers, and the Insurance Bureau of Canada to advocate for jurisdictions outside of Ontario to adopt FSRA's 2022 approach to licensing adjusters after the Spring wind storms. FSRA's 'undertaking' represented an unprecedented and exceptionally smooth process to address the challenges of adjuster mobility in a time of crisis.

In the absence of this harmonization, regulators should be comfortable relying on the approvals and licences issued by their peers across the country.

Strategic Priorities

Turning our attention to the *Statement of Priorities*, CADRI supports FSRA's cross-sectoral priorities to:

- advance the consumer interest,
- enable innovation, and
- modernize systems and processes.

We have the following observations relative to the application of these priorities to property and casualty insurance.

1. Advance the consumer interest

The *Statement of Priorities* identifies vulnerable persons, and their need for protection, among its activities. It commits to target the vulnerable through paid and earned communications. The vulnerable in our communities are everyone's concern. Still, CADRI members continue to seek clarification about expectations of insurers for the fair treatment of the vulnerable in the context of auto insurance.

2. Enabling innovation

CADRI welcomes the expansion of the test-and-learn environment, streamlined application and review processes as well as promotions that will attract financial services innovators and improve participation in the sandbox.

3. Modernizing systems and processes

We continue to await word on the modernization of FSRA's processes and systems: particularly those improving turnaround times for licensing, registrations, and rate filing processes. Delays in processing new agents' licence applications and renewals, as well as rate filings, are serious challenges and affect our members' capacity to serve their clients' needs.

Again, this year, we welcome the promise of a new FSRA portal to improve licensing and registration processes. Our members continue to be interested in discussing user needs and user experience, as well as taking part in any system trials or pilot.

We recommend that FSRA adopt the approach it used in May 2022 to license out-of-province adjusters with minimum red tape, as a standard practice. Doing so will enable insurers to respond more quickly to customers' needs and showcase a gold-standard model for regulators in other jurisdictions.

As stated above, CADRI is a proponent of the harmonization of regulations across jurisdictions, and the recognition of another jurisdiction's standards (reciprocity), where appropriate.

4. Property and Casualty and Auto Insurance

We will focus our comments on priorities 4.1 and 4.3 directed to Property and Casualty Insurance including auto.

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

Modernizing regulation for any sector is, admittedly, challenging. That said, we have concerns about the progress of this review and seek sooner rather than later clarity on its proposed outcomes including guidance on fairness and a supervisory framework that moves beyond rates and underwriting into governance.

CADRI appreciates FSRA's engagement with industry in developing its auto insurance rate and underwriting reform strategy. However, this project has been underway for some time, and our members are keen to see the policies published in the near term. The long wait for transparency on FSRA's objectives and supporting processes presents challenges to companies' planning and represents another risk in an environment awash with risks. We welcome FSRA's promise of a clearer view of timing for deliverables in rate regulation reform. Additionally, CADRI encourages FSRA to accelerate these timelines and bring the reform process to a welcome conclusion.

We look forward to reviewing FSRA's proposal for fairness guidance to define just and reasonable rates and underwriting rules, and its new supervisory framework. We encourage FSRA to take a principle-based approach to these endeavours.

Our members have extensive experience in consumer education and continue to offer that expertise to FSRA in efforts to support informed decision making by Ontario drivers and households. As cooperatives, credit unions, and publicly-listed companies, CADRI's members operate under numerous global, federal, and provincial regulations and respect these governance standards for transparency and accountability.

In addition to the outcomes and activities outlined in its *Statement of Priorities*, CADRI encourages FSRA to:

- move expeditiously to modernize territory-rating frameworks,
- support government changes to allow credit information as a risk variable, and
- replace the risk variable sections of Regulation 664 with a rule.

4.3 Ensure the fair treatment of customers of Property and Casualty Insurance

We recognize FSRA's mandate to ensure that Ontario families understand the insurance products they buy and have confidence in the system.

CADRI encourages FSRA to accelerate the development and implementation milestones in its auto insurance rate review and underwriting reform strategy, before expanding its scope, and budget, accordingly. For every layer of market conduct supervision, regulated entities responsibly ensure the necessary resources are in place to respond to the regulator. Together, FSRA and the industry should be mindful of keeping administrative costs in check to ensure that there are not unnecessary cost increases which may be passed on to consumers, given the current economic outlook.

CADRI supports FSRA being outcomes-focused when monitoring conduct. We strongly support a principle-based approach to enable insurers to flexibly manage risk and meet consumers' needs. FSRA's adoption of CCIR-CISRO's *Guidance: Conduct of Insurance Business and Fair Treatment of Customers* provides such a framework.

Financial outlook

We have reviewed FSRA's proposed budget, noting its projected increase in the cost of services related to the property & casualty industry oversight of nearly \$4.5 million (a 13.6% increase.) We understand that cumulative surpluses from previous years will offset these increases in the coming fiscal. However, if the proposed program is integrated into future budgets, it seems reasonable to surmise that surpluses will not always be available to soften the financial impact. Moreover, the proposed budget increase is significantly greater than inflation.

From what we understand, the major portion of the proposed increased expenses relates to 'supervisory and regulatory enhancement.' There is, however, little description of where these costs will be incurred. CADRI is concerned about the future scope of regulation FSRA is considering and what it means for the regulatory burden our members may bear.

When the cost of living is of heightened concern for Ontarians, and all levels of government, it is incumbent on players in the insurance space to moderate their contributions to the consumers' household expenses.

CONCLUSION

CADRI appreciates the opportunity to review FSRA's *Proposed 2024 – 2025 Statement of Priorities and budget*.

Overall, we support FSRA's intention to increase fairness and transparency for consumers and efficiency for both the regulator and industry.

Specifically, we will continue to emphasize that a timely transformation of auto insurance is necessary and that a less-prescriptive, outcome-driven system will bring more benefits to the consumer by creating a leaner, more competitive and cost-effective marketplace.

Yours sincerely,



Geoffrey Beechey
Chairman and CEO, CADRI

cc:

CADRI Board of Directors

CADRI Licensing Task Force

CADRI Market Conduct Task Force

CADRI Ontario Committee

CADRI Risk Classification Task Force

Francisco Chinchon, ADM, Financial Services Policy, Ministry of Finance

Corey Naimark, Senior Manager, Auto Insurance Policy, Ministry of Finance

Glen Padaserry, Acting EVP, Auto/Insurance Products, FSRA

Huston Loke, EVP, Market Conduct & Licensing, FSRA & Chair, CCIR

Amanda Dean, Acting VP, Ontario, IBC