

Agenda Item 4(a)(i)(1)
July 26/22 EOC Meeting

July 18/22 CAFII Market Conduct & Licensing Committee Meeting
on Possible CAFII Submission to OSFI on Its Revised Guideline B-10: Third-Party Risk Management
Meeting Summary

In Attendance:

Brad Kuiper, ScotiaLife Financial (Chair)
Fay Coleman, TD Insurance (Vice Chair)
David Self, CIBC Insurance
John Burns, Canadian Premier Life
Casandra Litniansky, CUMIS
Tejal Harri-Morar, BMO Insurance
Brendan Wycks, CAFII
Keith Martin, CAFII

Background

This was the second one-hour meeting of the CAFII Market Conduct & Licensing Committee on what response CAFII should make to OSFI's consultation on its revised B-10 Guideline (Third-Party Risk Management). At the prior meeting on 27 June, 2022, there were many questions about whether OSFI really intended to expand the scope of its Guideline to capture all outsourced activities, including those conducted by a FRFI's wholly-owned subsidiaries. In response, CAFII was asked to inquire about this with OSFI prior to the Association's completing any further work on this consultation.

Meeting with OSFI on 13 July, 2022

Keith Martin and Brendan Wycks met virtually with three OSFI staff executives on 13 July, 2022. The OSFI participants were

- Elspeth Bowler, Managing Director;
- Josh Lattimore, Senior Advisor;
- John Preiato, Director.

All three representatives participated but Ms. Bowler took the lead. Her key message was that the scope of the proposed updated Guideline on Third-Party Risk Management was quite deliberately intended to be broader than the predecessor Guideline on Outsourcing, and that wholly owned subsidiaries were indeed meant to be captured.

However, the OSFI representatives took pains to emphasize that while nothing was “formally excluded,” they recognized that certain types of third party risks (such as garbage collection or snow removal, for example) are less material and ‘critical’. As such, they expected FRFIs to have a risk assessment model and approach which would relegate some third-party risks to the status of immaterial. Everything had to be looked at through the lens of a sliding scale of risk, and with elements such as criticality and concentration risk (too much risk in one geographic area) etc. all being relevant to the overall risk assessment.

On the specific matter of wholly owned subsidiaries, an example was given of a parent company that performed functions for a subsidiary; and, through that relationship, “stacked the board” of the subsidiary. Such a situation would create real risks and therefore would have to be captured as such. Another example given was how during an early phase of the COVID pandemic, some call centre operations in India – which could be wholly owned subsidiaries -- were impacted in a major way by the virus. Such risks would have to be captured.

Keith Martin noted that the number and complexity of the third-party relationships in large financial institutions made the reporting requirement of capturing all of these relationships daunting; and that there were constant changes being made to these arrangements and the parties they were with, meaning that these reports would have to be constantly updated.

OSFI commented that they were currently involved in a pilot testing exercise with a particular FRFI on the capturing of this data efficiently, and they were making adjustments to their expectations based on their observations.

This would be an exercise that would be implemented over time; and after the Guideline is finalized, there will be a Working Group with industry representation struck in the fall of 2022 to discuss the implementation of the Guideline.

Brendan Wycks noted that the insurance divisions of banks have their own unique issues that are separate from their corporate bank parents, and Elspeth Bowler therefore committed to ensuring that there is representation on this Working Group from the insurance division of at least one of the major banks. However, OSFI also said that “a big list of exceptions has not worked well for OSFI” in the past; and that all third-party risk relationships needed to go through the risk assessment exercise in some capacity.

Meeting with CLHIA on 30 June, 2022 on OSFI B-10

CAFII’s Co-Executive Directors also met with Sarah Hobbs, Director, Policy, and Devika Prashad, Vice President and Chief Actuary, at CLHIA on 30 June, 2022 to compare notes on the OSFI B-10 consultation.

CLHIA said that the major points in its written submission would relate to the Guideline being too prescriptive; and around challenges to its capturing of MGAs and brokers, which are such extensive and large relationships that they could pose challenges to members around reporting requirements. There were also concerns around the requirements being all-encompassing and including marginal risks. There were also issues that would be raised by CLHIA around re-insurance.

Next Steps Coming Out of July 18/22 CAFII Market Conduct & Licensing Committee Meeting

The key points made by Market Conduct & Licensing Committee members were that the reporting requirements and efforts required to meet OSFI's comprehensive capture of all third-party risks constituted an enormous effort that would require the dedication of significant new internal resources to the task.

Keith Martin noted that typically CAFII -- which is focused on credit protection insurance, travel insurance, and direct-to-consumer distribution channels -- emphasizes issues specific to those areas alone in its response submissions to regulatory consultations; and it was not clear what was unique about those areas with respect to OSFI's revised/updated Guideline B-10: Third-Party Risk Management, such that CAFII's feedback would provide input that would not be addressed by the Canadian Bankers Association (CBA) and/or the Canadian Life and Health Insurance Association (CLHIA) in their respective submissions to OSFI.

Keith Martin noted the risk of expanding the scope of CAFII's submission to address issues that might be considered 'bank-wide' issues, including the potential for taking a different approach than the CBA might take.

It was agreed that the next step would be for CAFII to meet with the relevant CBA staff executives to discuss these issues, and then to communicate the outcomes of that discussion to the Market Conduct & Licensing Committee members. At that stage, CAFII should be able to reach a consensus determination on whether or not our Association should make a submission of its own to OSFI on Revised Guideline B-10, or instead defer to CBA and CLHIA and support their respective submissions.

Other Matters and Next Steps

CAFII has subsequently learned that OSFI has extended the deadline for submissions in response to its Revised Guideline B-10 consultation document, from 27 July, 2022 to 30 September, 2022.

CAFII has reached out to the CBA staff executives in order to arrange a virtual meeting to discuss these matters.

Addendum

Fasken has produced a helpful legal analysis summary on OSFI's B-10 consultation document which can be found here:

[Transition to Risk-Based Approach: OSFI's Revised Draft Guideline on Third-Party Risk Management | Knowledge | Fasken](#)