



September 16, 2015

**CADRI Submission: Government of British Columbia Review of the *Financial Institutions Act***

**INTRODUCTION**

The Canadian Association of Direct Relationship Insurers (CADRI) is pleased to participate in the consultation led by the Government of British Columbia (B.C.) on the review of the *Financial Institutions Act*.

CADRI is a trade association representing insurance companies who offer automobile, home, and commercial insurance products to Canadians on a direct basis. Whether through the web, on the phone, or face-to-face, CADRI members provide end-to-end service and are in direct relationships with their customers through all steps of the sales and service process.

CADRI monitors the insurance regulatory environment in all Provinces and Territories, and supports regulation that encourages distribution accessibility and efficiency, technological innovation, and other measures necessary for a healthy and competitive insurance market for the benefit of all Canadians.

Because of our involvement as both distributors and underwriters of insurance products, CADRI members have developed a comprehensive understanding of all facets of the insurance business and are in a unique position to offer valuable input in the development of a Canadian insurance market regulatory framework that is responsive to customers' needs.

The members of CADRI are:

- belairdirect
- CAA Insurance
- Canadian Direct Insurance
- Co-operators General Insurance
- Desjardins General Insurance Group
- RBC Insurance
- TD Insurance

**FRAMEWORK ISSUES**

***Financial Consumer Protection***

CADRI members believe that Canadians are best served in a healthy and competitive insurance market with a regulatory framework that focuses on ensuring positive consumer outcomes and allows for appropriate recognition of risk factors. Consumer protection rules should result in the following outcomes:



1. Consumers can make informed decisions on the features of the product that meet their important needs;
2. Consumers can access affordable products in a competitive market;
3. Appropriate information and advice is available from regulated insurers or licensed representatives;
4. Information and advice can be accessed online, in person, or over the phone;
5. Individual privacy is protected; and
6. All communication is clear and transparent.

CADRI members are of the view that fair treatment of consumers should be a priority for all financial institutions and for licensed agents and brokers. However, a market code of conduct such as the one contemplated in the Consultation Paper is not necessary, as there is already a very clear code of conduct for agents and brokers in British Columbia. The code's focus on the consumer ensures adequate protection. Ideally, we would want B.C. working together with other provinces to adopt a code of conduct for agents and brokers that would apply across jurisdictions, simplifying processes for consumers and the industry. The work already done by the CCIR in this area would be an excellent starting point.

### ***Market Discipline/Public Disclosure***

CADRI strongly believes that the information publicly available on B.C. regulated insurance companies should not be less than what is available for federally regulated insurers. The B.C. Financial Institutions Commission (FICOM) should therefore have the authority required to collect such information and the duty to make it publicly available.

Direct insurers have long advocated for harmonization of regulatory requirements in many areas, including licensing requirements. Direct insurers employ agents that are licensed in multiple jurisdictions and comply with rules in every province and territory. In our view, it would be appropriate for FICOM to share information with other regulators and to gather information from national databases. This type of cooperation would help to streamline compliance for direct insurers right across the country.

### ***Financial Literacy***

CADRI believes that there is a role for government and industry stakeholders (including insurers, agents, and brokers) in developing and implementing consumer education with respect to the nature of catastrophic risk and insurance.

Homeowner property insurance covers a wide range of risks associated with natural disasters or several other perils. Homeowners rarely have to use the product, except when faced with a disaster, making it challenging to recall the features of their coverage.

Recently, CADRI, working with an independent research company, conducted an online survey with homeowners to explore perceptions of natural disasters and property insurance. The survey included respondents from the Angus Reid Forum across Canada and was completed earlier in 2015. The survey took an innovative approach to testing how consumers respond to basic education about natural disasters. Half of the survey respondents were



exposed to a short list of informative facts, prior to being asked to answer questions about the likelihood and the potential consequences of natural disasters. The second group of respondents was not shown the list of natural disasters facts until after they had completed the questions. It was interesting to note the effect of fairly basic, short, and relevant information on consumer awareness and perception of risk.

While CADRI has not yet completed a final analysis of the survey results, the following conclusions have become apparent in analyzing the data that was collected:

1. It is difficult for consumers to understand the nature of the catastrophic risks that they face (i.e. what risks is a consumer subject to, given where he or she lives, what is the likelihood of that risk, and what is the potential cost involved);
2. Consumers often do not know or recall to what extent their insurance product covers various catastrophic risks; and
3. Even though our experiment was conducted on a limited scale, it was apparent that education on the facts about catastrophic risks can impact consumer perceptions about the risks that they face.

Therefore, it does appear that there is considerable value in increasing the availability of information about catastrophic risk. Insurers and their representatives can efficiently provide this information at time of sale or renewal. Government support in raising public awareness would also be critical, as it would provide a complementary and independent source of information on this important issue.

While these results are only a small selection of findings from CADRI's survey, they do help to clarify consumer perceptions with respect to natural disasters and homeowner property insurance. CADRI would be pleased to share the full report with the Government of B.C., once it is complete.

### ***Disaster Relief Programs***

CADRI is not currently aware of the extent of public understanding about the disaster relief program in B.C. The perception of disaster relief programs varies greatly across provinces, based on past regional experience. In some areas there appears to be heightened expectations regarding the availability and extent of disaster relief. CADRI believes that there is a government role to play in educating consumers about disaster relief availability and eligibility requirements.

### ***Technological Change***

Canadians are embracing use of technology in most aspects of their lives. 86% of Canadians have access to the internet<sup>1</sup>, while 62% of Canadians have a smart phone.<sup>2</sup> Consumers are demanding choice and the use of technology has become a standard in financial services, including insurance. Consumers expect to be able to interact with their insurer online, across all segments of the value chain, in order to research, quote, compare, buy,

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<sup>1</sup> Angust Reid 2013

<sup>2</sup> Ibid



but also to manage their accounts and file a claim, etc. CADRI is of the view that consumers should be able to conduct all interactions with their insurers in their channel of choice. In fact, many consumers use a variety of different channels at once – they may start the process online and talk to an agent by phone for further information, etc.

Across multiple sectors, including the field of education, online informational programs have developed into a very powerful tool for learning. With the proper online tools, insurance consumers can achieve a high level of understanding of their risks and can be effectively assisted in making informed choices regarding their insurance coverage. In fact, consumers expect those kinds of tools to exist, and the industry is responding accordingly – so consumers are driving change in the sector.

CADRI members were supportive of the position paper circulated by the Canadian Council of Insurance Regulators (CCIR) following their consultation on electronic commerce. We support the principles put forward by the CCIR and encourage the Government of B.C. to adopt these principles into the *Financial Institutions Act*.

Innovation in the insurance industry is being influenced by technology and requires regulators to maintain an open mind to the adoption of new innovation. In the past B.C. had demonstrated flexibility in allowing the use of credit scores for home insurance. Innovation has already led to the use of telematics for rating auto insurance in some jurisdictions, and there are developments in home monitoring and geomapping that will further improve the assessment of risk and pricing. Therefore, we encourage the Government of B.C. to continue to support the evolution in rating classification systems within the insurance industry.

## **INSURANCE SECTOR**

### ***Regulation of Financial Intermediaries***

Direct insurers employ agents that are licensed in multiple jurisdictions, all with different requirements, timelines, and processes. The need to meet different requirements across the country does not improve consumer protection outcomes in any jurisdiction. We encourage the Government of B.C. to consider better coordination with other jurisdictions on licensing processes. CADRI has long advocated for a shared electronic licensing system that would allow jurisdictions to share data and improve consumer outcomes. We encourage the Insurance Council of B.C. to look at ways to streamline and coordinate licensing processes with other regulatory agencies.

CADRI supports a review of the governance model for the Insurance Council of B.C. that would see some of its members appointed by industry associations. As an association which represents direct insurers, we would also strongly recommend that the residency requirement to serve on the Insurance Council be repealed, in order to allow for better representation. Today, direct insurers have no representation on the Council. The Act does prescribe that representation must come from all sectors of the insurance industry and the general public. However, all current insurance representatives are from broker companies located in BC.

Direct insurers have very different needs with respect to licensing, given that such insurers have employees who are licensed across multiple jurisdictions. Direct insurers have extensive oversight in their operations, with call



monitoring and compliance audits on a regular basis. The direct relationship model means that the role of agent is somewhat different in the direct insurance sector, so CADRI would bring a different perspective to the Council. We encourage the Government of B.C. to consider broadening its Council representation to include direct insurers, in order to allow a better representation of the broader insurance sector.

For large direct insurers, licensing is coordinated and controlled as a centralized function. In order to maintain high levels of compliance and to reflect the operational realities of this model, we request that any impediments to an insurance company's active role in the licensing process and supervision be removed.

Licensing of adjustors within a jurisdiction hampers an insurer's ability to respond in the event of a large scale catastrophe – without the ability to rely on the support of adjustors from other jurisdictions, an insurer will be forced to prioritize claims, leaving policyholders to wait their turn rather than being served quickly, as expected. Licensing adds time and cost, which is an issue in a disaster situation where flexibility and speed of response are critical. The role of an adjustor involves acting on behalf of an insurer within an established set of parameters. With these parameters, and where insurance companies are clearly supervising their adjustors, a license seems an unnecessary regulatory burden that does nothing to enhance consumer protection.

### ***Regulatory Powers and Guidelines***

In the interest of consumer protection and fairness for all market participants, CADRI strongly believes that B.C. should harmonize its prudential and governance regulations with those of the Federal government, so that regulated insurers in B.C. are subject to the same, or similar, regulatory requirements as federally regulated insurers. In concert with those changes, CADRI believes that FICOM should be granted similar authority to the Federal Office of the Superintendent of Financial Institutions.

### ***Rebating***

The Financial Institutions Act currently allows rebating of up to 25% of the premium to be offered as incentive. CADRI believes that the threshold for rebating should be dropped. The use of a percentage of a premium is unlikely to be used widely, because premiums vary and most promotions are not based on premiums. Therefore, we would like to see the provision for rebating or incentives continue without the threshold.

### **CONCLUSION:**

Thank you for the opportunity to submit feedback to the review of the *Financial Institutions Act*. Should you have any questions, feel free to contact CADRI. Additionally, as noted in the introductory email accompanying our submission, CADRI would welcome the opportunity to meet with Department of Finance staff to discuss our submission.