

***Agenda Item 4(b)(ii)  
October 23/18 EOC Meeting***

***Feedback and Input from FSRA Industry Advisory Group – Life and Health Insurance on  
Proposed Funding Model and Fee Rule Approach***

***Excerpt From Preliminary Draft of Final Submission***

Thank you for giving us the opportunity to provide initial feedback and input regarding the development of FSRA's funding model and fee rule for the life and health insurance sector. We are happy to provide FSRA with any support that it may need during this foundational period and we support the consultative approach being taken.

The CLHIA represents life and health insurers accounting for 99% of the business in Canada. With 65 companies headquartered in the province of Ontario, including two ranked among the top 15 in the world, the life and health insurance industry is a major contributor to the provincial economy. The industry plays a strong role in the economy by employing over 70,000 Ontarians and holding investments of \$296 billion in the province. The industry also provides a strong social safety net for Ontarians, paying almost \$40 billion in benefits each year to those who live in the province through life and health insurance products including annuities, RRSPs, disability insurance, and supplementary health plans.

CAFII is a not-for-profit industry Association dedicated to the development of an open and flexible insurance marketplace. The Association was established in 1997 to create a voice for financial institutions involved in selling insurance through a variety of distribution channels. Our members provide insurance through client contact centres, agents and brokers, travel agents, direct mail, branches of financial institutions, and the internet. CAFII's 12 members offer travel, life, health, property and casualty, and creditor's group insurance across Canada. In particular, creditor's group insurance and travel insurance are the product lines of primary focus for CAFII as its members' common ground.

Overall, we agree with and support the Vision and the six Guiding Principles that FSRA is using to structure its funding model and fee rules for the regulated sectors.

Below are our responses to the seven key questions on which we have been asked to provide specific feedback and input:

1. How would you change the proposed fee rule as outlined (e.g. Fixed and Variable Rates) and does it change depending on where FSRA's budget is in its estimated \$90m to \$115m range?

Without more specific detail about the financial needs of FSRA, it is difficult for the life and health insurance industry to comment on the specific amounts presented in the Proposed Fee Rule deck provided by FSRA management.

We can only suggest that FSRA's budget should be developed using the current FSCO budget as a benchmark.

Overall, regardless of the funding model and fee rule chosen, the fee structure should be reasonably stable and the variability of fees year-to-year should be modest, so that insurers can plan accordingly for regulatory fees when developing their own operating budgets.

**In that connection, basing fees upon direct written premiums, rather than upon net premiums as FSCO does at present, will result in a very substantial increase in fee assessments for some insurers. We recommend that such a significant change – given its very material impact upon some life and health insurers -- should only be implemented in a graduated manner over multiple years (at least two) in order to smooth out and ease the impact upon those companies affected (e.g. limit any increase to 50% of the prior year's assessment in Year 1 or some similar logic).**