

NOTES FOR REMARKS BY

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CHECK AGAINST DELIVERY

INTRODUCTION

It's a pleasure to be here to talk about the Canadian Council of Insurance Regulators or CCIR.

To quickly let you know who we are, the council includes all Canadian federal, provincial and territorial insurance regulators. We meet twice a year, in spring and fall. Our current chair is Winston Morris, Assistant Deputy Minister of Commercial and Corporate Affairs for Newfoundland and Labrador.

As Nova Scotia's insurance regulator, I am a member of CCIR.

And as the regulator in the province where you are meeting, I'm happy to represent the council at this event.

CCIR recognizes the historic role of farm mutuals, some of which trace their roots back 150 years. Run by policyholders for policyholders, farm mutuals have been built on the spirit of co-operation, self-help and shared responsibility.

This is CAMIC's 20th annual convention and, on behalf of CCIR, I congratulate you on reaching this milestone. I understand the hundred plus companies in this association together serve 1.5 million policyholders. Your business represents a 6 per cent share of the total Canadian P&C market. Of course, that share is much larger in the niche market of rural and small town Canada.

As farm mutuals, you have a long heritage of understanding the changing needs of your communities, and responding accordingly. That's how your companies have stayed relevant over the decades.

CCIR BACKGROUND

CCIR is changing too, to keep up with the times.

The Canadian Council of Insurance Regulators has actually been around for quite a while. Founded in 1917, it originally served as a forum for exchanging information and sharing experiences among insurance regulators.

This was a valuable function. But council members recently came to the conclusion that a more active role in developing and co-ordinating regulatory policy was necessary. I'll explain the "why" behind this in a minute.

To guide a more dynamic role, we undertook a long-term strategic planning process. This exercise helped us envisage where we want to be in five years, as well as the priorities and objectives to get us there. The result was our first-ever strategic plan, released in May 2000.

To turn this ambitious plan into reality, we established an ongoing secretariat. This group provides research, project management, technical and administrative support to the council. Based in the Financial Services Commission of Ontario, the secretariat takes direction from the CCIR chair, Winston Morris.

CHANGING REGULATORY CLIMATE

But before I go on, a word about why CCIR members are taking a more meaningful and active role in policy-making.

Our evolving mission is a response to profound changes in the financial services industry, which you no doubt see every day in your own businesses.

Convergence is a buzzword and also a reality. The lines between the traditional four pillars – insurance companies, banks, trust companies and stock brokers – are increasingly blurred. As a result, financial institutions are introducing a steady stream of new products to compete for an overlapping customer base.

Not only are products changing. So are the means of distributing them. In the property and casualty field, for example, the traditional method of buying and selling insurance – face to face – is now just one of a range of options. Insurance is also bought and sold through direct mail, over the telephone and via the Internet, as you know. Moreover, consumers are increasingly dealing with professionals licensed to sell more than one type of financial product.

The net result is a much more complex marketplace. New products, services and distribution channels expose consumers to more choices and new risks.

Yet much regulation to protect consumers is still based on the outmoded four pillars, and in a federal system different jurisdictions tend to have different rules. Not surprisingly, we find a regulatory patchwork with gaps, overlaps and inconsistencies. This just isn't good enough as we begin a new millennium.

These trends mean that the regulatory system must change and evolve to protect consumers and create a level playing field for the industry. CCIR is determined to lead this evolution. Our goal is the same as yours in CAMIC: a strong, healthy and competitive insurance market.}

CCIR VISION

That brings me back to CCIR's strategic plan. As an interjurisdictional association, CCIR members are committed to work together to facilitate and promote an effective regulatory system in Canada to serve the public interest.

Our vision for the future is to be an acknowledged leader in developing and harmonizing insurance regulation and policy. We are determined to strengthen consumer protection nationwide and to simplify requirements for companies doing business in more than one province. We will further these goals, not only by co-operating among ourselves, but by working with other regulatory bodies in the financial services industry.

To achieve this vision, our top strategic priorities are:

- to advance consumer protection initiatives

- to move toward harmonized regulation while respecting local autonomy and

- to forge working relationships with other financial services regulators.

Let me review some of CCIR's current activities to get on with these priorities.

CONSUMER PROTECTION

As the ground work for consumer protection initiatives, CCIR in June 2000 adopted a series of *Principles for Consumer Protection*. These five principles set generic, high-level standards covering both corporate market conduct and the activities of intermediaries. The consumer protection principles include:

- Disclosure
- Consumer Education
- Effective Regulators
- Educated and Ethical Intermediaries and
- Consumer Remedies.

There are 15 specific commitments under the five principles. Let me mention just a few examples to give you the flavour of these commitments:

- Under the Disclosure theme, consumers can expect to be fully informed when they are making decisions about purchasing insurance, including with whom they are entering a contract.

- Under the heading of Educated and Ethical Intermediaries, consumers can expect intermediaries who have exceeded a significant minimum standard of proficiency.

- Under Consumer Remedies, consumers can expect to have problems addressed quickly and inexpensively in a neutral and balanced manner.

These principles will guide all CCIR consumer protection projects, establishing a benchmark against which we can measure our current and future efforts in this area. In short, the principles set standards for the protection of consumers in the new millennium.

New Consumer Protection Strategies

I'd like to tell you about some of the specific consumer protection projects CCIR has under way, in line with these overriding principles.

In the fall of 1998, CCIR created a Consumer Protection Initiatives Working Group, chaired by Ontario. This body is assisted by a broadly representative industry advisory group.

In April 2000, CCIR endorsed the working group's recommendations concerning life and health insurance products. Specifically, these consumer protection proposals include the following:

Consumers should receive a point-of-sale product summary within 3 business days of making an application to buy insurance. This would apply equally to applications made in person, by mail, over the phone or via the Internet.

The summary should fully and clearly disclose information about the product's risks and benefits.

The consumer would have the right to cancel the purchase within a minimum of 10 days after receipt of the policy contract. Policy contracts should provide full, true and fair disclosure, highlighting and clearly defining all special terms, and fully explain the product's benefits and obligations.

Our goal is to ensure that people get the facts they need to comparison shop, and buy the insurance product that is right for them. The next step will be for the CCIR working group to develop an implementation plan for these new consumer protection strategies.

The working group is also addressing the topic of errors-and- omissions insurance for life agents, a further initiative to protect consumers.

Market Conduct Reviews

At its April 2000 meeting CCIR endorsed a further consumer protection project: a market conduct review program developed by the Financial Services Commission of Ontario, working closely with the life insurance industry. As a national initiative, this process will measure how well life and health insurance companies in Canada are complying with regulatory requirements and industry guidelines.

Until now, regulation of life companies has focussed almost exclusively on solvency issues. Most provinces have had no formal process for the active oversight of market conduct in the life sector.

In the first year, the review process is looking at compliance in the areas of:

- complaints handling
- claims handling and
- agent screening, monitoring and reporting.

In future years, we plan to add further areas such as:

- marketing and sales
- policyholder service and
- underwriting and rating.

We have established a two-step review process involving completion of a self-assessment questionnaire by insurers, followed by on-site audits by regulators. To streamline the process, companies will complete the review process in the province where their headquarters are located. Other provinces where a company also does business will then accept the results.

Self-assessment questionnaires were due last Friday, with on-site visits to begin next month. We are confident this national market conduct review process will increase consumer confidence in the professional business practices of the life industry.

Alternative Dispute Resolution

As I mentioned, one of CCIR's consumer protection principles is Consumer Remedies. I am pleased that Nova Scotia has the lead in a CCIR project to explore options for resolving consumer disputes about insurance out of court.

CCIR's objective is to ensure that all consumers across the country have access to a common standard of independent complaint-handling and dispute resolution. At our urging, the Insurance Council of Canada has agreed in principle to recommend a complaint management system for property and casualty insurers as a good business practice.

Our CCIR project subcommittee has canvassed regulators to find out what complaint-handling and dispute resolution systems are in place across the country. The ICC has taken a comparable a survey of P&C insurers. The results of these surveys are being shared as a basis for further action.

Our goal is a system funded by the industry that builds on existing services for resolving consumer complaints – for example, that of the Canadian Life and Health Insurance Association – as well as British Columbia’s Insurance Dispute Resolution Services and Ontario’s Insurance Ombudsman and Dispute Resolution Group.

HARMONIZATION INITIATIVES

Improved consumer protection, then, is one of CCIR’s key strategic directions. A second strategic priority is to move toward harmonized regulation while recognizing local autonomy. Several initiatives are under way here as well.

Life Education Standard

CCIR is considering a national, harmonized standard for life agent education recently adopted by the Canadian Insurance Services Regulatory Organizations or CISRO. A CCIR working group led by Ontario is co-operating with CISRO on this issue.

This standard reflects recommendations by the CISRO Life Agent Education Committee. It calls for:

- all new life agents in Canada to complete a training program before being licensed;
- replacing the current Level 1 and Level 2 licensing system in use in some provinces with upgraded single-step licensing; and
- enhancing the qualifying examination.

The education committee is working to develop a new pre-licence training program and examination for life agents. The committee circulated recommendations late last year. In response to feedback, the training course will be delivered not only in the classroom but also through alternative methods such as CD-ROMs, the Internet, and distance learning.

A consulting firm has been hired to develop a curriculum outline. This should be ready by the end of this month. CISRO plans to accredit providers, and interested vendors will receive an information package including selection criteria. The committee has been working toward a target date of January 1, 2001, but now feels a more realistic start-up date would be spring 2001.

It will be up to the various jurisdictions to consider and implement the new proficiency model through their own regulatory and government processes. As a basis for implementation planning, CISRO has written to all CCIR members to request information on the legislative and regulatory changes that would be necessary in each jurisdiction.

Classes of Insurance

A second harmonization measure by CCIR should help cut red tape that could be holding back innovation. We are working on a set of nationally-accepted, flexible and fewer classes of insurance.

A steering committee led by Saskatchewan tabled a draft report with CCIR in April 2000. The report proposed to reduce the number of insurance classes to 17 – compared with as many as 50 now found in the various jurisdictions. It also proposes to put forward a new “file and response” process for getting approval for new business. This process will be facilitated by the creation of an “Other Approved Products” class – a new catch-all category for new products that would not fit into any of the other proposed 16 insurance classes.

The steering committee is now reviewing feedback on the preliminary proposals and expects to present its recommendations at the CCIR meeting this fall. Once CCIR approves the recommendation, industry comment on the harmonization initiative will be sought. The proposed amendments will require legislative and regulatory amendments in the various jurisdictions.

Minimum Capital Test

Another CCIR project is to develop a revised set of minimum capital test requirements for property and casualty insurers. We have set out to harmonize the existing four tests and, as well, to implement the risk-based capital approach and other concepts supported by the Insurance Bureau of Canada.

A task force led by the federal regulator, OSFI, is working on harmonized solvency tests that all regulators could adopt to ensure insurers meet capital adequacy standards. A draft package was distributed for comment by the industry and others, with a closing date of March 31, 2000.

The task force has met with IBC representatives to discuss the feedback. The next step will be a dry run to have insurers complete the test on a trial basis as at year end 1999. Once the various jurisdictions have enacted any required legislative amendments, the new minimum capital test can be implemented for year end 2000 reporting.

Facility Association

CCIR is also providing a forum for looking at the Facility Association, the auto insurer of last resort, to review its profits and plan of operation.

The Financial Services Commission of Ontario has hired a consulting firm to assess the most appropriate residual market mechanism for the future. Ontario has shared the interim report with the other regulators. This is in line with a CCIR agreement that members affected by the Facility Association will keep each other apprised of their activities.

The consulting report presents alternatives to the current mechanism. The aim is to address such problems as the surplus on residual market business that has arisen in recent years, and the need for better financial reporting on plan performance.

This exchange of ideas will help the jurisdictions involved to examine FA operations from their own perspective.

WORKING WITH OTHER REGULATORS

A third priority in CCIR's strategic plan is to work with other financial services regulators. I've already mentioned our connection with CISRO.

In addition, we are working with a new national body that links the various financial services sectors. The Joint Forum of Financial Market Regulators, as it's called, brings together Canadian insurance, securities and pensions regulators. It has a mission to coordinate and streamline the regulation of financial products and services across the country.

With a converging industry, consumers are not well served – nor can the marketplace be supervised efficiently – if regulators for different sectors operate in silos. This recognition was the driving force behind the establishment of the Joint Forum in early 1999.

CCIR is co-operating with key Joint Forum projects. For example, we are supporting the effort to harmonize the regulation of mutual funds and individual variable insurance contracts or segregated funds sold by life companies. These financial vehicles offer similar investment opportunities and call out for similar regulatory treatment to protect consumers. We are also working with the Joint Forum on uniform proficiency requirements for insurance licensees and securities registrants offering financial planning advice. Again the aim is to protect consumers using these services.

As the forum's projects evolve, we are finding many linkages that offer the opportunity for creative co-operation across both sectoral lines and geographical borders.

CONCLUSION

At CCIR we're enthusiastic about the future. As we implement our strategic plan over the next few years, we're confident we'll play a more active, meaningful and constructive role in the evolution of insurance regulation in Canada.

By co-ordinating insurance regulation and policy across the country, we expect to achieve stronger consumer protection and more consistent requirements nationwide. The Canadian financial services marketplace will be healthier and more competitive because of our presence.

CCIR members are committed to working collaboratively with each other and also with other regulators and insurance stakeholders. Together, we intend to move forward to harmonize regulation and respond to the needs of consumers in the 21st century.

I would now be happy to respond to your questions.

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