

NEWSLETTER

Winter 2002-3

This newsletter is published by the Canadian Council of Insurance Regulators – Conseil canadien des responsables de la réglementation d'assurance (CCIR - CCRRA) to update interested stakeholders about key cross-jurisdictional initiatives in Canada.

CCIR is an inter-jurisdictional association of insurance regulators that facilitates and promotes an effective regulatory system in Canada to serve the public interest. CCIR works to develop harmonized insurance regulations and policy to enhance consumer protection.

This edition provides updates on projects since the Summer 2002 Newsletter and news from the Fall 2002 meeting.

Life Licence Qualification Program

A new national harmonized standard for life agent education, the Life Licence Qualification Program (LLQP), was implemented in most jurisdictions on January 1, 2003. New Brunswick is planning to implement LLQP by March 31, 2003. There is already a similar program in Quebec.

A joint effort of CCIR and Canadian Insurance Services Regulatory Organizations (CISRO), the LLQP significantly upgrades qualification standards for life insurance agents entering the business. It responds to changes in the marketplace and the changing needs of consumers. It also reduces regulatory complexity and enhances internal trade while protecting consumers.

The LLQP replaces existing provincial or territorial qualification standards. It has the following components:

- a mandatory pre-licensing course provided by certified commercial course providers that meet certain standards;
- an examination that tests the application of knowledge rather than the recollection of facts; and
- a single licence standard.

Strategies have been developed to ensure that existing rules are phased out in an organized manner and to assist market participants during the initial implementation of LLQP. In addition, on-going monitoring will occur through the LLQP Integrity Committee. The committee comprises representatives of CCIR and CISRO, and will monitor issues arising from the exam process. The committee will also maintain the exam question data bank.

For more information on the LLQP, visit CCIR's website: www.ccir-ccrra.org.

CCIR Streamlining and Harmonization Committee

The work of the Streamlining and Harmonization Committee has become a key priority of CCIR and the Fall 2002 meeting concentrated on this initiative. This committee was established to respond to industry concerns about the complexity and cost of regulation, and demands for greater streamlining and harmonization of regulatory practices among regulators. It was asked to seek

input from stakeholders and develop a comprehensive list of initiatives that could improve the regulatory environment.

The committee received 66 proposals. It determined that 22 were outside its mandate. The remaining 44 proposals fell into three categories: agent and broker licensing; company licensing, solvency and information filing; and market conduct. At the Fall 2002 meeting, CCIR decided to establish three working groups based on these three categories.

The working groups will look at the proposals to assess their feasibility and determine their priority. To begin this process, each working group contacted stakeholders to ensure a better understanding of the proposals submitted. The working groups are also conducting research to confirm existing requirements across Canada. Each working group is expected to make a more fulsome report at the upcoming CCIR Spring 2003 meeting. To make the best use of resources, CCIR anticipates partnering with the insurance industry. More details will be provided in coming months.

E-Commerce report

At the Fall 2002 meeting, the CCIR E-Commerce Committee reported that the complexity of an insurance product appears to determine its suitability for electronic commerce (e-commerce) distribution. The committee surveyed the industry about the current and expected use of e-commerce as a means of transacting insurance business.

Based on the industry responses, other key findings include:

- Travel insurance is considered most suited to on-line marketing and whole life insurance is considered least suited to be marketed online.
- Although travel insurance is considered to be the most suitable product for online distribution, only 1.8 per cent of sales originate this way.
- In total, 2 per cent of sales for life insurance are completed on-line and 4 per cent of sales for property and casualty insurance are completed on-line.
- Over the next 5 years, insurers expect on-line sales to grow by 20 per cent, over current sales.
- Approximately 78 per cent of insurers reported that they had some method of ensuring confidentiality. In many cases, insurers used the sites only for providing information.

Other highlights of the survey can be found on the CCIR website at www.ccir-ccrra.org.

Based on the committee's report, it was agreed the committee should review existing Canadian guidelines and international initiatives applicable to e-commerce, and recommend to CCIR what areas should be regulated. The committee intends to recommend what the level of supervision should be – such as disclosure, and confidentiality – and determine the area, types of insurance products or the industry sectors where additional e-commerce supervision is needed. The committee will report at an upcoming meeting of CCIR.

Terrorism Working Group

The issue of terrorism has had an impact on the business of insurance in Canada and throughout the world. CCIR established a working group to keep apprised of developments in the area.

Initially, the working group's key focus was on activities of insurers which might adversely affect consumers. There have been significant changes to the levels of coverage offered to consumers, particularly for property and casualty insurance. The property and casualty industry noted difficulties with statutory fire provisions included in legislation across Canada. These provisions may affect the ability of insurers to exclude acts of terrorism and other incidents.

CCIR members reviewed the desirability of legislative changes and were unable to determine a common approach. It was determined that the broader policy implications of this issue necessitate the involvement of various arms of government in each jurisdiction. CCIR will continue to monitor this matter.

Joint Forum Activities

Together with the Canadian Pension Supervisory Authorities (CAPSA) and the Canadian Securities Administrators (CSA), CCIR is a constituent organization member of the Joint Forum of Financial Market Regulators (Joint Forum). The goal of the Joint Forum is to work on initiatives which could affect two or more of the sectors. The following describes three initiatives which may be of interest to CCIR stakeholders.

Financial Services OmbudsNetwork

The Financial Services OmbudsNetwork (FSO) is an integrated complaint management and dispute resolution service for financial services consumers. It became fully operational in November 2002 with the launch of the Centre for the Financial Services OmbudsNetwork (CFSON).

CCIR Chair, Jim Hall, is leading the Joint Forum's Sub-Committee on CFSON and Regulator Information Sharing. The Sub-committee is working to develop an information sharing protocol between regulators and the CFSON.

By collaborating with the CFSON, it is hoped that the Sub-committee can develop a protocol that will ensure regulators receive pertinent complaint information. This will enable regulators to continue to assess problems in the marketplace.

Point-of-sale disclosure

CCIR continues to play an important role in the Joint Forum's project on harmonization of individual variable insurance contracts (IVICs) and mutual funds regulation.

As part of its long term effort to harmonize the regulation of these products, the Standing Committee on the Regulatory Harmonization of IVICs and Mutual Funds has set out to solve the disconnect that exists between current point-of-sale regulatory requirements and what actually happens at the point-of-sale.

When the Committee looked at point-of-sale disclosure, there was some evidence that consumers do not read the

information folders for IVICs or the prospectuses for mutual funds. On this basis, on February 13, 2003, a consultation paper on *Rethinking Point of Sale Disclosure for Segregated Funds and Mutual Funds* was released for public comment.

The consultation paper recommends a four-part disclosure system consisting of a foundation document, a continuous disclosure record, a short fund summary and a consumers' guide. It also explores the concept that availability of information is equivalent to delivery of the information. The consultation period closes on April 30, 2003. The documents are available on the CCIR website at www.ccir-ccrra.org.

Practice standards project

CCIR Chair, Jim Hall, leads the Joint Forum Sub-committee on Practice Standards. The Sub-committee is working to develop common principles and practices which could apply to the sale of products and services by all financial intermediaries. The goal is to ensure that consumers receive a consistent level of service and protection across the financial services sector.

There has been a great degree of collaboration with a number of industry representatives to develop a draft set of common principles which reflect current statutory requirements and best practices. Ultimately, it is hoped that these principles will be followed by all financial intermediaries in the distribution of products and services, including life and property and casualty insurance agents and brokers and securities registrants.

In March 2003, the Sub-committee is expected to send a consultation package to various industry and consumer groups. The package will include the draft principles and practices, as well as a draft consumers' guide developed to explain what consumers should expect during a financial services transaction. The documents will be made available on the CCIR website at www.ccir-ccrra.org.

International regulators

CCIR members continue to monitor the work of regulators in other jurisdictions by participating in the conferences and committees of National Association of Insurance Commissioners (NAIC). NAIC is an organization comprised of insurance regulators from the 50 US states, the District of Columbia and the four US territories.

Through the participation of member jurisdictions, CCIR is also kept apprised of the International Association of Insurance Supervisors (IAIS). The IAIS comprises representatives of 100 jurisdictions. It works to promote co-operation among regulators and set international standards for insurance supervision.

CCIR Spring 2003 Meeting in Toronto, April 3 and 4

CCIR's Spring Meeting will take place in Toronto on April 3 and 4, 2003. It is anticipated that CCIR will use this time together to re-assess the organization's priorities.

Meeting highlights will be available on the CCIR website (www.ccir-ccrra.org) shortly following the meeting.