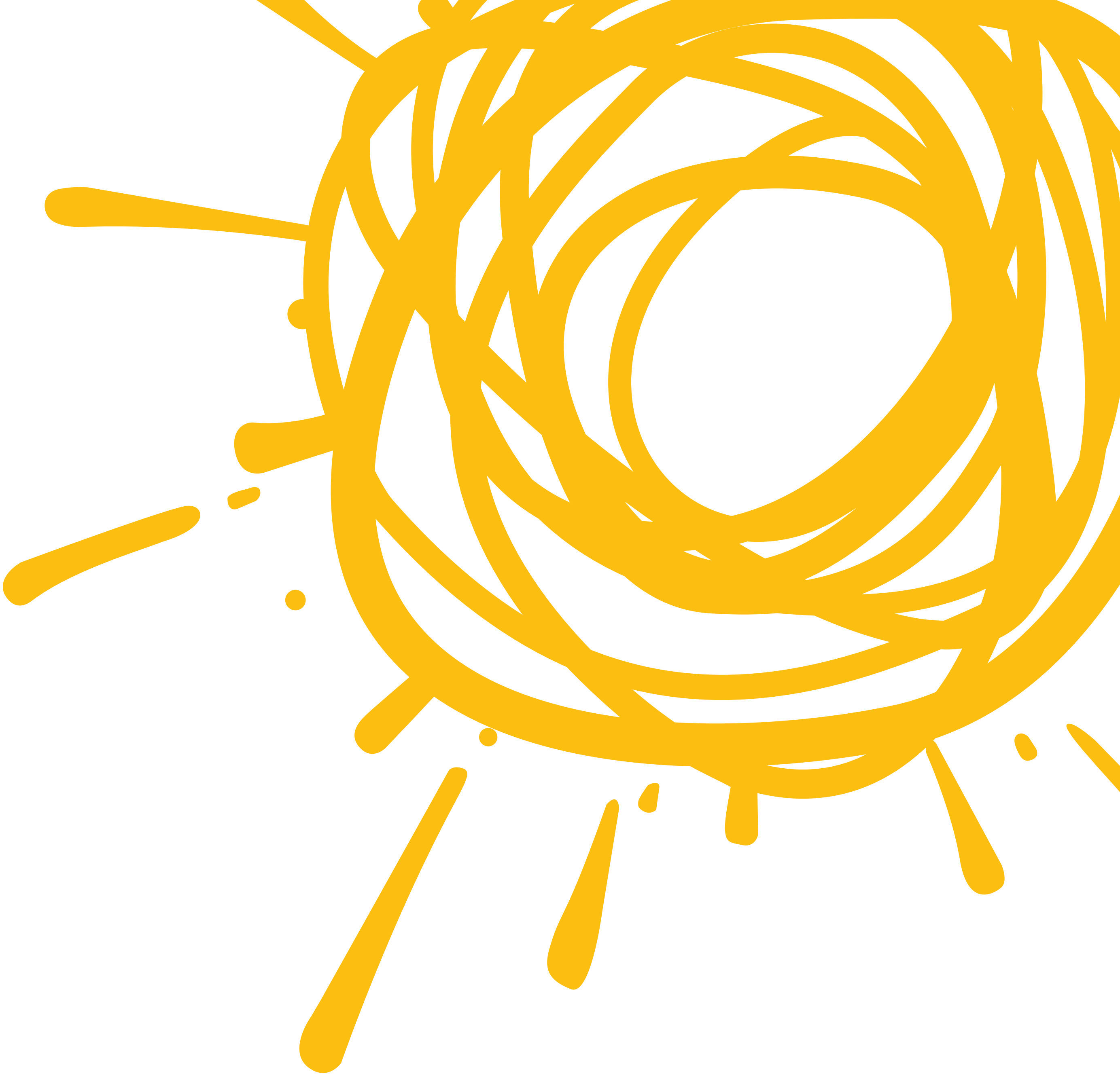

2017

Sun Life Financial Submission to
the Department of Finance Canada
Review of the Federal Financial Sector Framework

Life's brighter under the sun

Sun Life Financial

We appreciate the opportunity to provide input into this second round of consultations for the Department of Finance Review of the Federal Financial Sector Framework. Our comments in this submission are in addition to the submission filed by the Canadian Life and Health Insurance Association (CLHIA), which we support.

We are encouraged by the direction laid out in the second consultation paper of the review. We also agree with the three broad policy objectives for the financial sector that were outlined in the first consultation paper: stability, efficiency and utility.

This is a pivotal moment for our industry. The pace of digital innovation today requires all of us to move faster and work smarter to achieve our goals. Sun Life Financial is seizing this moment by leveraging our investments in technology to find innovative solutions to help our clients achieve lifetime financial security and live healthier lives.

We are eager to do more. A strong, flexible and modernized legislative framework will enable our entire industry to achieve better results for all Canadians. We welcome the work of the Department of Finance on this goal, and respectfully present the ideas in this submission as our contribution to that effort.

Summary of our key recommendations

- **Modernization:** Financial institutions should be given greater flexibility to develop in-house business models, and acquire larger equity stakes in a wider range of firms and services with an appropriate connection to financial services. This would allow us to maintain a rapid pace of innovation and better serve our clients.
- **Infrastructure investments:** Insurers should be permitted to invest in infrastructure projects that are structured to reduce risk and that have a predictable revenue stream from government sources. The aggregate cap on equity investments for each insurer should be based on the size of the investments or capital, and there should be some capital relief from LICAT for such investments.
- **Diversity:** We applaud the government's efforts to encourage companies to promote diversity on Boards of Directors and in the workforce.
- **Majority voting:** We have concerns with the proposed approach to majority voting in Bill C-25. The approach does not give boards a way to manage a situation in which a director fails to win an election and could impact the ability of boards to operate and exercise adequate oversight.
- **Climate change:** We look forward to any opportunities to work with the Department of Finance on the recommendations of the Canadian Securities Administrators with respect to the disclosure of risks.
- **Open banking:** We welcome the decision to examine the merits of open banking, while also noting that it is vital to ensure that the security and privacy of our clients remains a top priority.

Innovation and business powers

We are going through a period of historic and rapid change in the provision of financial services. The expectations of our clients are evolving in line with the rapid development of digitized services. The framework must keep pace with these changes so that financial institutions can properly serve clients and maintain the competitiveness of our domestic industries.

Sun Life Financial has been playing its part in this field. We have created a new business area, Digital Health Solutions, to harness the latest in digital capabilities and innovation to support the health and well being of our clients. We have invested in data analytics, including through our Digital Benefits Assistant tool, to enable us to be more relevant to our clients, and partnered with leading technology hubs such as IBM Watson, MaRS and Plug & Play to enhance our ability to develop and deliver innovative services to our clients.

In March 2017, we announced that Sun Life Vietnam had entered into a three-year partnership agreement with Global Online Financial Solutions Limited (GOFS), one of the fastest-growing and leading fintech providers in Vietnam, which operates under the Timo digital channel. This followed the acquisition by Sun Life Financial in 2017 of a 25% equity stake in Crescent Asia Limited, the holding company of GOFS.

There is more that we can and should be doing. We support the Department's focus on clarifying and modernizing the ability of financial institutions to engage with emerging fintech firms, including insurtech companies. We also appreciate the challenge of striking the right balance in the legislative framework.

Our experience confirms the insights of the second consultation paper. New technologies create new capabilities that allow for innovation in products and services. One strength of the current framework is that it allows the business of financial services to evolve. This flexibility must be preserved and enhanced. The speed of experimentation – which reflects the "test and learn" entrepreneurial ethos of the technology industry – is spurring innovation in financial services to the benefit of our clients. Clear and broad business powers facilitate this kind of innovation.

The requirement to obtain approvals should be limited to situations where there are clear concerns related to consumer protection, prudential strength or limitations on commercial activities. The approval process should have clear triggers and should be streamlined and responsive to the pace of innovation today. The modernization of the framework should also recognize that new and innovative commercial activities that aim to lower costs for clients and/or provide better solutions for clients may be appropriately permitted.

Regulatory sandboxes with clear rules that allow for experimentation and innovation, while also protecting consumers, should be considered for the insurance industry in coordination with provincial regulators.

Naturally, we need to ensure that we retain our strong prudential regime and preserve consumer confidence in our industry. Products and services should be subject to the same regulatory framework, regardless of whether the provider is an established incumbent or a start-up fintech firm. We encourage the Department of Finance to continue working with its provincial counterparts through the Canadian Council of Insurance Regulators to ensure a consistent approach to regulation across the country.

In order to further promote the evolution of our business in response to technological change, we recommend:

- **Modernization:** Update the business powers provisions to preserve and enhance the flexibility of financial institutions to evolve their products, services and business models in response to new technologies and consumer demand. There should be a clear and limited set of criteria for determining when approvals are required for certain kinds of business. The process should also be efficient and open to considering a wide range of innovation.

- **Innovation:** Increase the flexibility of insurers to create new in-house business models, make investments and collaborate with other firms to meet the demand for high quality and reliable financial services at today's rapid pace of innovation. This could be addressed in part by developing technology neutral descriptions of permitted investments in the legislation.

- **Types of investments:** Expand the types of firms and services that life and health insurance companies are permitted to invest in. While this applies to fintechs, we suggest that insurers should be permitted to invest in other firms with an appropriate connection to financial services. Such investments would enhance our ability to provide more effective solutions for the life and health insurance needs of our clients.
- **Size of investments:** Increase the size of equity investments that can be made in permitted firms. As a general premise, insurance companies should be permitted to acquire up to a 100% stake in firms that provide technology or services that could otherwise be developed in-house by an insurer or in firms engaged in activities that have an appropriate connection to the business of providing financial services. The level of investment that is permitted in a given firm could be determined on the basis of the particular circumstances of the insurer. This could be achieved by eliminating the need to seek approval for acquisitions of unregulated entities if the value of the acquisition does not exceed 2% of the consolidated assets of the acquirer.

Infrastructure investment

We welcome the Department of Finance's decision to consider whether to permit federally regulated life and health insurers to have additional investment powers in infrastructure, and are pleased to provide our input. We have long wanted the ability to do our part in helping to build a stronger, more competitive Canadian economy and society through investments in critical infrastructure.

Infrastructure assets feature long-term stable cash flows, often inflation adjusted, which may be useful for matching long-term liabilities. At Sun Life, we have in-house expertise in this area, which we have developed through years of debt financing mandates as well as staff with direct experience in infrastructure equity. We would welcome the ability to compete with other institutional investors, such as pension funds, for access to high quality equity investments through mechanisms such as the Canada Infrastructure Bank.

- **Structure:** We emphasize that the structure of the investment is a key consideration in order to manage the risk and ensure a stable revenue stream. Permitted investments should be stand-alone finite purpose entities (i.e. project financing structures) whereby development, operations and management are contracted to a capable third party. This would bring the risk profile into line with the project financing structures that are developed for debt financings. Such a structure serves to ring fence the risks associated with the underlying investment.
- **Permitted types of investments:** We would suggest that permitted investments broadly include those with revenue streams from governments and/or government established entities (such as hospitals and electrical system operators), monopoly and near monopoly projects (such as transit systems, toll roads and airports) and other key infrastructure projects with high barriers to entry and a well understood risk profile.

- **Limits on total infrastructure investments:** We would support an aggregate cap on equity investments in this sector by an individual life and health insurer based on the size of the investments or capital, which should be revisited periodically.
- **Capital:** As proposed, the new LICAT capital regime would be unduly punitive for these sorts of investments, so we would also recommend that some sort of capital relief be provided for such investments.

Corporate governance

We are generally supportive of the philosophy behind aligning the corporate governance provisions in the federal financial sector statutes with the proposed changes to the Canada Business Corporations Act in Bill C-25. As a publicly listed company on the Toronto, New York and Philippine stock exchanges, Sun Life Financial already substantially meets these requirements, including the "comply or explain" disclosure requirements on diversity, annual and individual director elections and the Toronto Stock Exchange requirements on majority voting.

- **Promoting diversity:** In particular, we applaud the government's efforts to encourage companies to promote diversity on Boards of Directors and in the workforce. At Sun Life, our commitment to diversity and inclusion is at the centre of our company's values and is critically important to the board and executive management. Our commitment to diversity is demonstrated in a variety of ways, including:

    1. **Senior management:** Our senior leaders focus on specific actions to enhance diversity and inclusion in their business areas. As of the end of 2016, women occupied 47% of the positions in middle management and above, and 33% of senior management positions.
    2. **Board of Directors:** Women make up 36% of our Board of Directors.
    3. **Recruitment:** Sun Life Financial has inclusive recruiting policies and practices, which are focused on obtaining diverse outcomes.
    4. **Leadership development:** Our training programs help leaders understand and manage the unconscious biases that can influence actions and decision-making.
    5. **Regional programming:** We reinforce our commitment to an inclusive workplace through regional programs and practices that reflect the unique nature of diversity in the geographies where we operate.

6. **Measurement:** Our Diversity and Inclusion Index, created from data in our bi-annual employee survey, allows us to pinpoint areas where we can continue to evolve diversity and inclusion in our workplace.

- **Majority voting:** We have concerns with the proposed approach to majority voting in Bill C-25, which does not give boards a way to deal with a situation in which one or more directors does not win an election, resulting in the sudden removal of those directors. The abrupt loss of one or more directors could seriously impair a board's ability to operate and exercise adequate oversight, and could also affect an institution's ability to comply with securities law and contractual obligations.

  Given these concerns, any approach to majority voting should:

  1. take into consideration the unique nature of regulated financial institutions and the oversight provided by their boards; and
  2. provide sufficient safeguards, such as a transition period for situations in which a director does not receive sufficient votes, during which a board could consider any exceptional circumstances applicable to a failed election.

  This could be achieved by following the approach of the Toronto Stock Exchange, which would include:

  1. requiring a failed candidate to offer their resignation to the board (as opposed to being automatically removed from the board); and
  2. allowing a board a reasonable period of time to reject the resignation after weighing any exceptional circumstances.

  We would like to underscore our support for the CLHIA's comments and recommendations on how the Department of Finance should approach majority voting in the context of financial institutions.

- **Distributing meeting materials:** We strongly support the proposed changes to the financial sector legislation that would permit the use of a "notice and access" system for delivery of shareholder and policyholder meeting materials, as well as the delivery of financial statements to shareholders and policyholders. A notice and access regime would reduce paper and energy use by financial institutions.

Climate change

We look forward to working with the government on climate risk, and we would welcome any opportunities to provide input on the recommendations of the Canadian Securities Administrators (CSA) with respect to the disclosure of risks.

The effective management of environmental risks, including those related to climate change, is important for the long-term sustainability our company. We maintain an environmental risk management program to help manage investment assets (primarily real estate, mortgage and certain private fixed income assets) with respect to downside risk due to environmental issues and to help ensure compliance with applicable laws. We have established a team of investment professionals to assess the potential impact of climate change on our investment strategies, and recognize the need for a strategy to address climate change risk in our investment portfolios. The availability and comparability of climate change data is important to these efforts, and for this reason, we welcome the work of the CSA on this issue.

Sun Life's operations span various facilities in 26 countries. Measuring, managing and reporting on the impacts of our business operations, particularly our greenhouse gas (GHG) emissions, is an important part of our environmental commitment. We also strive to reduce inputs such as energy, corporate travel, paper, water and waste as a way of bringing down our GHG emissions and operating costs. In this regard, we would like to highlight that:

- We expanded the scope of our environmental reporting last year, resulting in more comprehensive reporting of our global footprint;
- Our global GHG emissions decreased by 9.1% from 2014 to 2016;
- Our global energy consumption decreased by 7.5% from 2014 to 2016; and
- We own and lease more than 2 million square feet of green-certified space.

Open banking

We welcome the Department of Finance's interest in examining the merits of open banking, which is one of the first applications of providing third parties access to a financial institution's client data through technologies such as Application Program Interface (API). While we agree that Canada should examine the merits of this technology – as other jurisdictions have done or are doing – it is vital to ensure that the security and privacy of our clients remains a top priority.

We look forward to engaging in discussions on what third-party access could mean for Canada. We would highlight the following considerations:

- **Risks:** There are risks associated with third-party access in financial services, including privacy, control of data and transparency. Every effort should be made to ensure that the data of clients is secure and that they are aware of the risks associated with sharing it. Ensuring new players abide by existing rules, such as applicable privacy laws, can go a long way to managing these risks. There is an opportunity to learn from the evolution of the mobile app ecosystem, where compliance with existing rules were not top of mind for many new app developers resulting in significant efforts to "catch-up."
- **Go slow:** The risks are significant enough to approach this area with caution. We would suggest that the Canadian government and private sector players take the time to learn from the other jurisdictions that are only now embarking on the implementation of open banking models. This should inform how, and whether, Canada should travel down this road.

- **Market-driven:** We would encourage consideration of a market-driven approach that would allow established financial institutions and new fintech entrants to develop solutions and partnerships. The market should be given time to evolve, including the evolution of business models and commercial terms. This would allow innovation to thrive in much the same way as it has in the fintech space in recent years. At the same time, just as established market players adhere to existing privacy, market conduct and consumer protection rules and standards, including stepping up to protect consumers to encourage e-commerce and innovation, there would be an expectation that new market players would do the same.