



Notes for the luncheon address by

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“An innovative regulator? How the Autorité des marchés financiers is dealing with
innovation – our capacities, our limits, our challenges, our vision”

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N.B. Check against delivery

----- *Acknowledgments and background*

Ladies and gentlemen,

Good afternoon and thank you for your welcome here in wonderful Toronto!

It is a pleasure and an honour for me to speak to you on behalf of the Autorité des marchés financiers. All the more so as I will be addressing you on the topic of innovation and how a regulator such as the AMF deals with the many challenges that come from technological developments, the emergence of new digital platforms and the arrival of new product and service offerings in P&C insurance and other financial product and service industries.

The title chosen by IBC organizers for this symposium could not be more relevant.

Innovation is such a hot topic because never have so many technological innovations in so many economic sectors been introduced at almost the same time. And the pace is picking up...

Augmented/virtual reality in entertainment, automated electric vehicles in transportation: Nearly all sectors are seeing brilliant new ideas that meet very real needs, and which prefigure a disruptive transformation in the way we carry on our activities and our consumer behaviour.

The financial products and services sector is no exception, what with crowdfunding, loan sharing, risk sharing and mobile payment platforms, robo-advisors, blockchain technology, cryptocurrencies, and the list goes on.

In Montréal alone, there are some 60 outstanding fintechs that are well determined to bring their share of innovation to the financial sectors in Québec, Canada and far beyond our borders.

Toronto is also well positioned, as are San Francisco, Hong Kong, Singapore, London and Paris, all of which are resolutely engaged in a technological innovation race specifically aimed at the financial products and services sector.

----- *Fair balance*

Now, the question is, as you have put it: What position should a regulator adopt in the face of all this innovation? What type of oversight should we provide in particular to deal with the so-called "uberization" of financial services?

Being too innovative and getting too far ahead of the curve can send the wrong signal to businesses and the industry in general. Thinking today about the risks that just might occur tomorrow and are difficult for us to imagine is not only speculative, but also a bit paranoid.

For some, excessive caution can even be detrimental to the growth of the industry, its capacity to attract innovative businesses and its overall development.

Conversely, if we lag behind, if the oversight model does not keep up with the pace of the market and if a crisis erupts, then consequences will be made worse. Consumers of financial products and services will end up footing the bill and, in turn, so will all professionals, firms and other industry players. Regulators could be blamed—and rightfully so—for not having done their work. And it could be a long, steep climb back to normal for everyone.

Therefore, the right balance is a fine blend of clear thinking, good judgment, bold action, sensible approach and, yes, paranoia.

Let me say this : You need lots of qualities – and a few faults – to be a good regulator

----- *Innovation at the heart of our Strategic Plan*

These issues, as you may have guessed, have fueled much discussion at the AMF over the past months and years.

Today, they form a central pillar of the AMF's 2017-2020 Strategic Plan, which we published in the spring. This strategic plan is expected to have a real impact on consumers and the industry, particularly in the outcomes we will be able to achieve in carrying out our mission.

First of all, it seemed to us essential that the AMF be more open to innovation than before, and that it welcome, exemplify and prioritize innovation in carrying out its mission, role and daily operations, and in its way of thinking.

One of the strategic orientations that we adopted consists in demonstrating our leadership, added value and ability to innovate.

In this regard, the AMF specifically monitors technological innovations as they apply to P&C insurance and other financial sectors.

We are also working to solidify our links with key stakeholders in the Québec and Canadian financial ecosystems.

Our aim is to draw on the co-operation established with other regulators in order to deepen our understanding of the new business models and their impact.

This will help the AMF to reassess the existing regulatory framework in light of changes in the market, adapt it as necessary to market requirements and recommend adjustments to the government, as required.

Lastly, we will structure our operations and adapt our methods in order to process requests from new financial sector participants in an integrated and effective manner.

That can be summed up in one of the objectives we are pursuing, that is, to increase our proactivity with respect to new technologies and industry transformation.

Another orientation of our Strategic Plan consists of investing in our performance. Here again, our ability to innovate will be crucial to achieve our goals.

We need to develop our skills accordingly in order to better respond to a complex and changing environment. The AMF needs to ensure it has cutting-edge expertise and continues to encourage innovation and collective intelligence, particularly through shared ideas and knowledge.

----- *Our innovation strategy*

Innovation forms the basis of almost all elements of our Strategic Plan. What's more, in conjunction with the deployment of our plan, a dedicated strategy for innovation has recently been adopted by senior management and is being deployed across the organization.

I have been tasked with the executive leadership of the innovation strategy, which is a challenge that is both exciting and extremely energizing.

What is the purpose of this strategy, you may ask? It is to ensure that innovation creates value, addresses a need or helps resolve an issue for consumers, registered individuals and firms, or employees.

This will help us to better accomplish our mission of protecting consumers and will benefit stakeholders in the P&C insurance industry and the financial sector as a whole.

Innovation will enable us to improve the experience that individuals and legal entities have when dealing with the AMF. To do so, we intend to ensure a more systematic use of various tools, including surveys, in order to better identify inconveniences or needs, and propose innovative projects. Our consumer advisory committees may also be called on for that purpose.

We will thus be able to implement projects in "Agile" mode, which is another pillar of our Strategic Plan. This will speed up the decision-making process, increase the frequency of deliveries and, in each case, help us more closely meet the identified needs.

Ultimately, this will allow us to reinforce our links with clients and partners, and improve our delivery of services.

----- *Fintech initiative*

Of course, an important component of innovation, and one which we are following very closely, is the growth in fintechs and regtechs.

In our view, these technological innovations create new growth potential for the industry in Québec and allow consumers to benefit from competitive product and service offerings in both the P&C insurance and other financial product and service industries, provided the associated risks are properly understood and mitigated.

The AMF wants to be onside with those who spur the development of new technologies and technology solutions providers, insofar that they contribute to the growth and vitality of the P&C insurance industry, in particular.

To maintain a sound, robust financial sector, we need to clear the path for change. YES, we are open to new ways of offering financial products and services, but NEVER in a manner that is unfair or that weakens the safeguards protecting consumers.

In 2016, we set up a fintech working group within the AMF with the mandate to analyze technological innovations in the financial sector and anticipate regulatory, market efficiency and consumer protection issues. Some 50 AMF employees contribute to the working group in various ways.

The different initiatives and work undertaken have been grouped according to issues:

- Blockchain technology
- Virtual currencies and mobile payment solutions
- Collaborative sharing and fundraising
- Automated tools
- Big data and connected devices, and
- Regtech

Our Technological Innovation Advisory Committee, T-I-A-C, is made up of 12 leaders from the fintech community with a wealth of experience in various fields.

These people are living the fintech evolution on a daily basis, and their know-how complements the expertise of AMF team members.

The T-I-A-C helps us to challenge our ideas and ensure that the regulatory environment supports the development of commercial practices, business models and technology in the financial sector.

Our goal is also to serve as a go-to point of contact and reference for all industry stakeholders interested in technological innovation in the financial sector.

Moreover, we have established a fintech training program for AMF employees and managers. By creating a knowledge base with a large number of employees, we believe this will initiate discussion within the various units and foster sharing, openness and a desire to learn.

The aim of this program is also to spread a culture of innovation and technology within the AMF as an integrated regulator. So far, about 200 persons have taken the training!

We are thus looking to develop in-house experts who will be able to act as skilled, trusted advisors to colleagues and external clients.

----- *Fintech Lab*

As part of our fintech projects, we have created a Fintech Lab, which brings together university students in engineering and technology. These talented trainees assist us in carrying out our projects under the supervision of members of our Fintech Working Group.

The Fintech Lab doesn't focus on business models or commercial practices, but on the technology itself. In the Lab, we do our own testing of the technology in order to deepen our understanding and explore new ways to use it in order to enhance our internal processes.

For example: Each day, the AMF receives a large amount of information, including forms, data and various statements. Some of this information comes to us in an unstructured manner. That is to say that external clients can use the same forms to fill in boxes with the same information, for example the US LIBOR rate, but enter the information differently, making it difficult to aggregate and analyze the data.

We examined this problem at the Lab. After some trial and error, we successfully applied a machine learning algorithm that learns, based on previously entered data, to recognize the occurrences of the US LIBOR rate in future data. This is a small-scale finding that can have a major impact throughout our organization, especially in all business units that conduct data analysis.

Basically, we want to be able to measure the practical benefits that consumers, businesses and institutions can gain from the fintech environment, but also to test its limits and identify shortcomings and risks. Of course, this is also a way to improve our own tools by using the same technological developments.

In order to facilitate our discussions with community stakeholders, we have created a single point of entry for fintech matters: fintech@lautorite.qc.ca.

This is in addition to the existing communication channels with the AMF, in particular through our Information Centre. It's another way for the AMF to strengthen its role as local regulator close to its markets.

In keeping with this role, the AMF has undertaken discussions with Finance Montréal to create a fintech hub of excellence.

This hub of excellence will foster networking and the convergence of fintech stakeholders, be they from academia and business or from the AMF.

----- *Regulatory sandbox*

I spoke earlier of our intention to be onside with those who spur the development of innovative businesses so as to ensure the vitality of the industry.

It is in that spirit that the AMF together with the Canadian Securities Administrators (CSA) created a regulatory sandbox in February 2017 in order to support fintechs that seek to develop and offer innovative products and services, and obtain exemptive relief from regulatory requirements in order to test their business models without compromising investor protection. Of course, such exemptive relief is time limited and issued under certain conditions.

Businesses that seek to participate in the CSA regulatory sandbox must contact the securities regulator in their jurisdiction, which will assess their eligibility and allow them to operate in the sandbox if they offer technology that is innovative from a Canadian securities market perspective.

Applications are analyzed in a co-ordinated and flexible manner in order to adopt a harmonized approach across Canada for the various start-up or incumbent business models.

This initiative paved the way for the launch of Impak Finance in August 2017, which carried out an initial public coin offering. The filer, Impak Finance, plans on issuing "Impak Coins," or "MPK," a new cryptocurrency that participants will be able to use to pay for goods and services offered by businesses within Impak's social impact ecosystem.

That is a concrete example of what a regulator can do to foster the emergence of innovative businesses, without compromising consumer protection.

The regulator's role is also to provide market participants with benchmarks and remind them of the rules to follow, even when those participants bring about a rapid pace of disruption.

I am thinking here of businesses from the sharing—or access—economy, such as Uber, Airbnb or Turo, which warrant special attention.

Their sudden entry in regulated markets has raised a number of legitimate questions, particularly by competitors who pay for licences and operating rights and comply with a very strict regulatory and tax regime. But the arrival of these businesses also raises issues with respect to liability insurance coverage related to the commercial or shared use of personal property.

----- *Regulator's limits*

The growing number of innovations in all economic sectors and society in general pose many challenges and are pushing the boundaries of legal and regulatory frameworks to the limit, and not only in P&C insurance.

There is a consensus that all stakeholders—traditional and emerging—should be subject to an appropriate and fair regulatory framework. We also agree that the new purchasing, trading and distribution channels require certain adjustments to current regulatory approaches.

Clearly, special attention will have to be paid to ensure that the laws, regulations and other standards in effect are aligned with the new market realities.

The regulation of these new financial product and service offerings must be based on an analysis of consumer protection needs and industry competitiveness. Achieving a fair balance between protection of the public and market efficiency will continue to be a common goal for all financial sector regulators.

This brings me to say a few words about the limits and issues that we face.

Of course we cannot go against existing requirements or standards; we cannot adopt rules that are contrary to the Civil Code or laws governing the Québec financial sector. To date, for example, group P&C insurance products are not permitted in Québec. This is one of the issues we faced with Uber and which force us to further expand our thinking.

In addition to a major draft reform bill that was tabled in the National Assembly, other files will also be the subject of upcoming legislation, particularly on group P&C insurance products.

These are hot topic files that have attracted a lot of attention. I invite you to follow and take part in the discussion, in particular the special parliamentary consultations that will soon be held on these matters.

Your insights will be required and will be useful to find the best way to update the various legislative, regulatory and other tools in order for us all to better meet the challenges.

----- *Conclusion*

All of this technological innovation opens up new growth opportunities for the industry and also suggests that we might be on the cusp of a radical transformation in the financial sector and insurance world.

If innovation represents a significant challenge for insurers, it also poses complex, sensitive issues for regulators.

I hope I have sparked your interest with my presentation on how the AMF addresses these challenges.

It is important to maintain the ongoing dialogue between us and with other industry stakeholders. These discussions are very important to help us properly understand, foresee and effectively adapt to all of these changes.

Thank you for your attention and have a great day!
