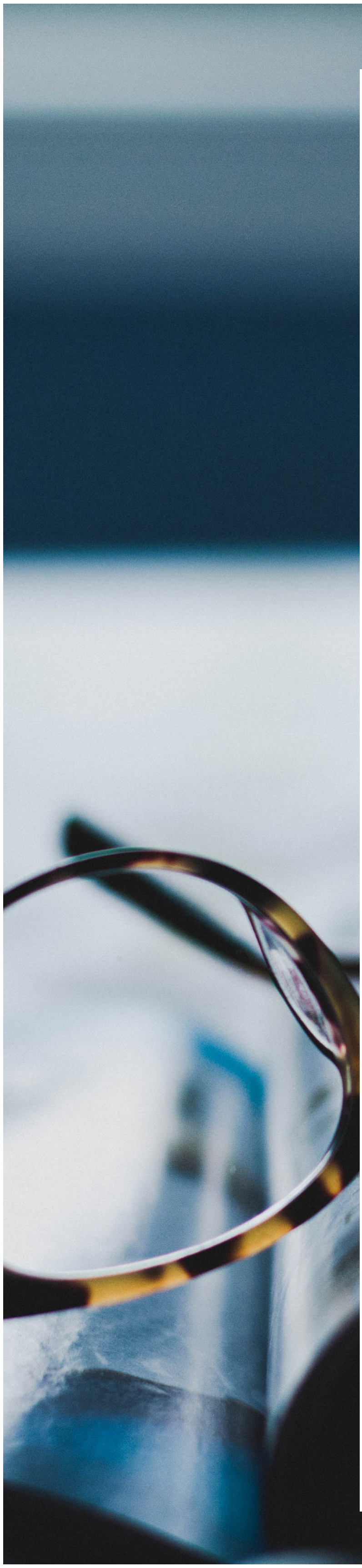
Standing Committee on Finance and Economic Affairs: 2020 Pre-Budget Consultations

January 24th, 2020

Julia Douglas, Committee Clerk
Standing Committee on Finance and Economic Affairs
99 Wellesley Street West
Room 1405, Whitney Block
Queen's Park
Toronto, Ontario M7A 1A2
comm-financeaffairs@ola.org

Une place de choix[MD]
the co-operators®
A Better Place For You®

INDEX



INTRODUCTION

The Co-operators Group Limited ("The Co-operators") is a leading Canadian, diversified, integrated, multi-line insurance and financial services organization. As a co-operative, our 45 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians.

Our footprint in Ontario is strong: we insure approximately **580,000 private passenger vehicles**, **350,200 homes**, **9,400 farms** and **37,000 businesses**. We employ over **2,700 staff** and have independent distribution contracts with 250 advisors, who in turn operate their own agencies. Our member organizations headquartered in the province include the Ontario Federation of Agriculture, the Co-operative Housing Federation of Canada and United Steelworkers (District 6). Additionally, we live out our co-operative identity and create benefits for communities through contributions to charities, non-profits and co-operatives. This is why we have invested $2.5 million in the last five years in Ontario alone.

In line with our co-operative principles and values, we put our clients at the centre of all of our decision-making. Our drive to meet the unmet needs of Canadians led us to offer "Comprehensive Water", bringing overland flood coverage to all Canadians regardless of their flood risk. It also brought us into the uncharted Canadian territory of on-demand, online insurance for pioneers of the digital sharing economy.

Our commitment to integrate sustainability and co-operative principles into our strategy and decision-making drives our ambitious target to invest 20% of our invested assets into impact investments that address our most pressing social and environmental challenges. We continue to explore underserved markets to provide the financial advice that Canadians need in a rapidly changing world.

We value the opportunity to participate in the **Standing Committee on Finance and Economic Affairs' 2020 pre-budget consultations**. Our recommendations focus on ongoing progress in the the co-operative sector, implementing changes to automobile insurance and building resiliency in our communities.

PROGRESS IN THE CO-OPERATIVE SECTOR

As a proud co-operative, we applauded the government's significant amendments to the *Co-operative Corporations Act* that were announced in the 2019 Fall Economic Statement. These improvements will eliminate the requirement for co-operatives to do 50% of business with members, allowing the sector to compete and innovate on a level playing field with all businesses in Ontario. The updates to audit rules will also reduce administrative burdens on community-owned co-operatives and allow their income to fund increased services. It is our conviction that Ontarians benefit greatly from the existence and growth of the co-operative business model, which these amendments will support.

Raising Capital

Budget Recommendation

Update the 25-year-old regulatory process for co-operatives raising capital for growth and operations.

We continue to support the **Ontario Co-operative Association's** recommendation to update the 25-year-old regulatory process to allow co-operatives to raise capital in a modern regulatory environment.

Specifically, co-operatives raise capital for their development and operations by offering to sell securities to members and non-members. The regulatory process in Ontario for co-op securities is called an "Offering Statement". Co-operatives can also choose to issue a prospectus under the *Ontario Securities Act*. There have been no changes to limits or exemptions in the act and respective regulations for at least 25 years. As such we support the suite of recommendations put forward by the **Ontario Co-operative Association** intended to ensure co-operatives operate on a level playfield.

MOVING FORWARD WITH *PUTTING DRIVERS FIRST*

Our goal is to promote a strong, competitive and sustainable insurance market, with fair rates that are aligned to risk.

Budget Recommendation

Continue to pursue reform through the *Putting Drivers First* blueprint.

We urge continued momentum on the *Putting Drivers First* blueprint to improve the auto insurance system for Ontario drivers. We have participated on a number of working groups to advise on reform measures that will ensure injured parties have access to necessary care, improve the assessments process, and address cost pressures throughout the system. We are hopeful that **Budget 2020** will incorporate these recommendations, with a focus on limiting the adversarial nature of the claims system to allow for return of the largest possible percentage of premiums to consumers in the form of treatment, compensation, and services.

Budget Recommendation

Improve territory segmentation to reduce subsidization.

We support a risk-based approach to rating where rates charged are proportionate to risk. This supports road safety, fairness, and innovation. The current restrictions on the number of territories insurers may use, combined with contiguity requirements, means that drivers in certain areas of the province are forced to subsidize others. We recommend the government work with the **Financial Services Regulatory Authority of Ontario** (FSRA) to allow insurers to segment using a number and distribution of territories that better aligns rates with risk. We would like to note that such a change would re-assign the current costs within the system. In order to resolve the cost challenges faced by Ontario drivers, continued reform (as noted above) is necessary.

Recent changes to reduce red tape through the approval of electronic communication are welcomed. We recommend **Budget 2020** build on this success and allow drivers the option to receive all insurance documents through electronic communications.

Budget Recommendation

Continue to reduce red tape for electronic communications.

Under current statutory conditions across the country, we spend approximately $1 million a year to send termination notices through registered mail. Many of these letters are never picked up by the client, and so they may not be aware that their insurance coverage has terminated. This is particularly the case where clients are used to receiving all other documents and communications from us electronically. The pending introduction of courier as an alternate to registered mail is a welcome change from a cost perspective. Permitting the electronic delivery of termination notices would eliminate costs associated with the delivery of termination notices. More importantly, it would result in fewer instances where clients are unaware that their coverage has terminated. It would also permit clients to receive all insurance documents (including termination notices) in the manner that they desire (either electronically or in hard copy).

At a cost of around $1.6 billion a year, fraud has a significant impact on auto insurance premiums in Ontario. We are an active member of the **Canadian National Insurance Crime Services** and the **Insurance Bureau of Canada's Investigative Services Division**, working to curb fraud and the cost impact it has on all provincial drivers.

In order to combat auto insurance fraud practices, we recognize there is a need for a legislative framework to better facilitate data sharing between the **Serious Fraud Office**, law enforcement and the insurance industry, as well as within the industry itself. Enhanced ability to collaborate and combine intelligence with other insurers about potential cases of fraud will help address this serious issue.

We recommend the establishment of a legislative framework that will better enable data and fraud intelligence sharing, enhancing the collective ability to collaborate on fraud reduction.

Budget Recommendation

Allow insurers to collaborate more effectively to reduce fraud.

BUILDING RESILIENCY

We continue to advocate for momentum in reducing greenhouse gas emissions, flood-proofing our communities, and leveraging private-sector finance to make our communities more resilient. As a proud sustainability champion and leader in risk management, The Co-operators takes a proactive approach in helping to build resilience. Preparing Ontarians for the costs and impacts of climate change is a shared priority.

Reducing Greenhouse Gas Emissions

The government has committed to lowering greenhouse gas emissions to 30% below 2005 levels by 2030, a target that aligns with the federal government's Paris Agreement commitments. Through our Climate Commitment, The Co-operators supports the Paris Agreement.

To date,
we have reduced our emissions by 81% from 2010 levels
and are committed to being
carbon neutral equivalent by end of 2020.

Budget Recommendation

Implement a price on carbon.

In order to meet the government's targets, we continue to support a price on carbon as the most economically efficient way of reducing emissions as it gives business the latitude to choose how to respond to the price signal.

Implement Recommendations from the Special Advisor on Flooding

We welcomed the report by Ontario's special advisor on flooding and were pleased to see many of the themes highlighted in The Co-operators response to Ontario's flood resilience survey. We believe that a collaborative effort between the provincial government, municipalities, public agencies and the private sector is needed to improve the current approach to flood resilience.

Budget Recommendation

Implement the report findings from the Special Advisor on Flooding.

In particular, we support:

- the need to work with the insurance industry to **raise awareness** of the necessity and availability **of overland flood insurance**;
- the importance of adequately funding conservation authorities as well as establishing a provincial ***Elevation Mapping Program***;
- incorporating references to "impacts of a changing climate" throughout provincial land use policies;
- consideration of regulating drainage standards in urban areas (such as backwater valves) and otherwise **strengthening Building Code provisions**; and
- including a "build back better" component under the ***Disaster Recovery Assistance for Ontarians program***, to encourage municipalities to incorporate climate resilience improvements in infrastructure repairs and replacements; and
- that the ***Disaster Recovery Assistance for Ontarians program*** be flexible enough to allow for removal of the structure from the floodplain (buyout) if it is the only technically and financially feasible option.

We see continued opportunity to work with the government to empower homeowners to mitigate their risk and hold appropriate insurance. Over the long term, addressing flood risk before it becomes a disaster situation could save costs otherwise paid out through disaster recovery programs.

Leverage Private Sector Finance

The “Made-in-Ontario Environment Plan” set out a path for public-private partnership, recognizing the capital, capability and know-how the private sector contributes to our shared goal of a low-carbon economy. We were pleased to see that as of November 2019, the government successfully issued Green Bonds for $1.7 billion to capitalize on the province’s ability to raise funds at low interest rates and help finance public transit initiatives, extreme-weather resistant infrastructure, and energy efficiency and conservation projects.

Budget Recommendation

Enable greater “green” investment opportunities for Ontarians.

As an asset owner and a majority owner of an investment manager (**Addenda Capital**) with approximately $30 billion under management, The Co-operators strongly believes the timing is right to enable broader investment in sustainability. For us, sustainable investing involves a four-pronged approach that includes promoting sustainable financial markets, integration of environmental, social and corporate governance (ESG) considerations, stewardship and impact investing. We are committed to this approach. In fact, in 2018, **Addenda Capital** invested 93% of The Co-operators’ $9.4 billion in assets through this policy.

In addition, in 2015, we set an ambitious goal to invest six to 10% of our invested assets into impact investments by the end of 2018—a goal we surpassed and have since increased to 20% by the end of 2022. Impact investing is as an approach that seeks to create both compelling financial returns and positive social and/or environmental impact that can be adequately measured, tracked, and reported.

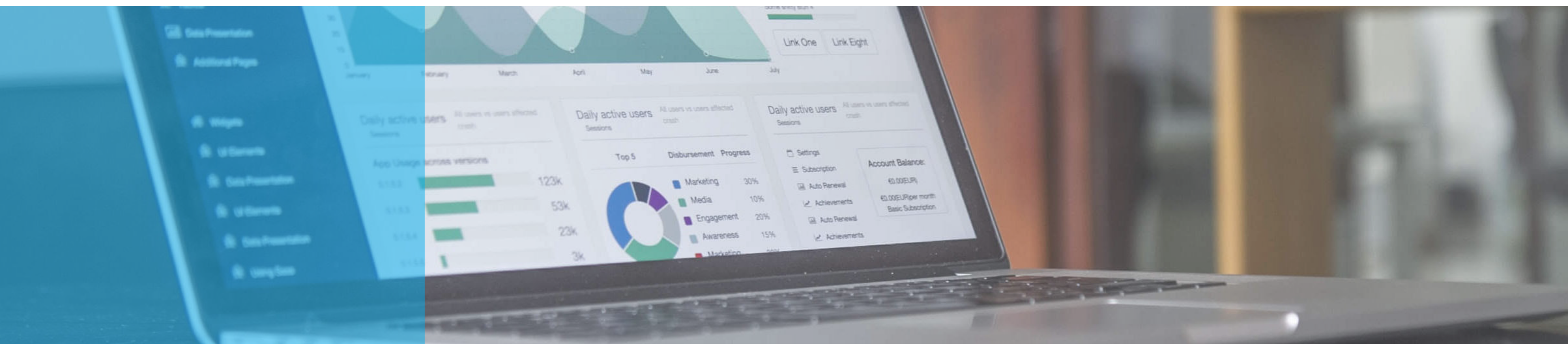
Unfortunately, the small scale of the existing investment opportunities is currently a barrier to greater mainstream investment in low-carbon impact investments, such as buildings, infrastructure, and technologies. The small scale significantly hampers efforts to build large-scale mainstream investor interest in low-carbon impact investments.

For example, the due diligence effort required for a $500,000 private investment in an unknown enterprise (which might have a unique capital structure and a unique term sheet) is generally greater than the due diligence effort required for a $50,000,000 investment in debt issued by a public company with a long track record subject to scrutiny from many stakeholders.

To illustrate this point further, we refer to Ontario's social venture exchange, SVX, of which A**ddenda Capital** is a member. There have not been many investment opportunities on the platform seeking to raise $5 million or more, listed on the exchange. This small scale makes it difficult to invest capital.

Few Canadian investment managers are offering impact investing funds and many of the funds are small themselves. It is difficult for investors to deploy large amounts of capital into these funds because it would not be prudent to place such a large portion in any one fund.

We recommend that the government facilitate larger investment opportunities in order for impact investing to be carried out on a much larger scale and by more Ontarians. Larger investment opportunities would be more common if there were more intermediaries. Moreover, if there were more intermediaries, more capital would be ready to be deployed.



Budget Recommendation

Promote climate-related disclosures.

We welcome the government's plans to work with the financial sector to promote climate-related disclosures in Ontario. As part of our effort to be a catalyst for a sustainable society, The Co-operators is committed to meeting the recommendations of the **Financial Stability Board's Task Force on Climate-related Financial Disclosures** (TCFD). As one of the founding members of the Canadian chapter of *Accountability for Sustainability's CFO Leadership Network* and a member of the *United Nations Environment Programme Finance Initiative's* insurance and investment TCFD pilot projects, we strongly support the TCFD's recommendations. The recommendations are designed to lead to more effective corporate climate change risk management, and better-informed evaluation of such risks and exposures by lenders, insurers and investors.

We agree there is a need for better climate disclosure and support the government's plans to enhance corporate disclosure and information sharing. We recommend **Budget 2020** include further steps to support and promote the TCFD's recommendations as a key action in standardizing and growing climate-related disclosures in Ontario.

CONSUMER PROTECTION

As a leader in the insurance and financial services industry, The Co-operators serves to protect the financial security of Ontarians and all Canadians and contribute to their well-being through support of appropriate consumer protection regulations.

Title protection for financial professionals

Following the introduction of the *Financial Professionals Title Protection Act* in last year's budget, we have worked to support FSRA in its development of Ontario's title protection framework.

We strongly support the consumer protection focus of this legislation. Like many insurers, The Co-operators takes steps to ensure our agents are clear about their qualifications and we have policies in place that restrict how our agents can market themselves. Our agents are not permitted to hold themselves out as a **Certified Financial Planner** (CFP) unless they have obtained a CFP certification.

We support restricting the use of the title "financial planner" to those agents who have earned their CFP certification. However, we are concerned **FP Canada's** introduction of new educational requirements that require a recognized post-secondary degree in order to achieve CFP certification will restrict the ability of our agents and associates to pursue their certifications. This could impact the availability of services for consumers. We are also concerned that the Act may unintentionally include the activities of licensed life insurance agents, particularly as they relate to the use of the title "financial advisor".

We recommend **Budget 2020** clarify that licensed life agents will retain the right to use the title of "financial advisor", and that the changes being made to the CFP certification educational requirements be considered in FSRA's development of the anticipated title protection framework.

Budget Recommendation

Licensed life insurance agents should be able to use the title of "financial advisor" without being subject to the requirements of the Act or any accompanying regulations.

Changes to Tarion and the New Home Buyers Protection Program

Through **Sovereign Insurance**, a wholly owned subsidiary of Co-operators General Insurance Company, we provide additional surety on behalf of Ontario new home builders, in order to support condominium construction throughout the province. Our products help to ensure new home builders have the security they need to meet the requirements to register with **Tarion Warranty Corporation**. They also ensure that every dollar of a new home purchaser's deposit is properly protected should a new home builder fail to deliver on their Agreements of Purchase and Sale.

We welcome the proposed reforms to the **Tarion Warranty Corporation** and amendments to the Ontario ***New Home Warranties Plan Act*** that seek to address concerns expressed by new home buyers in Ontario. Enhancements to the single administrator model for warranties and protections delivery will ensure that standards and claims adjustments remain centralized while maintaining consumer protection. Under the proposed amendments, our residential surety products will continue to support new home construction and protect new home buyers' deposits.

Budget Recommendation

Consumer protection amendments under the Rebuilding Consumer Confidence Act be passed.

CONCLUDING REMARKS

Thank you for the opportunity to provide input on the provincial budget through the **Standing Committee on Finance and Economic Affairs'** consultation process.

We firmly believe that public policy is best served when interested stakeholders work collaboratively to assist in the development of that policy. We bring a unique perspective as a Canadian co-operative insurance and financial services organizations. For this reason, we are not members of the **Insurance Bureau of Canada**; we prefer to contribute to the policy development process directly.

If you have any questions or require clarification, please do not hesitate to contact me at 519-824-4400 ext. 302244 or maya_milardovic@cooperators.ca.

Maya Milardovic
Associate Vice President, Government Relations
The Co-operators Group Limited