



March 6, 2024

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

Re: FSRA's Proposed Approach to Strengthening Protection of Vulnerable Consumers

Thank you for the opportunity to comment on FSRA's proposed approach to strengthening protection of vulnerable consumers. Definity welcomes the transparent process that FSRA undertakes to study market issues and develop principles-based approaches for achieving optimal customer outcomes. In the case of vulnerable consumers, we support FSRA examining ways of improving outcomes for these people.

Our commentary covers the following topics:

- Regulatory expectations or specific requirements
- Vulnerable consumer definition
- Company policies for serving vulnerable consumers.

We also comment on the link between this proposed approach to protecting vulnerable consumers with FSRA's auto insurance rate and underwriting regulation reform strategy.

Regulatory Expectations or Specific Requirements

We believe that the Canadian Council of Insurance Regulators' (CCIR) Guidance on Conduct of Insurance Business and Fair Treatment of Customers is sufficient for setting expectations for how insurers treat consumers. By taking a principles-based approach to setting the expectations, CCIR does not prescribe a one-size-fits-all approach for engaging and treating consumers in product development, product promotion, claims management, and complaints handling. Instead, recognizing that consumers are unique people who have diverse needs when shopping for insurance, insurers must be flexible in how they communicate with and advise consumers throughout the insurance product lifecycle. In our view, this expectation applies to vulnerable consumers too.

After this consultation, if FSRA decides that vulnerable consumers need more protection, we advise FSRA to consider the following in its supervisory approach.

- Leverage CCIR's fair treatment of customers guidance: CCIR's guidance is the master document for how insurers design their policies and procedures and measure their performance. If there are gaps pertaining to how insurers treat vulnerable consumers, we recommend addressing those gaps within the guidance. This approach will facilitate implementation and compliance.
- Take a risk-based supervisory approach: Although FSRA's proposed approach applies to all regulated sectors, any resulting supervisory expectations should accommodate each sector's unique customer risks. For instance, the risks facing property and casualty (P&C) insurance customers are different than those facing life and health insurance customers, credit union members, etc. P&C auto and home products are similar from company to company and, at a high level, easier to understand than the more complex financial instruments with multi-year commitments sold in other sectors.

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- Promote optimal outcomes for consumers instead of prescribing requirements: Like other insurers that prioritize the customer experience, Definity knows its customers well, so is best positioned to identify and implement policies and procedures for meeting or surpassing FSRA's expectations. FSRA should focus its supervision on insurers' governance practices, including the effectiveness of methods for front line staff to identify and accommodate vulnerable consumers and the processes for identifying and mitigating social bias in customer-facing predictive models.
- Do not require regulated entities to collect specific data points for identifying vulnerability: The regulated entities should work with the customer information that they already collect from operating their businesses and from engaging customers directly through their various channels. Many customers do not want regulated entities collecting such sensitive information for this one purpose. Collecting this information also adds a new privacy risk to manage.

Vulnerable Consumer Definition

In addition to this consultation, FSRA has proposed a vulnerability outcome within a framework for achieving fairness in auto insurance rates and underwriting rules. The proposed vulnerability outcome states that rating and underwriting systems mitigate against disparate impact on vulnerable consumers. During discussions with FSRA about the auto rate and underwriting regulation reform strategy, we noted that in certain instances, FSRA should complement high-level language on customer outcomes with prescriptive details, where necessary. Without FSRA setting expectations about what is acceptable or not acceptable in the market with respect to protecting vulnerable consumers, insurers will be responsible for setting public policy by filling this gap. A clear definition of vulnerable consumer will generate consistency for these consumers by positioning insurers to test their models to ensure that their rates and underwriting rules achieve the desired outcomes.

We believe that this rationale for a clear definition of vulnerable consumer for the purposes of auto rates and underwriting rules applies to expectations for how insurers treat vulnerable consumers when designing and promoting products, providing advice, managing claims, and handling complaints. In addition, because of the different customer risks associated with all the customer interactions with a given insurer (e.g., sales, underwriting, claims) and the different types of products that FSRA's regulated entities produce, we also advise FSRA to consider tailored definitions for each use case or regulated sector.

Company Policies for Serving Vulnerable Consumers

Definity accommodates consumers' various needs through its data and analytics practices, Sonnet's direct-to-customer digital distribution model, and claims management.

Data and Analytics Practices

At Definity, we strive to be best-in-class from an actuarial and analytics perspective to reduce reputational, regulatory, and legal risk, and to be an employer of choice. We have taken a leadership role in the industry to integrate bias and fairness considerations into our predictive modelling plans. Last year, members of the Definity team presented at the Casualty Actuarial Society's annual meeting about our experience. Our objectives are to produce models with outputs that are explainable to consumers, consider societal wellbeing throughout the model development process, and protect consumers from unfair discrimination, including by ensuring that our outputs do not disproportionately impact vulnerable consumers.

We have a multi-step decision-making authority involving actuarial and analytics professionals and executive-run forums representing the core business units. To support this decision-making, we have been building layers of control for our analytics and modeling work.

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- We developed non-legalese documentation on laws and regulation interpreted specifically for actuaries and analytics practitioners and integrated into our on-boarding, reference material, and model repository.
- We developed a data usage ethics standard to ensure that data and models are managed in accordance with our values, privacy laws, and industry ethics best practices.
- We provide our actuaries and analytics professionals with best practices and tools for detecting and mitigating bias:
 - Established an internal process for identifying groups that are at risk of bias, given a model's use case, and documenting the outcome of that process in our model repository
 - Support this process by providing qualitative guidance to educate staff on the impacts of systemic bias on the analytical work product, as well as to assist staff with identifying the types of bias that should be tested for, based on historical examples
 - Developed an internal reference guide and toolkit containing bias detection and mitigation methodologies to guide modelling decisions and de-bias algorithms
 - Maintain a code repository of functions built for bias detection and mitigation, complementing our reference guide
 - Embedded bias considerations into existing actuarial and analytics best practices, as well as Definity's data and model governance platform.
- This year, we will deploy tools for detecting and mitigating bias throughout the model monitoring and refresh process, including by launching an escalation process for dealing with ambiguous situations, such as when risk segmentation and reducing social bias cannot be mutually achieved. This process includes a requirement that bias in a proposed rating model be quantified, independently reviewed, documented, and presented to decision-makers.

Sonnet

Although Sonnet is known for its simple digital interface, it accommodates all consumers by providing multiple ways for them to obtain advice and purchase a policy.

Consumers needing more information or support than on the website can engage Sonnet's chatbot, send an email, or call a licensed Sonnet agent. Sonnet maintains a call centre with licensed agents who can provide general advice or, through a co-browsing feature, help the consumer navigate the site. There is no one-size-fits-all approach to engaging consumers. Sonnet agents are equipped to handle various situations and take the time to accommodate consumers' unique needs. They abide by internal policies and procedures for addressing consumers who might harm themselves, for assisting consumers in different languages, and for engaging interpreters for consumers who are deaf or hard of hearing.

Claims

When a customer suffers a loss, it is our time to deliver on our promise of making insurance better. To deliver a superior customer experience, we tailor our approach to a consumer's unique needs.

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While claims are complex and underpinned by contracts and legal decisions, we use simple, non-legal documents to explain the process and collect the necessary information for managing the claim. We maintain multiple touchpoints with the customer from engaging the customer on the phone immediately after a loss occurs, to helping the customer complete the claims forms, to meeting in-person if the customer would benefit from a face-to-face interaction. We allow customers to self-direct their claim or use a preferred vendor but, regardless of the option chosen, we are willing to stay involved throughout the process, including engaging with contractors, if the customer wants this additional support. For property claims, we have an appraisal service that allows customers to review estimates from their contractors to ensure that they are fair. And, for customers who suffer serious head injuries or who are having challenges recovering, we secure court approval of the settlement so that they and their families have confidence that the settlement will serve their ongoing needs.

Additional Information

As previously noted, the proposed approach to protecting vulnerable consumers links to FSRA's auto insurance rate and underwriting regulation reform strategy. Definity supports FSRA's planned supervisory approach to consider an insurer's operational risk and model governance practices relative to setting auto rates and underwriting rules. By allowing insurers with strong risk management controls that treat consumers fairly to adjust their rates and underwriting rules through a streamlined filing process or without a filing, we believe that consumers will benefit from a more dynamic market with more price competition, premiums that better reflect their risk profile, and innovative products and services.

Because of the links between these two supervisory efforts, we support including an assessment of an insurer's policies and procedures for protecting vulnerable consumers in FSRA's overall assessment of the insurer's operational risk and model governance practices for auto rates and underwriting rules.

We hope FSRA finds these comments helpful as it proceeds with its proposed approach for strengthening protection of vulnerable consumers. We would be pleased to discuss our comments further.

Sincerely,

Ryan Stein

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