CCIR | CCRRA
Canadian Council of Insurance Regulators
Conseil canadien des responsables de la réglementation d'assurance

2020 Annual Statement on Market Conduct - Public Report

November 2021

Table of Contents

EXECUTIVE SUMMARY

This report provides an overview of the findings from the 2020 Annual Statement on Market Conduct (Annual Statement)[1] administered by the Canadian Council of Insurance Regulators (CCIR) on behalf of its members.

This report:

- highlights key data points to provide a macro-level overview of the insurance industry in Canada as well as note changes between data points year-over-year (y/y);
- provides a means for insurers to compare their overall policies, procedures and performance against industry averages and, in some instances, creates benchmarks on key Fair Treatment of Customers (FTC) principles and practices; and
- demonstrates how CCIR members use data from the Annual Statement.

Last year's report highlighted key observations related to industry trends, how insurers are interpreting the Annual Statement questions, how results on examinations compare to how insurers answer the Annual Statement, and how the Annual Statement relates to the CCIR/Canadian Insurance Services Regulatory Organizations' (CISRO) Guidance on the Conduct of Insurance Business and Fair Treatment of Customers (FTC Guidance). This year, these key observations are not included in this report. However, they will be the subject of a specific report: CCIR Co-operative Fair Treatment of Customers (FTC) Review – Consolidated Observations Report. We invite you to read the observations and recommendations shared within this report published in October 2021.

<u>Data Utilization</u>

This report provides examples of how CCIR members use data specific to each section of the Annual Statement. In general, CCIR members use the Annual Statement to:

- monitor and assess the effectiveness of regulatory requirements designed to satisfy the International Association of Insurance Supervisors' (IAIS) Insurance Core Principle (ICP) 19: Conduct of Business;
- provide a macro-level overview of the insurance industry that can be monitored on an annual basis;
- monitor and respond to new trends;

[1] The 2019 Annual Statement introduced a new section on Travel Health Insurance. As data for this section is still provided on a "best efforts" basis it is excluded from this report.

- conduct risk assessments of classes of insurance, distribution channels and individual insurers;
- assess the industry's adoption and implementation of FTC principles;
- establish key risk indicators to assist CCIR members in the development of examination assessments; and
- provide a reference tool during on-site examinations.

Key Observations

- The Covid-19 pandemic has presented a unique challenge to insurers and CCIR Members. Some areas, such as sales through the internet, are likely to continue to develop as innovation accelerated by the pandemic matures. Other key data points may just represent temporary aberrations in the data due to the unique circumstances and challenges posed by the pandemic. Data collected next year will help determine if this was the case. CCIR and CISRO have been working collaboratively with the insurance industry to maintain a focus during the pandemic on FTC. CCIR members will continue to look to the Annual Statement as a means to track long-term trends in the industry.

- Annual Statement results and supervisory examinations continue to indicate that while insurers mention they value FTC principles, there are opportunities for many insurers to better demonstrate how they have incorporated FTC principles. However, there are some key data points where the industry has made some progress since the last report.

Data quality continues to be an issue for CCIR members. Insurers should closely study this report, as well as the Annual Statement's definitions and instructions to ensure they are providing accurate data which conforms to CCIR's expectations. If there is uncertainty about any part of the ASMC, insurers should not hesitate to consult the CCIR to ensure they are providing quality data and to read the instructions provided including the definitions.[2]

BACKGROUND

The Annual Statement was introduced by the CCIR in 2017, to collect information from insurers across Canada related to their governance, practices, policies, and treatment of customers. The

[2] https://www.ccir-ccrra.org/AnnualStatementonMarketConduct

requirement to complete and file the Annual Statement is based on the authority of each provincial and territorial insurance regulator within their jurisdiction.

Purpose of the Annual Statement Dataset

The Annual Statement was developed by the CCIR as a harmonized approach to better understand and assess the insurance marketplace and insurer conduct. CCIR members have committed to increased cooperation and information sharing to improve customer protection and ensure alignment with international best practices and standards, in particular the ICPs. CCIR members have signed a Memorandum of Understanding and Protocol on Cooperation and the Exchange of Information (MOU)[3] which provides the basis for increased information sharing and cooperation in supervisory activities. The CCIR published its Framework for Cooperative Market Conduct Supervision[4]. This Framework outlines CCIR members' commitment to increasing collaboration and sharing information regarding the oversight of market conduct in Canada.

CCIR members use the data collected in the Annual Statement for various purposes, and the usage will vary by regulator. Members have used the data mainly:

- to create a risk indicator system helping regulators determine which insurers should be examined;
- to verify how insurers' responses during an examination align with their actual policies and procedures; and
- for market intelligence purposes to gather information about the insurance industry as a whole, identifying long term trends, and flagging potential risks.

[3] https://www.ccir-ccrra.org/Documents/View/3544
[4] https://www.ccir-ccrra.org/Documents/View/2592

Cooperative Supervision Oversight Committee (CSOC)

CSOC is a CCIR committee overseeing the MOU and the Framework for Market Conduct Supervision in Canada. This includes oversight of CCIR's cooperative supervisory plans and activities, guided by the ICPs by IAIS. The committee may also lead cooperative supervision activities where emerging issues are examined on a thematic and/or insurer basis.

CSOC manages the collection of information and reporting through the Annual Statement and revises the data reporting requirements on an annual basis (working with CCIR members, working groups and committees to identify beneficial changes and areas for data collection). CSOC also oversees the sharing of information among CCIR members regarding the jurisdictional usage and validation of market conduct data.

Strategic Plan 2020-2023

CCIR is committed to three strategic priorities, each of which is focused on consumers, regulators, and industry:

- Build upon cooperative supervision in alignment with international standards to enhance consumer protection.
- Work collaboratively with regulatory partners to grow and leverage national regulatory capacity.
- Partner with industry stakeholders to identify opportunities to increase regulatory and supervisory harmonization where feasible and appropriate.

A key dependency on CCIR achieving its three strategic priorities is the effective use of data obtained through the Annual Statement.

RESULTS FROM 2020 ANNUAL STATEMENT

CCIR is sharing the following key results from the 2020 Annual Statement so insurers can utilize these results to compare against their own operations, policies and procedures, in order to promote FTC and to make adjustments to their practices if required. Insurers should aim to adopt the practices that will achieve the best consumer outcomes. All of the results should be viewed based on the nature, size and complexity of an insurer's activities.

This is the first iteration of this report that contains y/y trending, as several key data points are compared to results from the 2019 report.

The report is categorized in sections corresponding to the data in the Annual Statement. The type of data presented can sometimes differ between the property and casualty (P&C) and life and health (L&H) industries.

CCIR has developed ratios based on the data provided to better analyze risks and trends over time, as well as changes in insurer/customer behaviour. CCIR invites insurers to familiarize themselves with these ratios, understand their usefulness in terms of FTC and, where appropriate, to monitor their performance relative to the industry as a whole.

Filing Summary

P&C Summary

There were 232 insurers (231 in 2019) required to file the Annual Statement (broken down by size and jurisdiction of incorporation),[5] of those 163 (164 in 2019) were actively writing personal lines business.

Jurisdiction	Small	Medium	Large	Commercial & Run Off	Total
Alberta	3	4	0	2	9
British Columbia	1	3	0	2	6
Manitoba	0	1	0	0	1
New Brunswick	0	0	0	0	0
Nova Scotia	2	0	0	0	2
Ontario	39[6]	3	4	8	54
Quebec	18	10	5	3	36
Prince Edward Island	1	0	0	0	1
Saskatchewan	4	1	0	3	8
Federal - Foreign	11	3	1	30	45
Federal - Canadian	9	21	19	21	70
Total	**88**	**46**	**29**	**69**	**232**

[5] For P&C: Small insurers=Direct Written Premium (DWP) under $50M; medium insurers= DWP between $50M and $300M; large insurers= over $300M DWP.
[6] Including Ontario Farm Mutual Insurance Companies

L&H Summary

There were 76 insurers (82 insurers in 2019) required to file the Annual Statement (broken down by size and jurisdiction of incorporation),[7] of those 58 (63 in 2019) were actively writing new business.

Jurisdiction	Small	Medium	Large	Run Off	Total
Alberta	1	1	0	0	2
British Columbia	0	0	1	0	1
Manitoba	0	0	0	1	1
New Brunswick	2	0	0	0	2
Nova Scotia	0	1	0	0	1
Ontario	4	4	0	3	11
Quebec	6	2	4	0	12
Saskatchewan	1	0	0	1	1
Federal - Foreign	4	4	0	6	14
Federal - Canadian	7	8	8	8	31
Total	**25**	**20**	**13**	**18**	**76**

Governance

FTC is a principle focused on customer outcomes, in particular, having due regard for the interests of the customers and treating the customers fairly at each stage of the life-cycle of a product.

The outcomes associated with FTC as described by the IAIS include the following:

- developing and marketing products in a way that pays due regard to the interests of customers;
- providing customers with clear information before, during and after the point of sale;
- reducing the risk of sales which are not appropriate to customers' needs;
- ensuring any advice given is of a high quality;
- dealing with customer complaints and disputes in a fair manner;

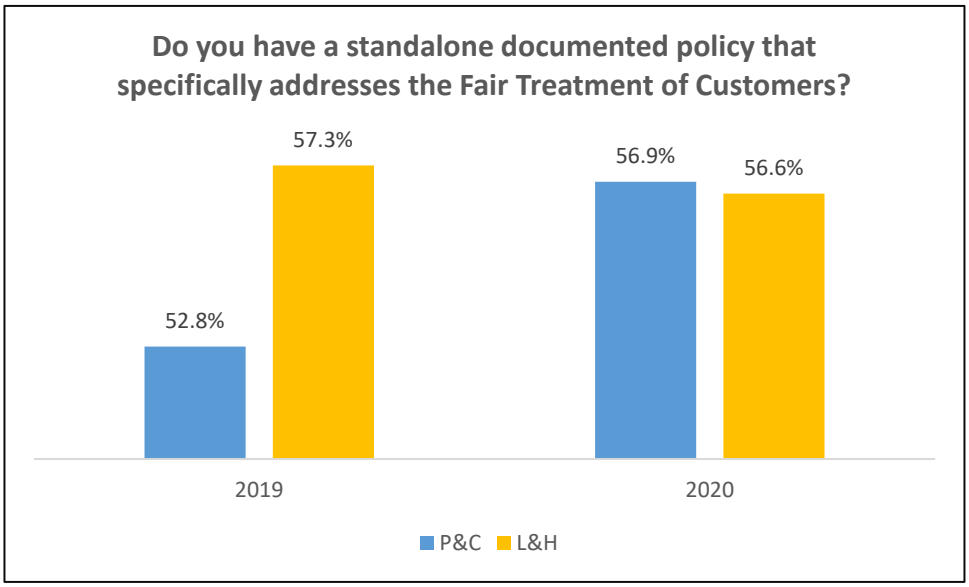
[7] For L&H: Small insurers=DWP under $150M; medium insurers= DWP between $150M and $800M; large insurers= over $800M DWP.

- protecting the privacy of information obtained from customers; and
- managing the reasonable expectations of customers.

The Governance section of the Annual Statement requires insurers to answer questions designed to give an overall indication of their commitment to FTC principles.

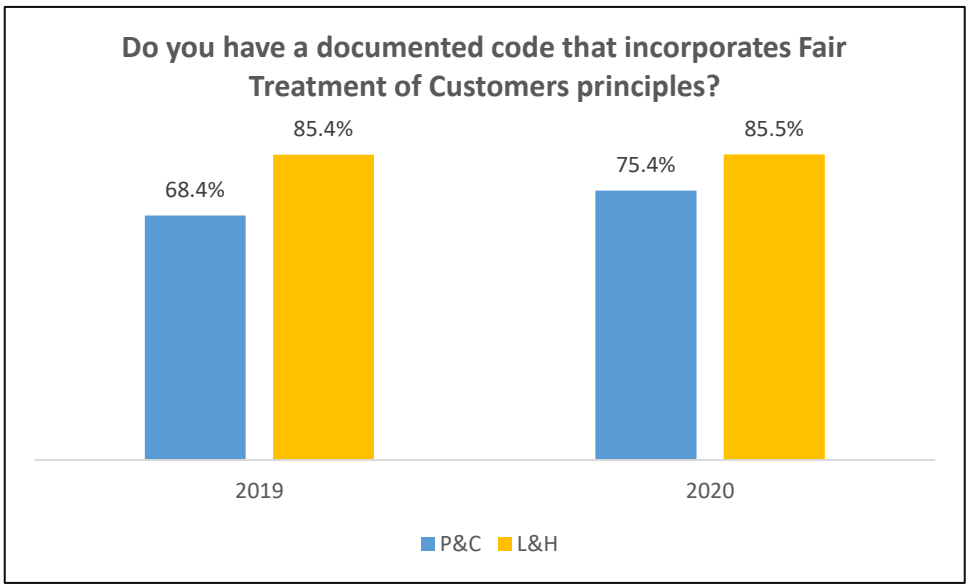
FTC Code or Policy

According to the FTC Guidance, CCIR recommends insurers "establish and implement policies and procedures on fair treatment of customers, as integral parts of their business culture".



One of CCIR's key outcomes for the Annual Statement Public Report is to encourage higher adoption and implementation of FTC principles by insurers. When asked if they have a "standalone documented policy that specifically address the Fair Treatment of Customers", 56.9% of P&C respondents answered in the affirmative, as did 56.6% of L&H respondents. While this result was largely stagnant for L&H respondents (57.3% in 2019)[8], it represents a 7.8% increase in the percentage of P&C respondents having a standalone documented policy. This growth was largely driven by small and medium-sized insurers.

[8] There are several instances of L&H results from 2020 that appear lower than 2019, but the total number of L&H insurers which filed in 2020 is 7.6% lower than in 2019 resulting in superficial changes to some key data points.

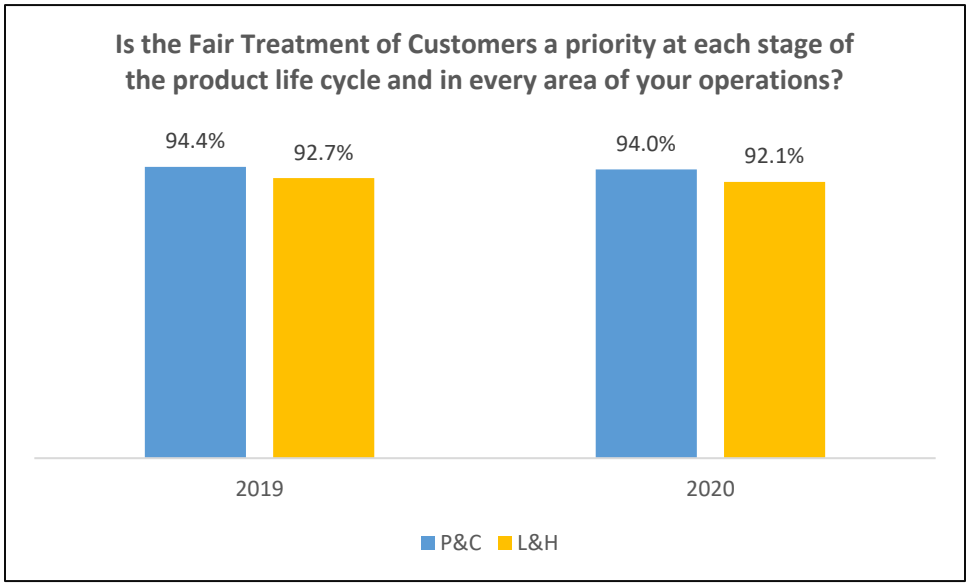


Likewise, there was a notable difference in the number of P&C respondents that have a documented code that incorporates FTC principles. In 2020, 75.4% of P&C respondents answered in the affirmative, compared to 68.4% in 2019. Medium-sized P&C insurers were largely responsible for the uptake in documented codes (80.4% in 2020 compared to 68.2% in 2019). The L&H sector results were mostly unchanged y/y, although their adoption of documented codes was already high (85.5% in 2020 compared to 85.4% in 2019).

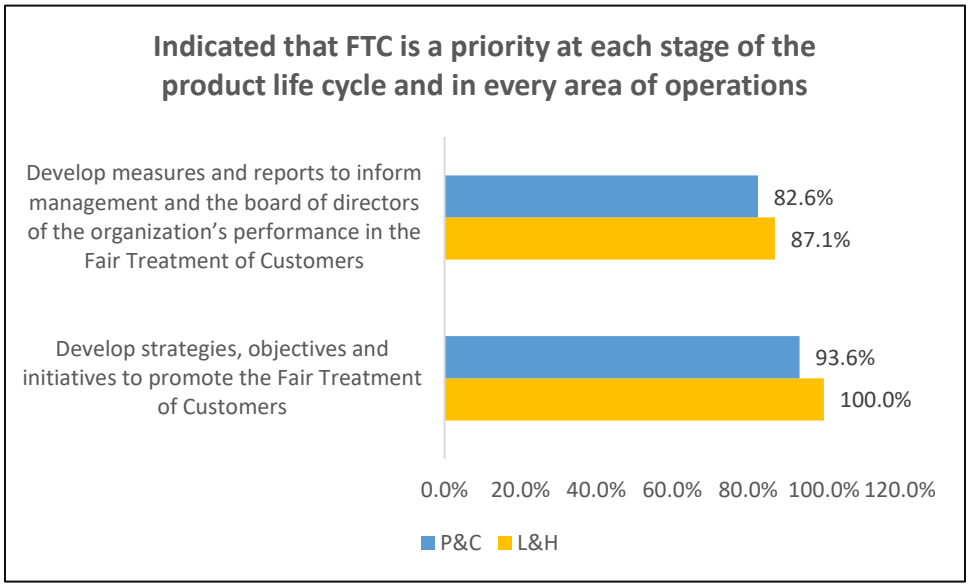
FTC Implementation

According to the FTC Guidance: “Sound conduct of business includes treating customers fairly throughout the life cycle of the insurance product. This cycle begins with product design and runs until all obligations under the contract are fulfilled.” Once again, in both the P&C and L&H sectors (94.0% and 92.1%, respectively), insurers largely responded they have embraced this principle by making FTC a priority at each stage of the product life-cycle and in every area of their operation.

The results from 2019 are largely unchanged due to the high percentage of insurers that already indicated that FTC is a priority to their organization. For those respondents that answered “no” the exact reasons varied, but included insurers that are in run-off or are currently developing their internal FTC culture and hope to be able to answer in the affirmative at a future date.

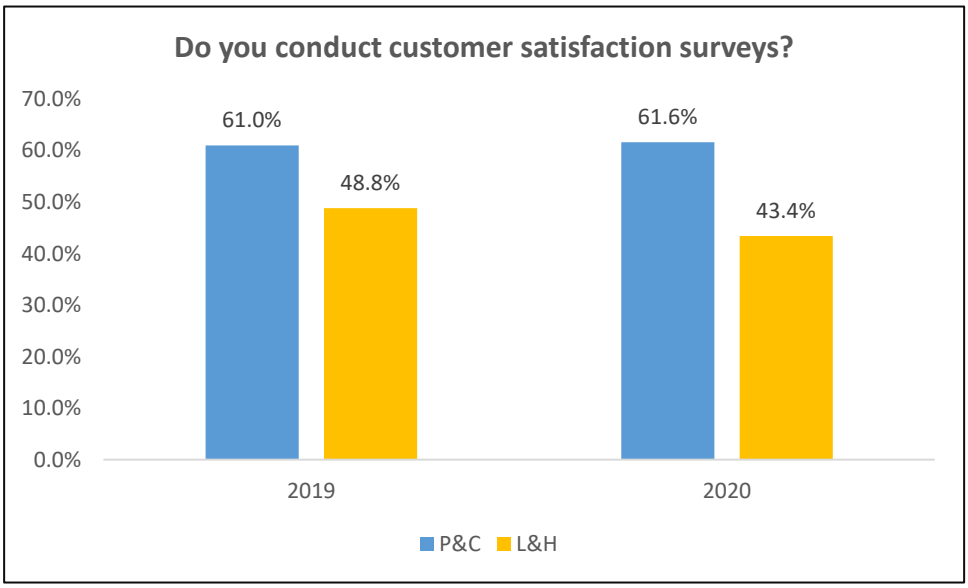


For those insurers who answered in the affirmative to FTC being a priority for their organization, both P&C and L&H respondents predominately answered that they “develop strategies, objectives and initiatives to promote the Fair Treatment of Customers.” These results were similar to the 2019 return (P&C – 93.6% in 2020 compared to 94.0% in 2019; L&H – 100% in both years). There continues to be a drop when asked if respondents have “develop(ed) measures and reports to inform management and the board of directors of the organization’s performance in the Fair Treatment of Customers” (P&C – 82.6% in both years; L&H – 87.1% in 2020 compared to 86.8% in 2019).



CCIR is still looking for improvement in insurers being able to demonstrate that they have incorporated FTC principles within their organizations. Insurers generally indicated they consider FTC a priority during the entire life-cycle of the insurance product, but some insurers still have not yet promoted FTC principles or implemented a reporting mechanism to measure FTC performance. Furthermore, there are still many insurers who do not have a standalone documented policy specifically addressing FTC.

Customer Satisfaction Surveys



The number of respondents that conduct customer satisfaction surveys remains generally unchanged compared to last year's return (P&C – 61.6% in 2020 compared to 61.0% in 2019; L&H – 43.4% in 2020 compared to 48.8% in 2019). Amongst the insurers who responded in the affirmative that they conduct customer satisfaction surveys, the most common occurrence in the P&C sector was immediately following a claim (95.8%), followed by sale (60.1%). In the L&H sector, the most common occurrence was following a sale (69.7%), followed by a claim (63.6%). Only a small percentage of respondents that conduct customer satisfaction surveys, do so following a complaint (P&C – 27.3%; L&H – 27.3%). For the P&C industry, large-sized insurers that conduct surveys predominately did so in the event of a claim (96.3%) and following a sale (74.1%), but only 33.3% did so following a complaint. This observation is true for large-sized L&H insurers as well, with 90.0% of respondents conducting surveys following both a sale and a claim but only 30.0% indicating they did the same following a complaint.

The FTC Guidance indicates insurers are responsible for assessing the "performance of the various models of distribution used, particularly in terms of fair treatment of customers and, if necessary, take the necessary remedial action." While there are numerous ways through which an insurer can assess performance of employees/distributors (e.g. audits, reviews), direct contact with customers enable organizations to better assess how they are performing in regards to FTC. Surveys and other feedback mechanisms employed by insurers such as focus groups, online feedback forms, etc. are a simple and effective way for the voice of the customer to be heard. It enables insurers to identify areas of improvement and new opportunities to have open dialogue and deepen the relationship with customers.

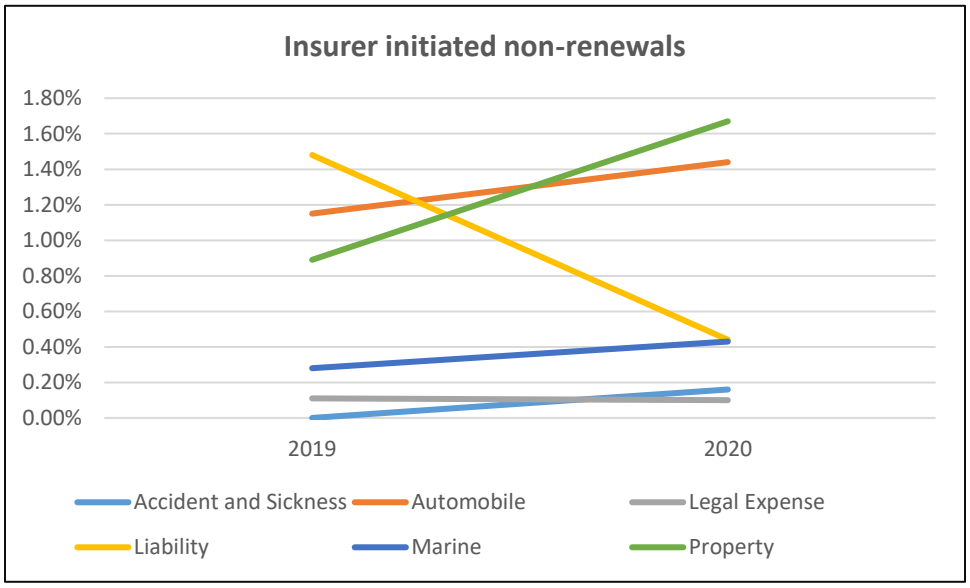
How CCIR Members Utilize Governance Data

- Assess the industry's FTC governance maturity and insurers' perception of their own maturity level
- Aids in tracking industry support and implementation of FTC principles
- Helps to assess risks and highlight risk indicators used in selecting risk-based examinations
- Verification tool on examinations to determine how FTC principles are implemented and operationalized
- Monitors number of FTC audits being performed by insurers throughout various distribution channels

Policies

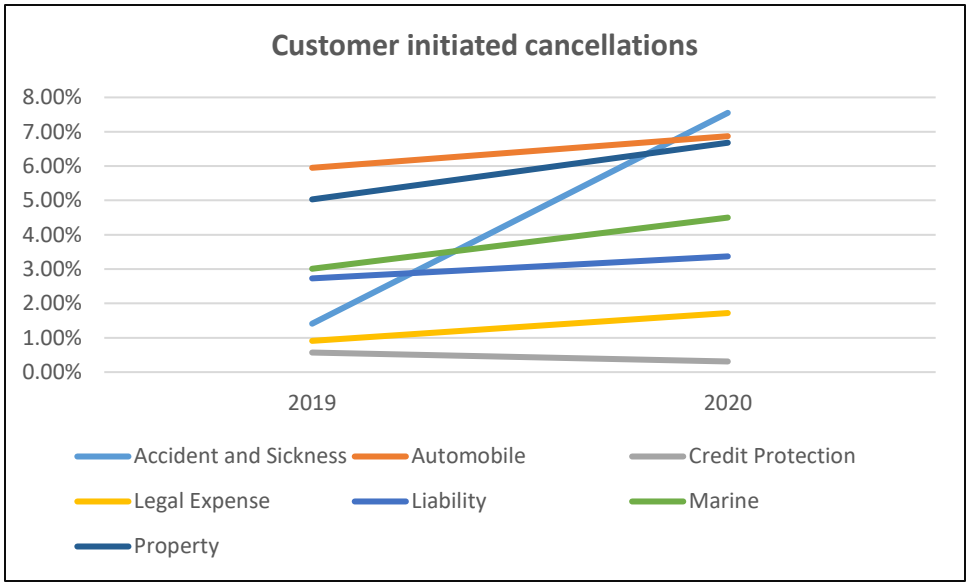
The Policies section of the Annual Statement requires insurers to provide information on the state of their policies in force as well as policies issued in their previous reporting period. Special emphasis is placed on data surrounding the cancellation of contracts or the denial of applications, in relation to the class of insurance.[9]

P&C Insurance Policies



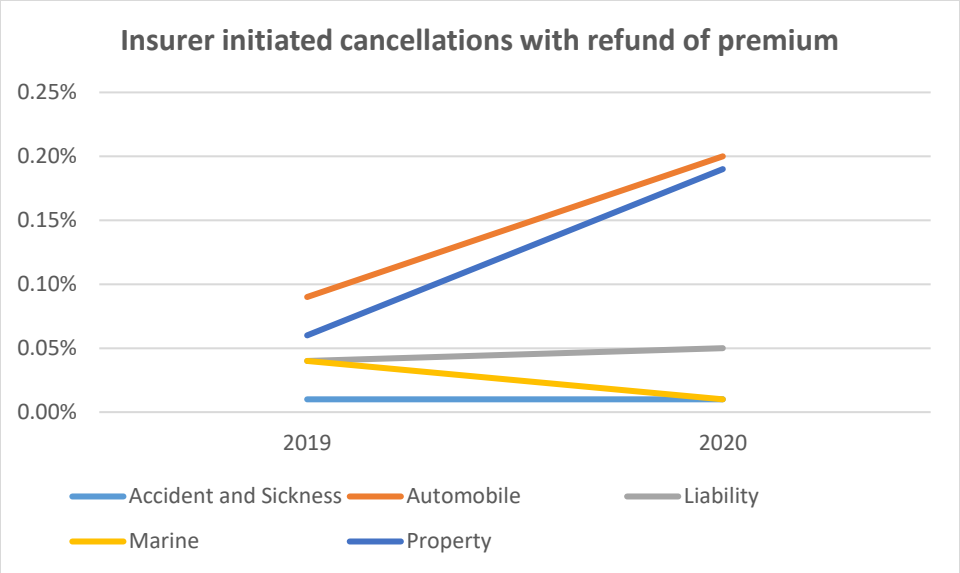
[9] For P&C insurance, commercial insurance policies are excluded from the data.

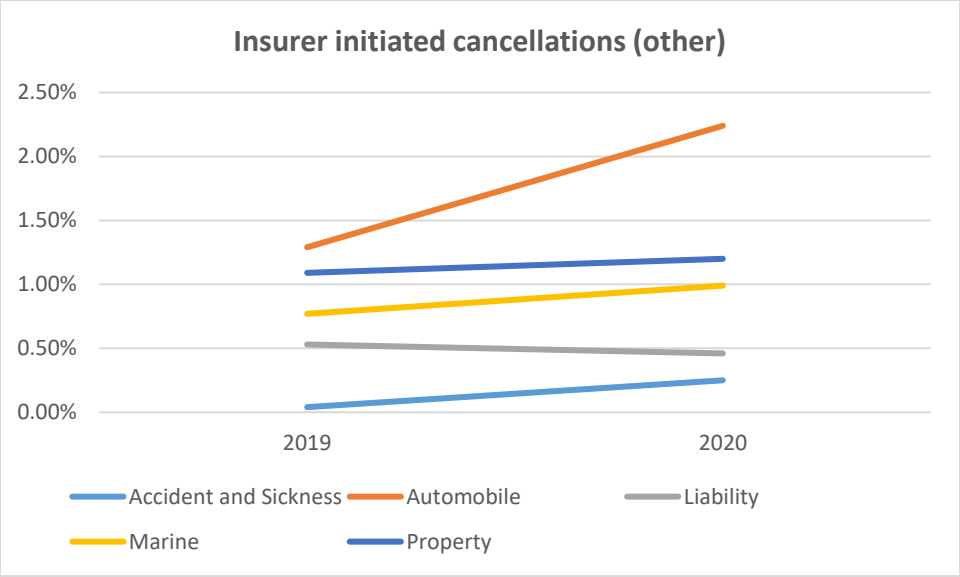
The insurer initiated non-renewals ratio[10] is designed to capture broad industry trends, as well as identify if an insurer has initiated a significant reduction in a class of insurance. The automobile and property classes of insurance witnessed increases in insurer initiated non-renewals in 2020 compared to the previous year (automobile – 1.44% in 2020 compared to 1.15% in 2019; property – 1.67% in 2020 compared to 0.89% in 2019).



The customer initiated cancellations ratio[11] is designed to track customer mobility, as well as provide a broad indication of customer satisfaction with certain classes of insurance. This data is not used in isolation but is corroborated with other indicators, such as complaints, premiums, and media reports. 2020 witnessed more P&C customers overall cancelling their policies compared to 2019. The largest increase occurred amongst accident & sickness customers (+435.46% y/y) The factors influencing these results could eventually be discussed with insurers to understand and confirm what caused it (e.g.: Covid-19 situation or any other reason).

[10] Ratio calculation: Total number of insurer initiated non-renewals / (number of policies issued + number of policies renewed)
[11] Ratio calculation: Total number of customer initiated cancellations / policies in force at the end of the period



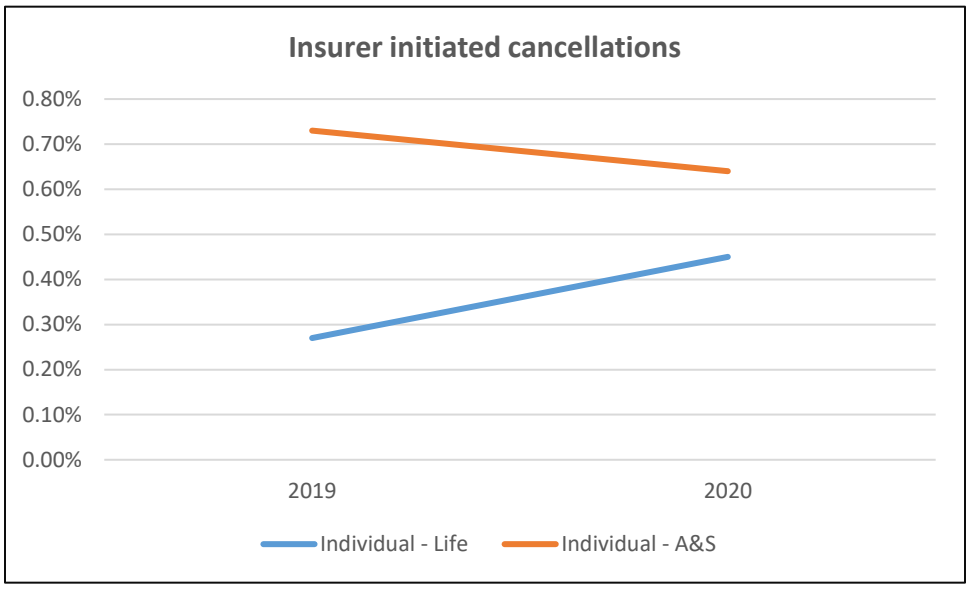


The insurer initiated cancellations with refund of premium – Fully refunded ratio[12] and the insurer initiated cancellations (other) ratio[13] are designed to capture which classes of insurance customers are mostly likely to have their policies cancelled. In these cases, the insurer

[12] Ratio calculation: Total number of insurer initiated cancellations with full refund of premium / policies in force at the end of the period
[13] Ratio calculation: Total number of insurer initiated cancellations (other) / policies in force at the end of the period

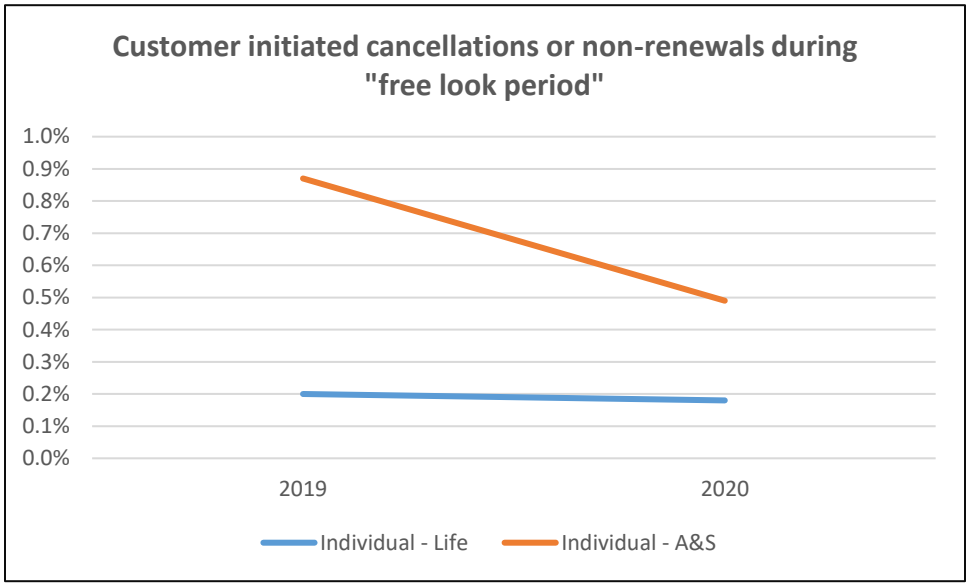
retroactively canceled the policy and insureds are left without insurance protection. Both ratios show increases in insurers cancelling automobile policies y/y, while property policies also witnessed a sharp increase in insurer cancellations with premiums refunded. Issues have been raised in the automobile class in multiple jurisdictions, through complaints to regulators, and in media reports. CCIR will continue its discussions with the industry on this subject to understand the causes and monitor the situation as it may have a significant impact on some consumers.

L&H Insurance Policies



The insurer initiated cancellations ratio[14] is designed to provide data on the number of policies cancelled by insurers in a specific class of insurance. It is also used on an individual insurer basis to determine if an insurer has a significant increase in the number of cancelled policies compared to previous years. Individual – life policies saw a rise in the percentage of cancellations by insurers in 2020 (0.45% of policies in 2020 compared to 0.27% in 2019).

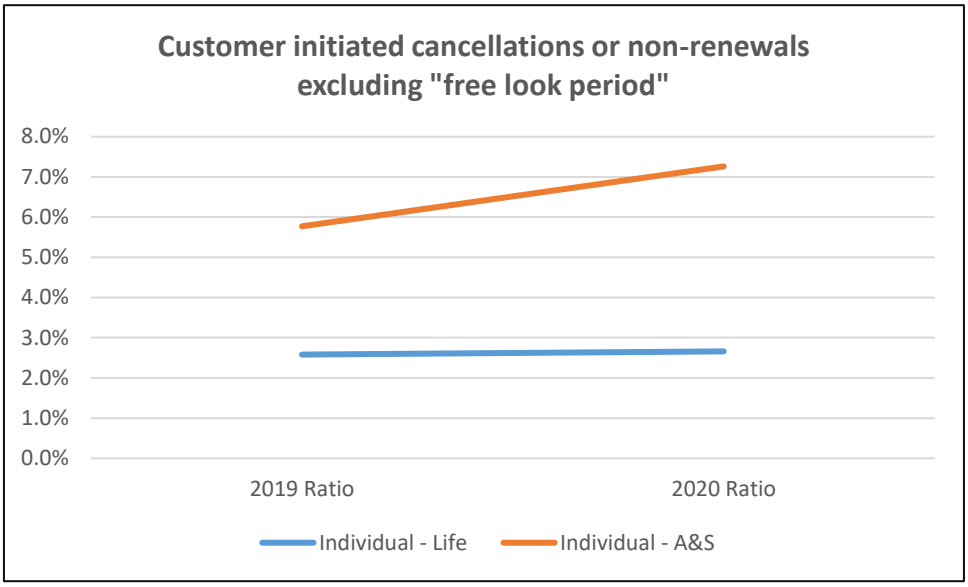
[14] Ratio calculation: Number of insurance initiated cancellations / policies in force at the end of the period



The 'customer initiated cancellations or non-renewals during free look period ratio'[15] is designed to broadly capture what classes of insurance are mostly likely to have customers cancel policies during the "free look" period. This ratio may be used to determine if a particular class of insurance is more likely to cause customers to experience "buyer's remorse" wherein they may feel a sense of regret and elect to cancel their policy. For individual insurers, this ratio may create a "red flag" that an insurer's distribution channel might not be properly selling policies to customers.[16] Customer initiated cancellations were flat in 2020 in individual – life, but fell steeply for individual – A&S (0.5% in 2020 compared to 0.9% in 2019). This could likely be due to total individual – A&S sales declining slightly in 2020.

The 'customer initiated cancellations or non-renewals excluding "free look period" ratio'[17] is designed to capture which classes of insurance are being cancelled during the normal life span of a product excluding the initial "free look period". This ratio is useful to CCIR in determining which classes of insurance customers may be dissatisfied with. Cancellations during this period rose 25.9% y/y in the individual – A&S class, while the ratio was stagnant in individual – life during the same period.

[15] Ratio calculation: Total customer initiated cancellations or non-renewals during free look period / policies in force at the end of the period
[16] CCIR members do not rely wholly on data collected from the Annual Statement and would verify information from sources, including examinations.
[17] Ratio calculation: Total customer initiated cancellations or non-renewals excluding free look period / policies in force at the end of the period



How CCIR Members Utilize Policies Data

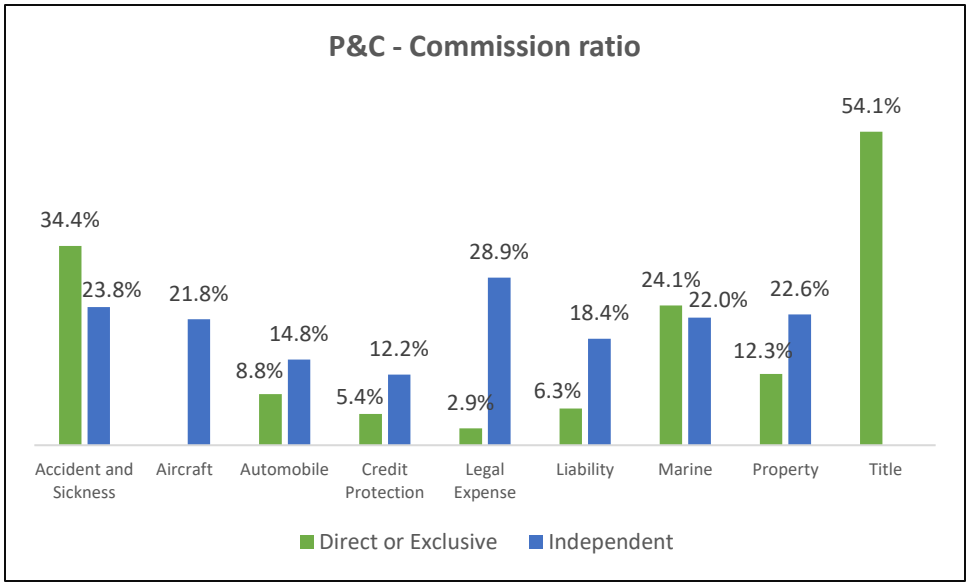
- Aids in tracking broad industry trends across classes of insurance, including denial of applications, and customer/insurer cancellations/non-renewals
- Enables tracking of growth/decline of certain classes of insurance based on total policies issued/renewed
- Allows CCIR members to track individual insurers' policies across classes of insurance
- Highlights risk indicators for CCIR members and identifies if customers are being treated fairly based on a specific class of insurance

Premiums, Commissions and Claims

This section of the Annual Statement captures data on direct premiums written, categorized by distribution channel and by class of insurance. Data is collected on commissions earned and claims incurred, both of which are also categorized by class of insurance and distribution channel. This section enables CCIR members to obtain a macro-level scale and nature of a certain class of insurance and its distribution channels. For the P&C sector[18], only data on personal lines is included.

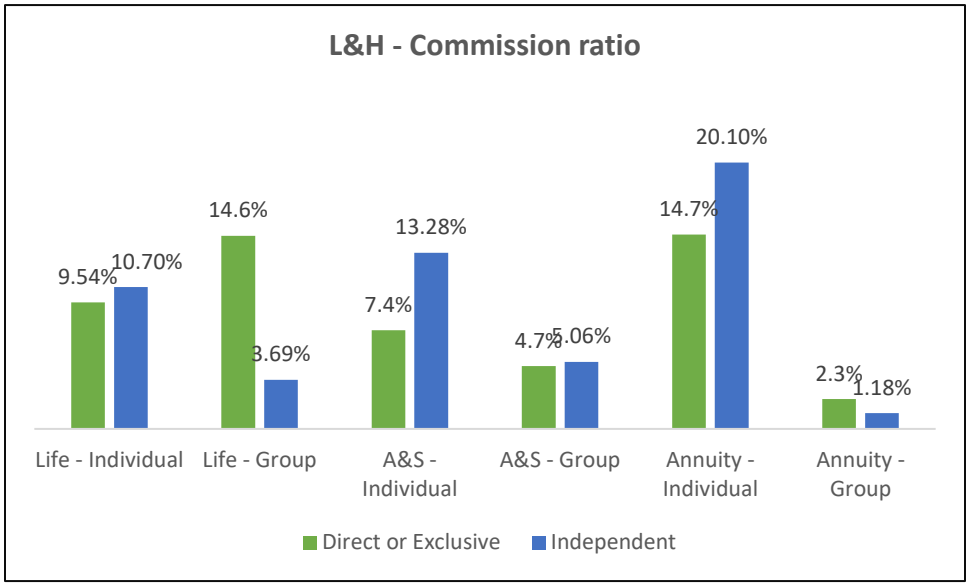
Commissions

The commission ratio[19] is calculated as the total amount of commissions paid in relation to the total direct written premiums (DWP) for a class of insurance. In this instance, commissions from commercial or reinsurance products are excluded. This gives a broad indication as to how commissions are paid relative to the amount of premium written based on the class of insurance.



[18] The Annual Statement harmonizes definitions of classes of insurance to the P&C Quarterly Return / Annual Supplement: https://lautorite.qc.ca/fileadmin/lautorite/formulaires/professionnels/assureurs/definitions-declaration-annuelle-assurance-dommages_an.pdf

[19] Ratio calculation: Total all distribution channel commissions / total direct written premiums



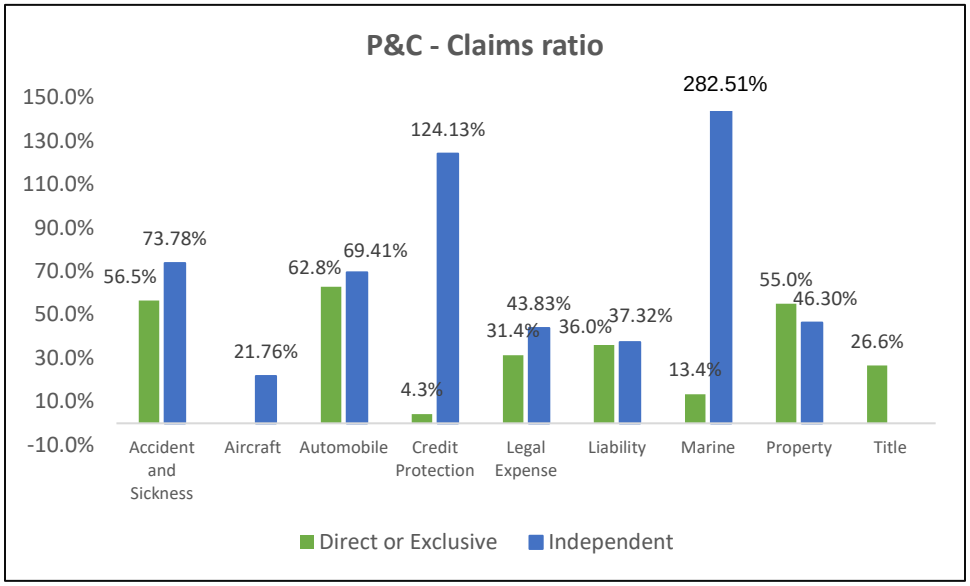
Data on commissions are likely to have moderate swings on a y/y basis. The Covid-19 pandemic's impact on premiums in certain classes of insurance may have impacted commissions. CCIR plans to continuously monitor commission ratios, their differences between insurance classes and distribution methods, and their overall impact on FTC.

Claims

The claims ratio[20] is calculated as the total amount of claims incurred in a class of insurance in relation to the total DWP. The claims ratio is useful for CCIR to determine which classes of insurance provide the highest value of return for customers, and if this is impacted by distribution channel. The automobile class saw a large reduction in its claim ratio y/y, as a reduction in driving due to the Covid-19 pandemic likely outpaced premium rebates. Other classes had large changes y/y over all of their distribution channels[21] including A&S (65.8% in 2020 compared to

[20] Ratio calculation: Total claims / total DWP
[21] Total claims ratios are calculated by total claims / total direct written premium (these ratios combine sales from all distribution channels)

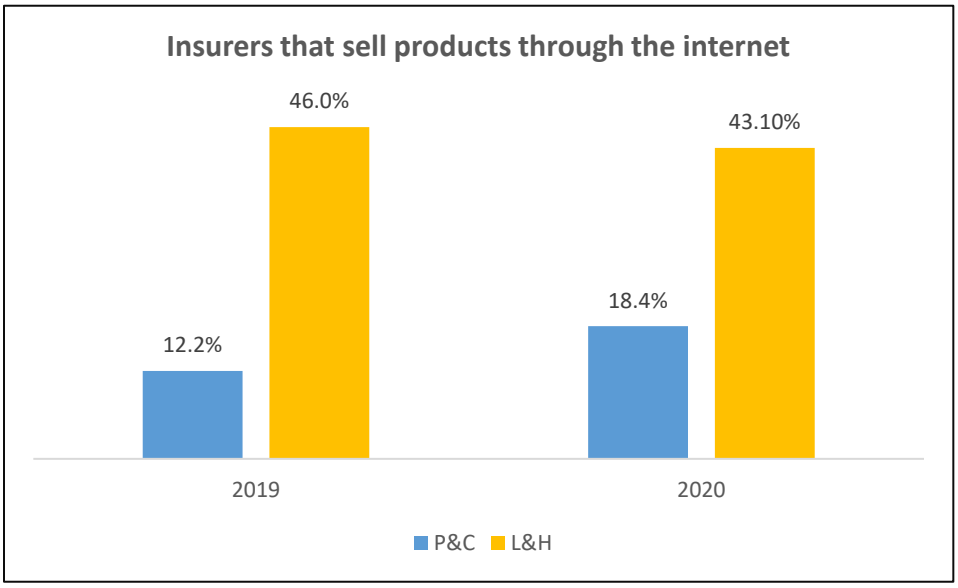
32.3% in 2019), credit protection (39.7% in 2020 compared to 9.7% in 2019), and marine (89.50% in 2020 compared to 25.15% in 2019).



Sales of Insurance Through the Internet

The Annual Statement is a useful tool to track the sale of insurance through the internet[22]. CCIR is interested in internet sales and plans to closely monitor the growth of sales in future iterations of this report. This data can be used to actively track the growth of internet sales, as well as cross-reference against other data including: employment data, sales of insurance through different distribution channels, growth/decline of classes of insurance etc. This data is of particular interest in the context of the Covid-19 pandemic's impact on the insurance sector.

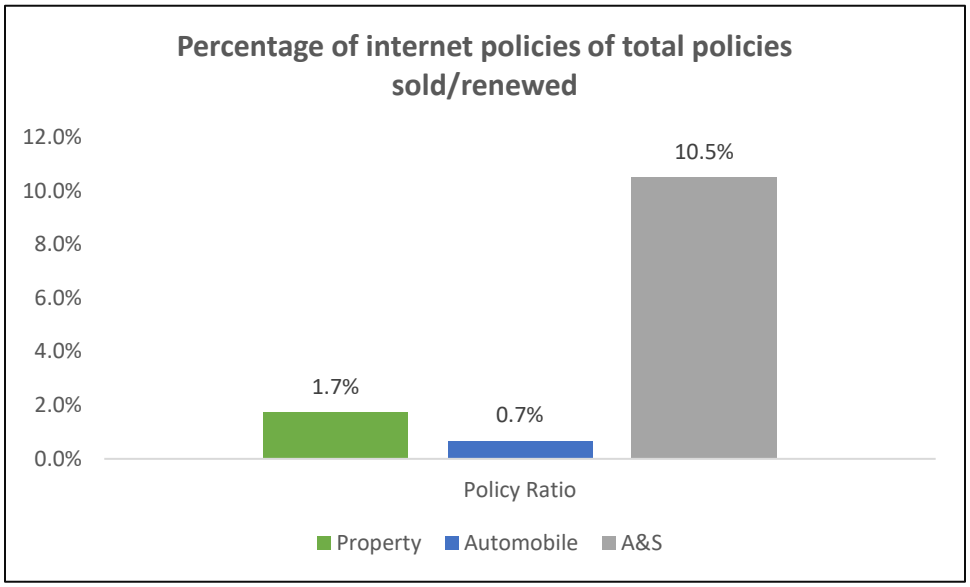
[22] A product is considered to be sold by Internet/online if the entire sale process is done online without using the services of an agent or broker. If a sale is completed by a licensed agent after the consumer obtains information or a price from a website, it is not considered as an Internet sale.

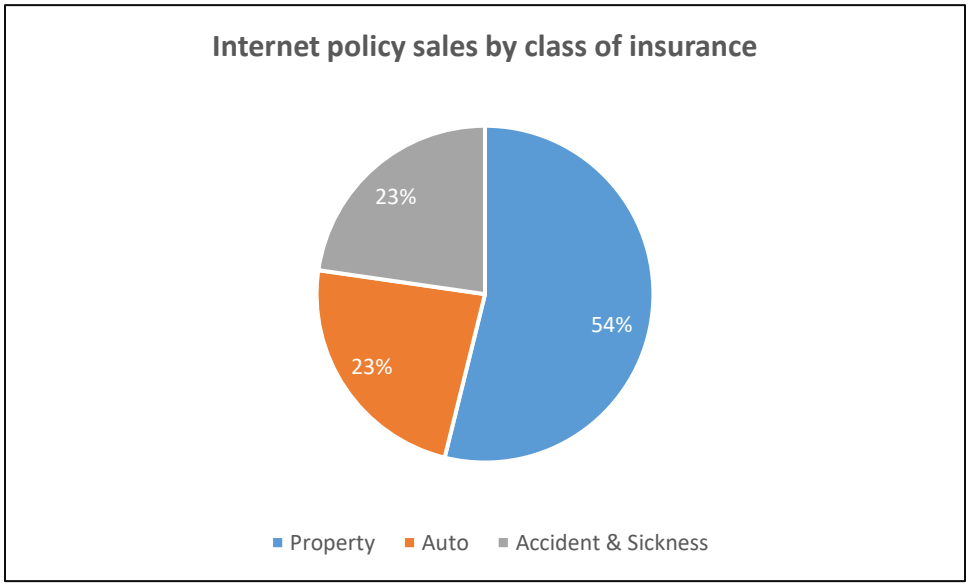


The insurance industry was already undergoing adoption of internet sales before the Covid-19 pandemic. In the 2019 return, 12.2% of P&C insurers and 46.0% of L&H insurers indicated that they sold products through the internet without the intervention of an intermediary. In 2020, there was a 50.8% increase for P&C respondents, with 18.4% of insurers indicating that they sold products through the internet. The uptake for L&H remained relatively flat (reduction of L&H insurers filing the Annual Statement in 2020), but was already significantly higher than the P&C sector. The Annual Statement also only accounts for sales made without the direct intervention of a human intermediary and the data does not capture insurers that use digital technologies to bolster more traditional distribution methods/channels.

CCIR added additional questions to the Annual Statement in 2020 which enables it to better track the growth of internet sales by class of insurance.

P&C Insurance





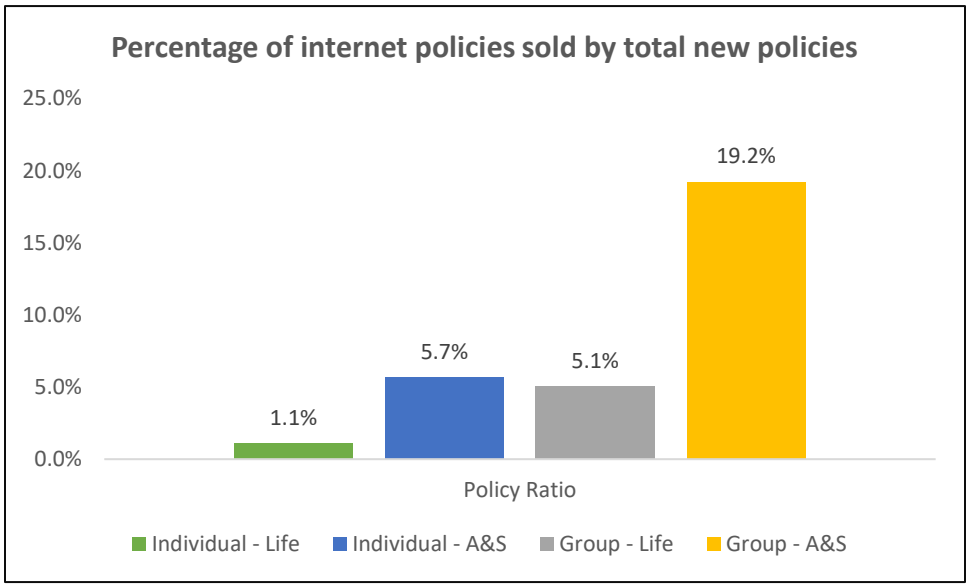
In the P&C sector, internet sales are dominated by property insurance, accounting for around 54% of all P&C policies sold through the internet. However, these still represent only around 1.7% of total property policies sold/renewed. Automobile policies account for around 23% of total internet policy sales, but also only make up a relatively small percentage of total automobile policies sold/renewed in 2020 (0.7%). A&S makes up a much larger percentage of total policy sales with 10.5% of A&S policies sold/renewed by P&C respondents.

Breakdown of internet policy sales by insurer size			
Class of Insurance	Small	Medium	Large
Property	35.4%	57.0%	7.6%
Automobile	11.6%	84.0%	4.5%
Accident & Sickness	31.5%	64.1%	4.3%

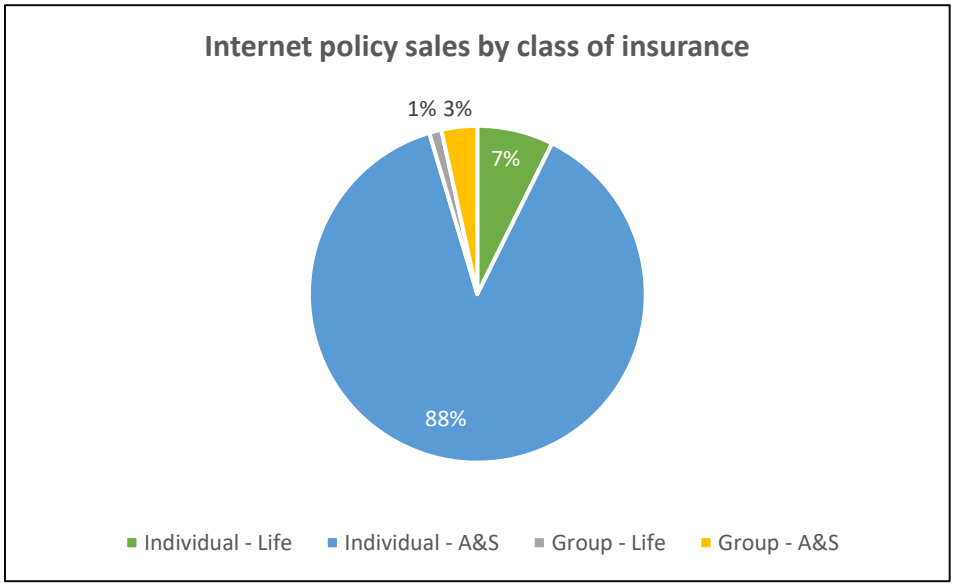
The majority of internet sales in the P&C sector (total policies sold through the internet) are being undertaken by medium-sized insurers for 64.9%, particularly for automobile (84.0%). Small-sized insurers even outpaced large-sized insurers for internet sales.

L&H Insurance

In the L&H sector, individual – A&S made up most policy sales through the internet (88% of total L&H policy sales), followed distantly by individual – life (7%). Individual – A&S made up 5.7%[23] of total new policy sales for the class of insurance, similar to group - life's 5.1%. Individual – life internet sales only account for about 1.1% of total new policy sales, while group – A&S internet sales accounted for close to 1/5 of total new policy sales (19.2%).



[23] Calculation: Number of policy sales by internet by class of insurance / number of new policies sold by class of insurance



Large-sized L&H insurers were much more active in internet sales than large-sized P&C insurers. In the individual classes, policy sales were mostly split between large-sized insurers (43.6% for life and 57.1% for A&S) and small-sized insurers (52.2% for life and 35.9% for A&S). Small-sized insurers made up the bulk of group policy sales through the internet (99.2% for life and 94.7% for A&S).

Breakdown of internet policy sales by insurer size			
Class of Insurance	**Small**	**Medium**	**Large**
Individual - Life	52.2%	4.3%	43.6%
Individual – A&S	35.9%	7.0%	57.1%
Life - Group	99.2%	0.0%	0.8%
A&S - Group	94.7%	0.4%	4.9%

CCIR intends to closely monitor the results of future iterations of the Annual Statement to track the development of internet sales and its effects on FTC outcomes. The CCIR Position Paper on Electronic Commerce in Insurance Products[24] outlines CCIR's recommendations for ensuring consumer protection outcomes when an insurance product is distributed electronically.

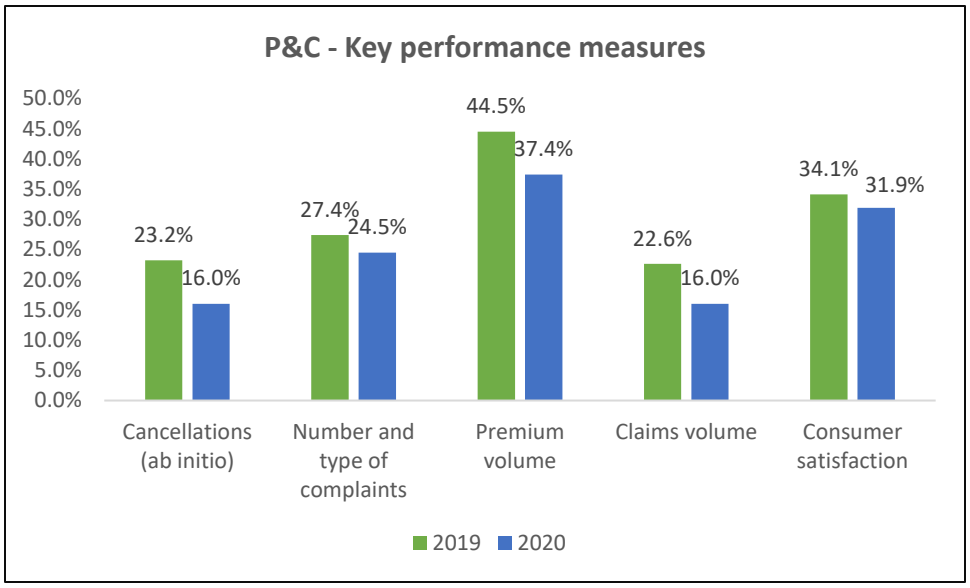
[24] https://www.ccir-ccrra.org/Documents/View/2725

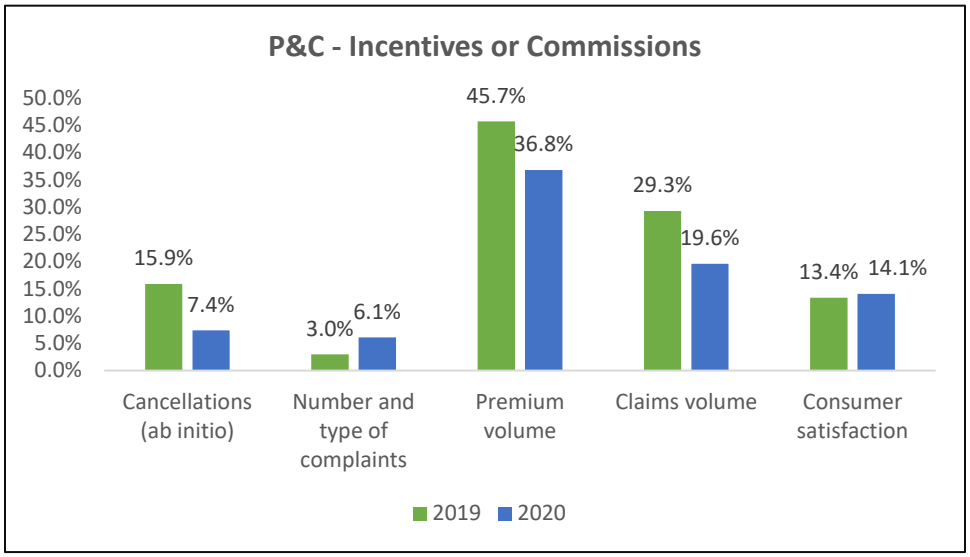
How CCIR Members Utilize Premiums, Commissions and Claims Data

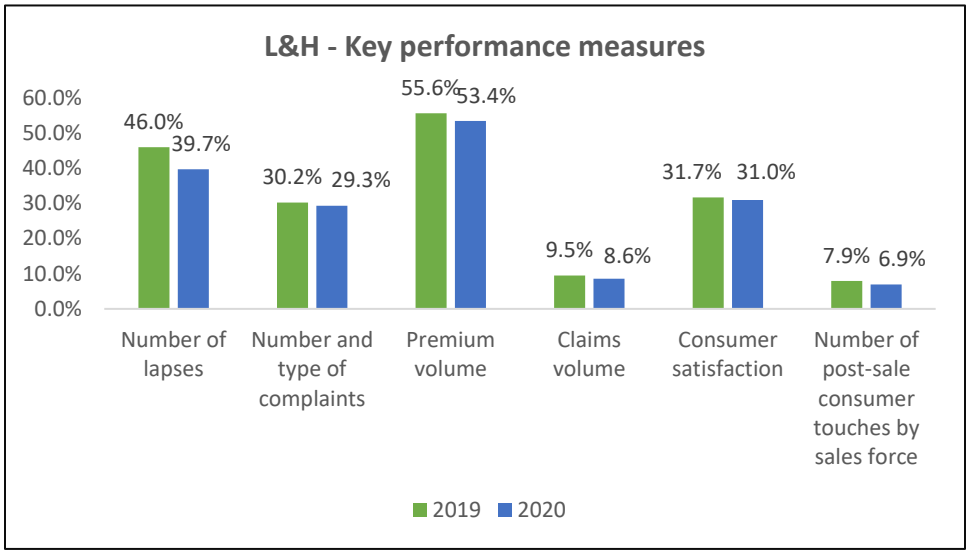
- Provides macro-level view of the insurance market, classes of insurance, commissions and claims
- Data feeds into risk assessments of classes of insurance
- Targeted tracking of incentive levels
- Tracking and monitoring of trends related to the sale of insurance through the internet

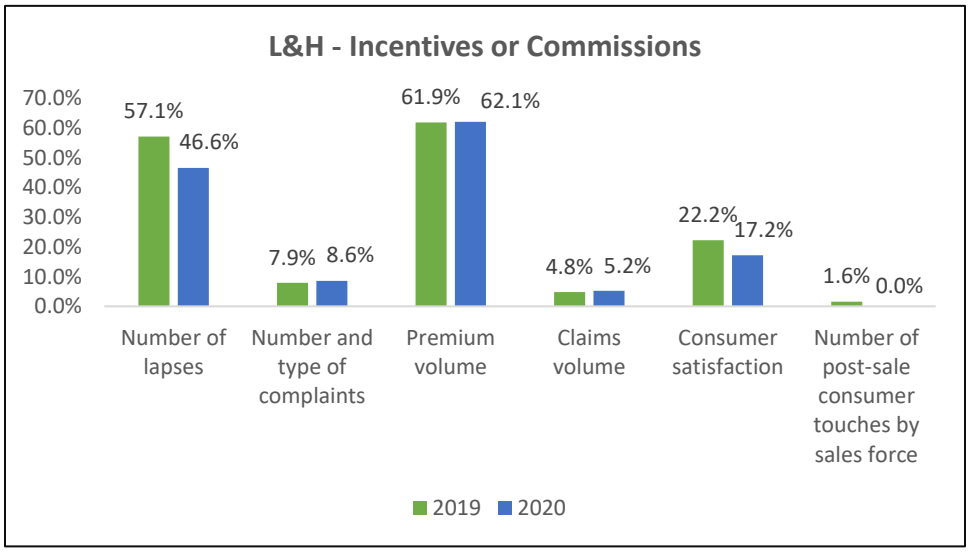
Sales and Incentives Management

The Sales and Incentives section of the Annual Statement only captures data for incentives provided by the insurer, excluding compensation practices of any entity distributing the product of the insurer.




P&C - Incentives or Commissions
50.0%
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
15.9%
7.4%
3.0%
6.1%
45.7%
36.8%
29.3%
19.6%
13.4%
14.1%
Cancellations (ab initio)
Number and type of complaints
Premium volume
Claims volume
Consumer satisfaction
2019
2020


L&H - Key performance measures
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
46.0%
39.7%
30.2%
29.3%
55.6%
53.4%
9.5%
8.6%
31.7%
31.0%
7.9%
6.9%
Number of lapses
Number and type of complaints
Premium volume
Claims volume
Consumer satisfaction
Number of post-sale consumer touches by sales force
2019
2020


L&H - Incentives or Commissions
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
57.1%
46.6%
7.9%
8.6%
61.9%
62.1%
4.8%
5.2%
22.2%
17.2%
1.6%
0.0%
Number of lapses
Number and type of complaints
Premium volume
Claims volume
Consumer satisfaction
Number of post-sale consumer touches by sales force
2019
2020

Across both sectors, the most common form of performance measure or incentive/commission for respondents' sales force was through premium volume. For the P&C sector, 37.4% of respondents indicated that premium volume was a key performance metric for their sales force, while 36.8% indicated they based incentives/commission around premium volume. In the L&H sector, 53.4% of respondents indicated premium volume was a key performance metric and 62.1% used it to determine incentives/commission. CCIR plans to publish for consultation its Incentives Management Guidance.

Consumer satisfaction criteria answers remained relatively stable across both sectors, although the number of insurers offering commission/incentives in the L&H sector did decline y/y.

How CCIR Members Utilize Sales and Incentives Management Data

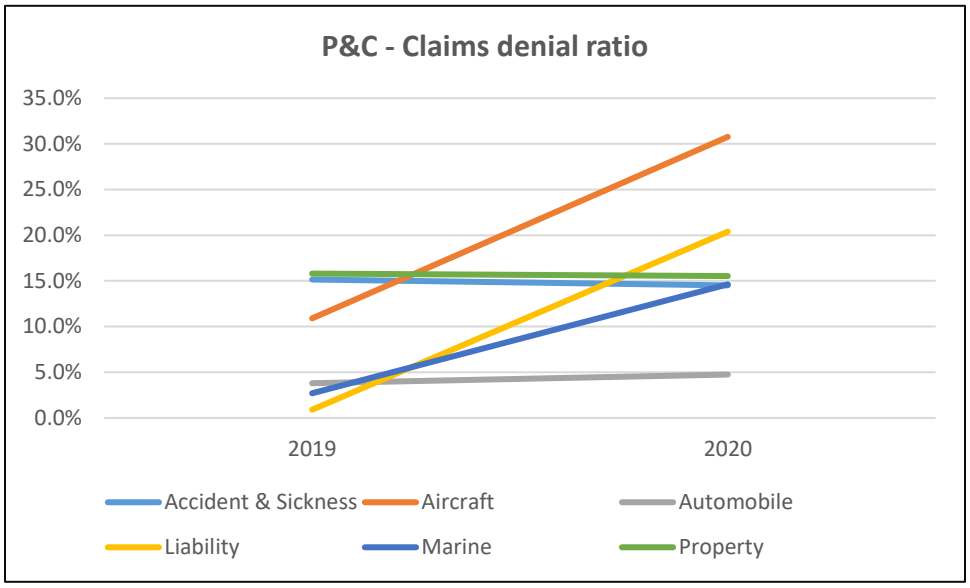
- Provides unique data on incentives utilized by insurers, including data on commissions offered to direct sales forces in the first and second years of a policy
- Enables CCIR members to monitor the development of non-monetary criteria based on FTC principles into incentive programs
- Helps to assess risks and highlight risk indicators to aid in selecting risk-based examinations

Claims

The Annual Statement collects data related to claims, categorized by class of insurance. The data also tracks the denial of claims, and time taken to complete the claims process. This section helps CCIR members track adherence to the FTC Guidance's expectation for insurers to handle "claims in a timely and fair manner."

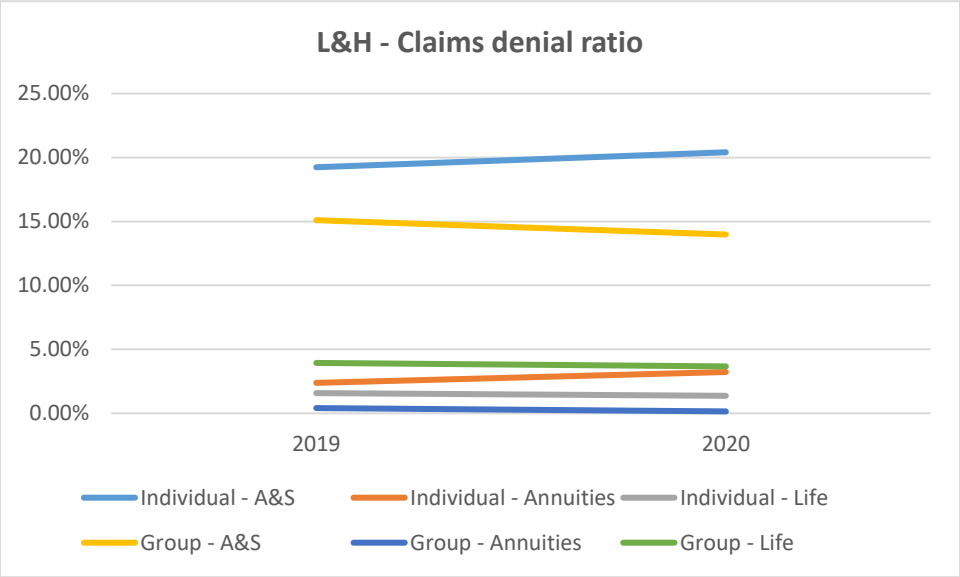
Claim Denials[25] [26]

CCIR developed a claims denial ratio, which measures the amount of claims which were denied in relation to the total number of claims made.[27] [28] The ratio provides CCIR members a macro-level view of claims which were rejected based on class of insurance, or distribution channel. This ratio should raise questions among insurers when there is a significant fluctuation or a class of insurance is at a high level. In these instances, insurers should evaluate the causes and take appropriate measures (e.g.: adjust the information presented to the consumer, etc).



For the P&C sector, claims denials remained relatively flat for the automobile, property and A&S classes. However, other classes like marine (14.6% in 2020 compared to 2.7% in 2019), liability (20.4% in 2020 compared to 0.9% in 2019) and aircraft (30.8% in 2020 compared to 10.9% in 2019) experienced large growth on a y/y basis.

[25] For the P&C sector, CCIR excluded Credit Protection data from the Claims Denial Ratio as the data has not reached an acceptable level of quality for two consecutive returns.
[26] Title and Legal Expense have a limited number of insurers which may cause large changes in the data from year to year.
[27] Ratio calculation: # claims denied in the period / (# of claims opened at the beginning of the period + # of new claims opened during the period – # of claims opened at the end of the period)
[28] A claim is considered denied if an insurer refuses to pay any amount of the claim.



The L&H sector was effectively flat across all classes of insurance on a y/y basis compared to the P&C sector. Claim denials remained under 4% for all classes of insurance aside from individual and group A&S.

Average final days to payment

For the P&C sector, the sector's has some difficulty in their ability to pay out claims in a timely manner. The Covid-19 pandemic could be part of the reason. Aside from automobile, which had a sizeable reduction in the number of days to final payment, most of the major classes of insurance saw their average day to final payment grow significantly: A&S – 78.7% increase y/y; liability – 20.2% increase y/y; marine – 46.9% increase y/y; and property – 44.4% increase y/y.

Class of insurance	2019	2020
Accident & Sickness	47	84
Aircraft	2	9
Automobile	154	133
Legal Expense	20	14
Liability	218	262
Marine	49	72
Property	117	169
Title	8	4

The L&H sector, by contrast, did not witness significant changes to its average number of days to final payments. Although individual – annuities saw moderate growth in the amount of time to

final payment (23.5% increase y/y), and group – annuities saw higher growth on a y/y basis (62.5%), these classes still had shorter payment times than other L&H classes.

Class of Insurance	2019	2020
Individual - Accident and Sickness	52	59
Individual - Annuities	17	21
Individual - Life	26	27
Group - Accident and Sickness	70	65
Group - Annuities	8	13
Group - Life	31	28

Reasons for denial

The Annual Statement also requires insurers to indicate the three main reasons for denial of claims during the reference period and the total number of denials for the three reasons selected. For both the P&C and L&H sectors, the main reason for denying a claim was due to 'Exclusions and limitations in the policy', followed by 'Not covered'. 'Claim abandoned by insured' was much more common in the P&C sector (21.5%) compared to the L&H sector (1.7%).

Reason for denial of claims	P&C	L&H
Exclusions and limitations in the policy	80.40%	56.9%
Delay in submitting claim	3.70%	1.7%
Not covered, except for exclusions and limitations in the policy	50.30%	37.9%
Failure to disclose or misrepresentation	17.20%	22.4%
Fraud	1.80%	1.7%
Claim abandoned by insured	21.50%	1.7%
Missing information or documentation	4.90%	13.8%
Pre-existing conditions	3.10%	13.8%
Insured not eligible		13.8%
Below deductible	19.60%	

How CCIR Members Utilize Claims Data

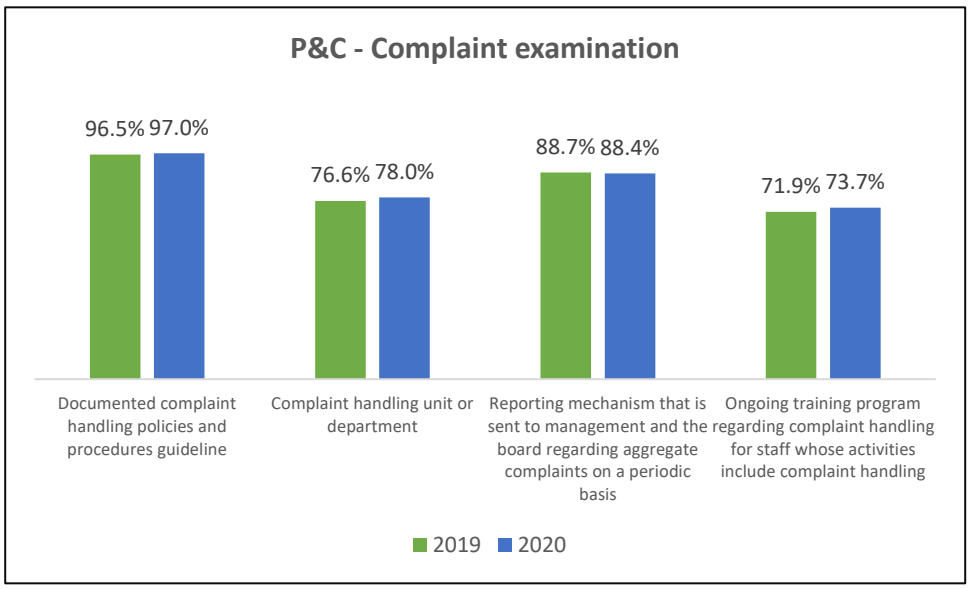
- Provides macro-level data to CCIR members on claims, in particular data on how long insurers take to close claims and how often claims are denied in relation to class of insurance and distribution channel
- Assists CCIR members in assessing the risk for a particular class of insurance, distribution channel or insurer for their adherence to the expectation outlined in the FTC Guidance for claims to be “examined diligently and fairly settled, using a simple and accessible procedure”

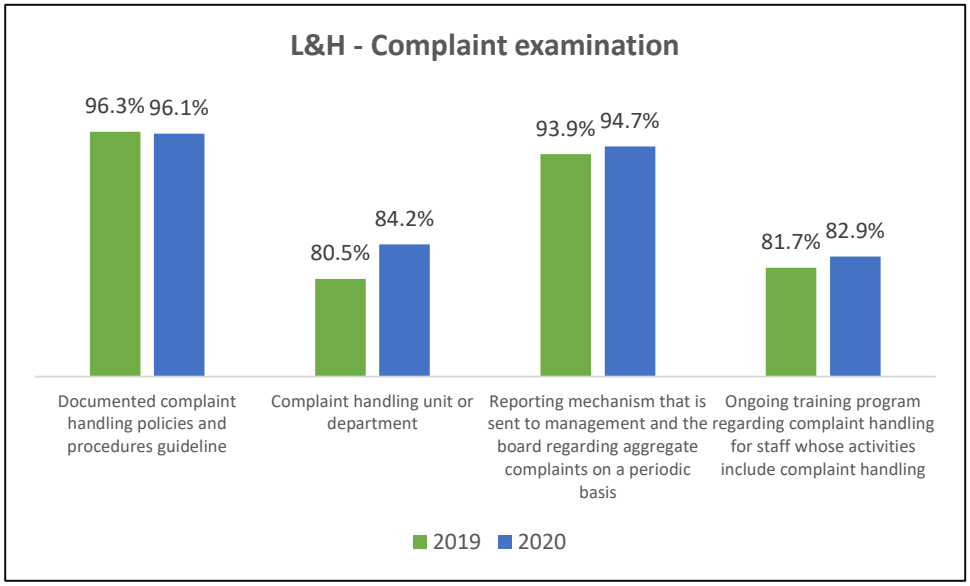
Complaint Examination

The FTC Guidance outlines several key expectations related to complaint examination and handling, including for the insurer to:

- Handle complaints in a timely and fair manner;
- Analyze complaints concerning Intermediaries in respect of products distributed by Intermediaries on their behalf, enabling them to assess the complete Customer experience and identify any issues to be addressed;
- Identify whether some Intermediaries or particular issues are subject to regular or frequent complaints;
- Establish policies and procedures to deal with received complaints in a fair manner; and
- Analyze the complaints received to identify trends and recurring risks

The Annual Statement collects key data assisting CCIR members in tracking insurers’ adoption of FTC principles related to complaints.





Both the P&C and L&H sectors had positive growth in their y/y results for complaint examination. Insurers largely indicated in 2019 that they have ‘Complaint handling policies and procedures guideline’ present in their organization. In 2020, however, there was growth in the number of respondents that indicated they have a complaint handling unit or department, and provide ongoing training on complaint handling to relevant staff. More L&H insurers indicated that they have a reporting mechanism to flag complaint data to senior management, while this data point remained relatively unchanged for P&C insurers.

How CCIR Members Utilize Complaint Handling Data

- Provides key data to assess overall effectiveness of regulatory requirements to satisfy ICP 19.11: "The supervisor requires insurers and intermediaries to handle complaints in a timely and fair manner"
- Helps to assess risks and highlight key risk indicators to aid in selecting risk-based examinations
- Acts as a verification tool on examinations to determine how FTC principles are implemented and operationalized

Complaints

Insurers are required to file all applicable complaints which meet the standards established through the Annual Statement[29]. Complaints are the expression of at least one of the following elements persists after being considered and examined at the operational level capable of making a decision on the matter:

- a reproach against an organization;
- the identification of a real or potential harm a consumer has experienced or may experience; or
- a request for a remedial action.

Province	% of P&C Complaints	% of L&H Complaints	% of Population
Alberta	11.5%	7.5%	11.6%
British Columbia	9.8%	11.3%	13.5%
Manitoba	0.8%	1.9%	3.6%
New Brunswick	1.9%	1.7%	2.1%
Newfoundland and Labrador	1.4%	1.3%	1.4%
Northwest Territories	0.0%	0.0%	0.1%
Nova Scotia	2.0%	2.1%	2.6%

[29] Where a consumer makes a complaint by phone or in person and the complaint is handled and examined by the person responsible for the examination of complaints and designated as such in the organization's policy, the complaint must be documented so it can be kept on file. The initial expression of dissatisfaction by a consumer, whether in writing or otherwise, will not be considered a complaint where the issue is settled in the ordinary course of business. However, in the event the consumer remains dissatisfied and such dissatisfaction is referred to the person who is responsible for the examination of complaints and designated as such in the organization's policy, then it will be considered as a complaint.

Nunavut	0.0%	0.0%	0.1%
Ontario	54.4%	31.8%	38.8%
Prince Edward Island	0.2%	0.3%	0.4%
Quebec	17.0%	39.9%	22.6%
Saskatchewan	0.7%	1.1%	3.1%
Yukon	0.1%	0.0%	0.1%
Not Classified	0.2%	1.1%	N/A

A disproportionate number of complaints originated in Ontario for the P&C sector, the majority of which are in the automobile class of insurance, however there was still a substantial decrease in Ontario's share of P&C complaints on a y/y basis (54.4% in 2020 compared to 61.4% in 2019). BC saw its share of complaints grow the most, with increases in both P&C (9.8% in 2020 compared to 3.0% in 2019) and L&H (11.3% in 2020 compared to 7.1% in 2019).

In the P&C sector, personal lines complaints increased 0.8% on a y/y basis. Complaints in automobile reduced substantially y/y, comprising 62.5% of all P&C complaints in 2019 to 51.5% in 2020. This was offset by a higher concentration of complaints under the property class of insurance (38.6% of P&C complaints in 2020 compared to 30.3% in 2019). The most common complaint category for personal lines was related to claims/settlement issues. The most common cause of complaint for P&C personal lines was 'refusal of claim', which represents 23.1% of all complaints made in 2020.

Breakdown of complaints percentage by class of insurance		
Class of Insurance	**2019**	**2020**
Accident & Sickness	1.6%	3.8%
Automobile	62.5%	51.5%
Credit Protection	0.3%	0.6%
Liability	1.5%	1.7%
Marine	0.1%	0.1%
Other approved products	2.9%	3.2%
Property	30.3%	38.6%

In the L&H sector, complaints for the individual classes increased 10.9% on a y/y basis. The share of complaints under the life class of insurance reduced from 60.2% of all individual L&H complaints in 2019 to 51.9% in 2020. The overall share of A&S complaints increased significantly in 2020 to 37.3% of total individual complaints compared to only 26.6% in 2019. An insurer that notices an increase in the number of complaints should investigate to determine the causes and

take appropriate action, if required. The most common cause of complaint for L&H individual lines was, like P&C personal lines, 'refusal of claim', which represents 26.2% of all complaints made in 2020.

Breakdown of complaints percentage by class of insurance		
Class of Insurance (Individual)	**2019**	**2020**
Accident & Sickness	26.6%	37.3%
Annuities	3.3%	2.1%
Guaranteed Investment Account (GIA)	0.2%	0.4%
Life	60.2%	51.9%
Segregated Funds	7.2%	8.2%

How CCIR Members Utilize Complaints Data

- Helps to assess risks and highlight risk indicators to aid in selecting risk-based examinations
- Verification tool on examinations to determine how FTC principles are implemented and operationalized
- Macro-level monitoring of complaint trends

CONCLUSION

CCIR members continue to find important value in the Annual Statement as a regulatory tool. The data obtained through the Annual Statement is an essential resource, whose value will continue to grow with maturity of the data and emergence of key trends and indicators. As is evident from this report, examining key data points on a y/y or trending basis proves to be an effective way to study trends in the industry, to identify areas for improvement by the industry or an insurer in particular, and to prioritize FTC collaborative supervisory reviews.

CCIR members also believe that the public report itself, combined with CSOC's thematic examinations and other CCIR messaging, can contribute to positive customer outcomes. CCIR encourages insurers to examine the results of this report closely and benchmark their organization's results with the results of the industry as a whole and to promote best practices in terms of FTC.

Canadian Council of Insurance Regulators

Telephone: 416 590-7257
Toll free: 1 800 668-0128 ext 7257
Email: ccir-ccrra@fsrao.ca