FSRA

Financial Services Regulatory
Authority of Ontario

Proposed FY2024-2025 Statement of Priorities

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Ontario

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Overview

The Financial Services Regulatory Authority of Ontario ("FSRA") is pleased to present its proposed 2024-25 fiscal year ("FY") priorities and associated financial plan. The intention of this view is to generate feedback from stakeholders through public consultation.

FSRA protects the Ontario public, which includes consumers[1], credit union members, pension plan beneficiaries, investors, and other key stakeholders. It provides prudential and market conduct regulation and supervision in the following sectors:

- Property & Casualty and Auto Insurance
- Life and Health Insurance
- Credit Unions and Caisses Populaires[2]
- Loan and Trust companies
- Mortgage Brokering
- Health Service Providers (related to Auto Insurance)
- Pension Plans
- Financial Planners and Advisors

FSRA is an independent regulatory agency that is principles-based, and outcomes focused. FSRA was created to improve consumer and pension plan beneficiary outcomes in Ontario.

FSRA's focus

In 2021-22, FSRA developed and implemented its 2022-25 Strategic Framework ("Strategic Framework") which reflects FSRA's legislative objectives and encompasses the organization's Vision, Mission, and Values. FSRA is using the Strategic Framework to achieve its statutory objects as defined in the *Financial Services Regulatory Authority of Ontario Act*. The objects reflect the following objectives:

- regulate and generally supervise the regulated sectors
- contribute to public confidence in the regulated sectors

[1] For the purposes of this document, the term 'consumers' includes the public, credit union members, pension plan beneficiaries, investors, borrowers, and other key stakeholders. It also includes insurance customers and potential customers. A 'customer' refers to a policy holder, which may include a certificate holder, or prospective policyholders with whom an insurer or intermediary interacts, and includes, where relevant, other beneficiaries and claimants with a legitimate interest in the policy.

[2] The term "credit unions" includes caisses populaires throughout this document, unless otherwise noted.

- monitor and evaluate developments and trends in the regulated sectors
- cooperate and collaborate with other regulators, where appropriate
- promote public education and knowledge about the regulated sectors
- promote transparency and disclosure of information by the regulated sectors
- deter deceptive or fraudulent conduct, practices, and activities by the regulated sectors
- carry out such other subjects as may be prescribed

FSRA's objects with respect to financial services sectors are to:

- promote high standards of business conduct
- promote the rights and interests of consumers
- foster strong, sustainable, competitive, and innovative financial services sectors

For pension plans, additional objects are to:

- promote good administration of pension plans
- protect and safeguard the pension benefits and rights of pension plan beneficiaries

For credit unions, additional objects are to:

- provide insurance against the loss of part or all of deposits with credit unions
- promote and otherwise contribute to the stability of the credit union sector in Ontario, with due regard to the need to allow credit unions to compete effectively, while taking reasonable risks, and
- pursue the objects set out as defined in the FSRA Act for the benefit of persons having deposits with credit unions and in such manner as will minimize the exposure of the Deposit Insurance Reserve Fund to loss

FSRA's objects with respect to the *Financial Professionals Title Protection Act, 2019* are to administer and enforce that Act.

Value for money audit:

In 2022-23, FSRA participated in a value-for-money (“VFM”) audit, the first since its launch in June 2019. The audit was launched on November 30, 2022 by the Office of the Auditor General of Ontario (“OAGO”). Titled ‘*Value-for-Money Audit: Financial Services Regulatory Authority: Regulation of Private Passenger Automobile Insurance, Credit Unions and Pension Plans*’, the audit report included 18 recommendations and 60 action items for FSRA and the Ministry of Finance (“MOF”), many of which are intended to help FSRA accelerate its efforts to protect consumers and contribute to public confidence. Many of the OAGO’s recommendations were addressed by initiatives already underway at the time of the report’s release, while others were addressed in the 2023-2026 Annual Business Plan (ABP), as well as through this Statement of Priorities.

Environmental scan

FSRA regulates dynamic markets that are affected by several socio-economic factors. As Ontario emerges from the unprecedented conditions experienced over the last three years, several internal and external factors will impact FSRA’s operations and shape its priorities.

FSRA is committed to furthering its understanding of the sectors, entities, and individuals it regulates, including how conditions are changing and are likely to evolve over time. This is essential to adequately protect consumers, all while continuing to deliver financial safety, fairness, and choice.

Economic outlook

Inflationary pressures, interest rate hikes, housing market fluctuations, and shifting labour market conditions have led to an overall uncertain economic environment. Extended periods of economic uncertainty may impact consumer vulnerability, confidence, and harm.

Macro highlights to note:

- According to Statistics Canada, **inflationary pressures** remain a significant issue, although there are signs of inflation lessening in 2024. As of July 2023, the Canada-wide consumer price index (CPI) was 3.3% y/y.[3] High inflation impacts peoples’ cost base, making business transactions more complicated. Efforts to counter the inflationary pressure led the Bank of Canada (“BoC”) to increase interest rates several times in 2022 and 2023.

- The **cost of living** continues to be an issue facing many Ontarians. Despite a slow-down and slight reduction in the average house price in some municipalities, affordability continues to be an issue. While higher interest rates have had an impact on somewhat “cooling down” the housing market[4], they have had negative impacts on consumers carrying variable-rate mortgages and those needing to renew. According to the Financial Consumer Agency of Canada’s (“FCAC”) report on the financial well-being of Canadian homeowners with mortgages, two-thirds of mortgage holders are having difficulty meeting financial commitments, increasing household debt, and reducing the suitability of mortgages for consumers.[5] Additionally, FSRA’s Consumer Research on Mortgage Brokering data shows that consumers' potential to turn to private lending remains high because of interest rate hikes and inflation.[6]

- Despite slight upticks, Statistics Canada reports that **unemployment levels** remain below their pre-COVID-19 pandemic average.[7] Some of FSRA’s regulated entities

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[3] Consumer price index portal (statcan.gc.ca)
[4] July 14 2023 News Release | CREA Statistics
[5] FCAC Report: The financial well-being of Canadian homeowners with mortgages - Canada.ca
[6] Mortgage brokering sector Supervision Plan 2022-23 | Financial Services Regulatory Authority of Ontario (fsrao.ca)
[7] The Daily — Labour Force Survey, June 2023 (statcan.gc.ca)

have flagged challenges around **talent acquisition** and **retention**.

- There are several macroeconomic and geopolitical risks that may ultimately affect consumers in FSRA's regulated sectors. For instance, the lagged effects of interest rate increases during calendar years 2022-23 **raise the possibility of a recession in F2024-25**. Additionally, various geopolitical events (e.g., the war in Ukraine) may lead to global macroeconomic risks. The short and long-term impact of these factors can have a material impact on FSRA's regulated sectors. FSRA will remain adaptive in the face of economic uncertainty and will respond to changing conditions accordingly.

Technological advancement and innovation

The use of technology in Ontario's financial services and pension plan sector has been in constant evolution over the last few years, this change has been driven by a rapid increase in consumer uptake of digital services. FSRA is committed to actively monitoring and encouraging innovation in its regulated sectors while reducing the risk of consumer harm.

Notable trends in this area include:

- **Increased use of technology –** Financial service providers and pension plans have increased the overall use of technology in their internal and consumer-facing processes/ products. Regulated entities and individuals are investing in areas of automation, artificial intelligence ("AI"), machine learning, digital security, as well as preparing for participation in Open Banking. The greater use of technology, however, can result in greater IT risk, particularly an Information Technology ("IT") risk incident, such as a cyber breach or a failure in IT infrastructure. This poses a risk to the operational resiliency of FSRA's regulated entities and can pose potential harm to consumers (e.g., privacy, access to essential services).

- **AI and digital platforms –** The increased use of AI has also contributed to the automation of processes across a lot of financial services. AI has been crucial to the development of digital chat assistants, including ChatGPT, which provide advice to consumers without the direct intervention of financial advisors or managers. This had led to a significant increase in consumers' use of digital platforms. For example, consumers' use of digital platforms to facilitate the sale of crypto assets is expected to increase, despite the volatility of cryptocurrency markets. There is an inherent risk that consumers take on when using digital platforms to receive advice that is not tailored to their specific needs, circumstances, or level of financial literacy. This can lead to several outcomes such as being sold products that are ill-suited for their needs and/or taking on more risk than the consumer was initially comfortable with.

Emerging issues and trends

FSRA performs ongoing scans of its regulated sectors, and financial services more broadly, to better understand trends and identify emerging risks and potential issues which may impact consumers.

Notable trends that FSRA is currently monitoring include:

- **Environmental, social and governance ("ESG") –** Regulated entities have been further exploring the use of ESG factors in how they assess their approach to risk and investing. This includes Diversity, Equity, and Inclusion ("DEI") strategies to strengthen their internal governance and improve internal and external relationships. FSRA's regulated entities are increasingly adapting to the risks associated with climate change and natural catastrophes, though the severity and frequency of specific natural disasters and events pose unique challenges.

- **Vulnerable persons –** It has been evident through research findings, such as FSRA's 2022 Consumer Survey, that in all of FSRA's regulated sectors, vulnerable groups tend to be less trusting, less satisfied, and less confident. Other findings through FSRA's supervisory work have provided evidence suggesting that vulnerable consumers experience poorer outcomes, are at greater risk of being susceptible to harm (such as fraud), and may experience more issues with product accessibility and suitability.[8] Some regulated entities have signaled that they are shifting their focus to how they can better ensure vulnerable persons receive an adequate level of protection.

- **Consolidation –** Financial services and pension plans are experiencing an increase in consolidation and are becoming increasingly complex. This trend is resulting in larger and more sophisticated credit unions, insurers, insurance intermediaries, mortgage brokerages, pension plans and multi-employer platforms for pensions. This includes consolidation in the number of credit unions and pension plans in Ontario specifically, which continue to decline in overall number year over year due to mergers and acquisitions. The key driving forces behind consolidation of pension plans include benefit security for plan beneficiaries and the opportunity to maintain or introduce a defined benefit plan at a workplace.

- **Alternative and private lending –** There has been an increase in the number and monetary value of alternative and private mortgage transactions, a consequence of decreased housing affordability. Increased reliance on private lenders increases the risk of predatory lending and unsuitable mortgage advice. These financial options can present additional risks that may not typically be associated with mortgages from traditional lenders. Furthermore, FSRA's 2022 Consumer Research Study on Mortgage Brokering highlighted that Ontarians with slight (36%), moderate (46%), and high (64%) vulnerability are significantly more likely to consider using an alternative

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[8] FSRA Consumer research | Financial Services Regulatory Authority of Ontario (fsrao.ca)

lender or private mortgage company.[9]

As it matures as an organization, FSRA continues to focus on its FY2023-24 priorities and deliver on its statutory objects. New or revised priorities reflect an enhanced need to protect the public interest, while fostering competitive and innovative financial services sectors in Ontario. FSRA will continue to report back progress on its priorities and statutory objects while also considering the changing socio-economic climate in the province and the interaction with other entities, such as governments, the private sector, and other regulators.

[9] 2022 Consumer Research Report Mortgage Apr 26 2023 (fsrao.ca)

Strategic framework

In 2021-22, FSRA launched its Strategic Framework, which consists of four Pillars that articulate high-level strategic objectives. The Framework reflects FSRA's legislative objects and encompasses the organization's Vision, Mission and Values. FSRA's 2024-25 Annual Business Plan priorities support the Pillars.

Operate effectively to be a high-performing regulator

- We will consistently deliver on our core business functions.
- We will apply continuous improvement methodologies to review operations.
- We will modernize tools and processes with a continued focus on digitization and automation.
- We will create an improved experience for stakeholders interacting with FSRA.
- We will clearly communicate our expectations to increase stakeholders' understanding of FRSA's regulatory approaches and activities.
- We will continue to work with government partners to maintain an alignment of priorities.

Protect the public interest to enhance trust and confidence in the sectors we regulate

- We will embed a consumer lens in our guidance and rules.
- We will thoughtfully engage with regulated sectors, consumers, credit union members, and pension plan beneficiaries to understand their current and future needs.
- We will enable innovation and greater choice for consumers.
- We will conduct research to better understand risks and opportunities for consumers, credit union members, and pension plan beneficiaries.
- We will support efforts to enhance consumer, credit union member, and pension plan beneficiary education and knowledge.

Transform our regulatory processes to make evidence-based and risk-based decisions

- We will apply a consistent and transparent approach to regulatory oversight and decision-making.
- We will collect more data and increase our internal capabilities to make evidence and risk-based decisions.
- We will be responsive to the regulatory environment and adapt our approach to regulation as needed.
- We will continue transitioning to principles-based regulation by focusing our efforts on desired outcomes.
- We will build stronger relationships with other regulators through cooperation, collaboration, and sharing of leading practices.

Attract talent and evolve our culture to achieve the mission and vision of the organization

- We will retain and develop top talent with deep expertise and invest accordingly.
- We will foster a culture that is inclusive and exemplifies our values.
- We will organize and support our talent to effectively deliver on FSRA's strategic priorities and regulatory operational requirements.
- We will promote a culture where staff are actively empowered to lead, held accountable, and recognized for outcomes.

FSRA 2024-25+ proposed priorities

Cross-sectoral

1. Advance the consumer interest

2. Enable innovation

3. Modernize systems and processes

4. Property & Casualty and Auto Insurance

4.1 Execute strategy for reforming the regulation of auto insurance rates and underwriting

4.2 Support reforms of the auto insurance system

4.3 Ensure the fair treatment of customers of property and casualty insurance

4.4 Promote resilience, stability, and public confidence in the Ontario-incorporated insurance companies and reciprocals sector

5. Credit Unions

5.1 Promote resilience, stability, and public confidence in Ontario's credit union sector

5.2 Enhance FSRA's regulatory framework

5.3 Enhance financial stability structures

6. Life & Health Insurance

6.1 Strengthen Managing General Agents (MGA) regulatory framework

6.2 Protect consumers who invest in segregated fund contracts

7. Mortgage Brokering

7.1 Promote strong conduct culture

7.2 Enhance professional competence of licensed individuals

8. Pensions

8.1 Assess systemic and high priority risks in Ontario's pension sector

8.2 Support the development of target benefit regulation

9. Financial Planners & Advisors

9.1 Ensure the effectiveness of the title protection framework for financial planners/ financial advisors

Strategic priorities

1. Advance the consumer interest

Overview

FSRA regulates and supervises sectors that serve Ontarians on a day-to-day basis and in some of the most important parts of their life. To successfully deliver financial safety, fairness, and choice for Ontarians, FSRA aims to:

- build consumer awareness and education to advance FSRA's statutory object to protect the rights and interests of consumers
- better understand consumer perspectives and act with a focus on consumer outcomes
- effectively enforce regulatory requirements to maintain high standards of business conduct and deter misconduct and fraud

The Consumer Office works closely with FSRA partners to amplify the voice of consumers, build strategic foundations, and develop policy advice on cross-cutting issues and opportunities. FSRA's enforcement function investigates suspected non-compliance referred to it by the core regulatory areas or through the whistleblower program and takes action to impose sanctions and remedial measures, as appropriate.

Outcomes we are seeking

i) A consumer centric culture at FSRA in which a broad range of consumer voices inform FSRA's strategic direction as well as its regulatory and supervisory activities.

ii) Enhanced protection of consumer rights and interests with an emphasis on vulnerable consumers.

iii) Enforcement that is balanced, transparent, effective and considers the impact of non-compliance on consumers.

Key activities to achieve outcomes

a) Identifying and acting on opportunities to better protect vulnerable consumers, such as improving capacity and/or processes to help identify risks of consumer harm for vulnerable groups.

b) Building awareness of key consumer issues through different tools, including:

  - the publication and promotion of FSRA's consumer research agenda, this includes adopting an open data approach to any survey research; and

- earned and paid media targeting vulnerable consumers on key risks

c) Expanding the existing framework for the effective, fair and transparent use of FSRA's investigation and enforcement tools across FSRA sectors to reinforce consumer-centric supervisory processes and to deter misconduct.

2. Enable innovation

Overview

Enabling innovation in the regulated sectors is a foundational part of FSRA's mandate as a regulator. The Innovation Office promotes innovative thinking and helps innovators develop their ideas to enable 'responsible innovation'. Some keyways the Innovation Office does this is through its Innovation Framework, its Test and Learn Environment ("TLE"), and other tools at its disposal. FSRA will build and learn from current activities to broaden awareness of the Innovation Office, to expand the TLE and to identify the best use of FSRA's regulatory tools to support innovation. The Innovation Office will continue to monitor key technological trends and work with the regulated sectors and other market participants to identify new opportunities and barriers to innovation.

Outcomes we are seeking

i) Strengthened brand recognition of FSRA as a regulator that supports and enables innovation and is open to collaboratively identifying new innovation opportunities.

ii) Broader awareness and interest in the TLE from innovators in Ontario's financial services, and thus improve participation in the TLE.

Key activities to achieve outcomes

a) Continuing to enhance engagement with innovative organizations and the broader stakeholder community to identify collaboration opportunities and continuing to promote FSRA's Test and Learn Environments to help build a pool of potential test partners for future testing.

3. Modernize systems and processes

Overview

FSRA is continuing to modernize processes and systems. This commitment will enable FSRA to operate as a high-performing regulator by developing and enabling processes that promote evidence-based and risk-based decisions. FSRA is following a multi-year roadmap (the “roadmap”) for its technology and information systems to support its core regulatory activities and procedures. The roadmap incorporates both sector-specific business priorities and enterprise-wide technology requirements. It also creates a flexible and adaptable business-operating model, supported by streamlined workflows and operational processes and system improvements.

Outcomes we are seeking

i) Improved regulatory oversight through greater access to data and analytics tools across all sectors.

ii) Improved relationships with stakeholders through enhanced relationship- and case-management capabilities, better tracking, and operational processing capabilities.

iii) Improved and, where possible, customized user experience with the FSRA online portal.

iv) Improved turnaround time for licensing, filing, and registration processes.

v) Improved access to information for consumers and other stakeholders.

Key activities to achieve outcomes

a) Implementing technology solutions to enable simplified and fully digitized operations, including a 360-degree view of regulated entities, case management, content management and data analytics tools, with enhanced client portals.

b) Implementing advanced online information sharing on FSRA portals.

c) Extending digital document processing and digital signature capabilities to support streamlined processing of all paper-based channels.

d) Enabling data analytics for each of the regulated sectors to empower FSRA policy and supervisory activities. Across the sectors, enhancing infrastructure, establishing new data interfaces (both new sources and improved exchanges), and implementing advanced analytics and reporting systems to enable more efficient decision-making.

4. Property & Casualty and Auto Insurance priorities

4.1 Execute strategy for reforming the regulation of auto insurance rates and underwriting

Overview

FSRA's strategy for reforming the regulation of auto insurance rates and underwriting rules will make the oversight more dynamic, flexible, and transparent for Ontario's consumers to ensure fair rates and underwriting.

Outcomes we are seeking

i) A reformed supervisory framework for auto insurance rate and underwriting regulation to ensure fairer treatment of consumers.

ii) Improved sector operations through a supervisory framework that sets out FSRA's process reforms that enable market entry, responsiveness, innovation and deliver value-for-money to consumers.

iii) Consumers are empowered to make more informed decisions by enhancing transparency and providing resources to enhance the understanding of auto insurance.

Key activities to achieve outcomes

a) Developing, consulting on, and issuing fairness guidance to better define just and reasonable (not excessive) rates and appropriate underwriting rules.

b) Developing and implementing a framework to more effectively review rates and underwriting rules, and supervising insurer governance, controls and process related to developing and administering such rates and rules.

c) Improving transparency for consumers to create awareness, supporting informed decision-making and making regulated entities more accountable.

4.2 Support reforms of the Auto Insurance system

Overview

FSRA is continuing to support the government's initiatives to reform the auto insurance product and provide expert advice to inform their choices.

Outcomes we are seeking

i) Improved ability to quantify, better detect, prevent, and deter auto insurance fraud.

ii) Improved auto insurance product that better serve consumers.

Key activities to achieve outcomes

a) Developing and implementing initiatives to reduce fraud and abuse in the system, including the development of a new Fraud Reporting Service Rule and guidance.

b) Supporting government on the implementation of auto insurance reform initiatives.

4.3 Ensure the fair treatment of customers of Property and Casualty Insurance

Overview

FSRA continues to monitor and supervise the Property & Casualty (“P&C”) insurance sector to encourage high standards of conduct in the interest of building public confidence and consumer protection. FSRA has started and continues to build supervision capacity and market intelligence in the P&C sector. Through its supervision work, FSRA intends to develop a deeper understanding of the entities involved in product manufacturing, distribution, claims management and service to ensure fair outcomes for consumers.

Outcomes we are seeking

i) Fair treatment of customers in the P&C sector through efficient and effective regulation that protects the rights and interests of consumers and promotes high standards of business conduct and public confidence.

Key activities to achieve outcomes

a) Building on FSRA’s current supervision activities to develop and implement a market conduct framework for P&C insurance to address priority areas for supervision, including insurance distribution and claims management.

4.4 Promote resilience, stability, and public confidence in the Ontario-incorporated insurance companies and reciprocals sector

Overview

As part of FSRA's multi-year initiative to transform its supervisory approach and satisfy its statutory objects, FSRA is implementing the Risk Based Supervisory Framework for Ontario-Incorporated Insurance Companies and Reciprocals ("RBSF-I"). This framework sets out practices for integrated market conduct and prudential supervision. FSRA has developed a 4-year work plan for prudential rules and guidance for insurers and will continue to carry out the initiatives identified over the course of this year. The initiatives set out, combined with the continued implementation of the RBSF-I, will guide FSRA in its assessment and supervision of the Insurers while continuing to build prudential and market conduct supervisory integration, capacity, and capability.

Outcomes we are seeking

i) A better-governed and stronger Ontario-incorporated insurance companies and reciprocals sector.

ii) Enhanced resilience of insurers and reduction in the likelihood of failure.

iii) A strong, stable, and resilient sector where policyholders and consumers are protected and have confidence in the sector.

Key activities to achieve outcomes

a) Completing and maintaining accurate and consistent risk profile assessments of insurers.

b) Developing tools and building capabilities to incorporate enhanced information collection into the supervisory approach to assess the risk profiles of Insurers more accurately and consistently.

c) Developing, consulting on, and issuing guidance that enables effective regulation and supervision of insurers.

5. Credit Union priorities

5.1 Promote resilience, stability, and public confidence in Ontario’s credit union sector

Overview

FSRA is continuing to advance its integrated, comprehensive, and continuous supervisory approach under the Risk Based Supervisory Framework for credit unions (“RBSF-CU”), and modernizing data systems to better analyze, manage and monitor risks. FSRA will use evidence identified from its supervisory assessments and monitoring activities to better inform future needs and enhancements of the approach, methodology, and framework. This will promote sector resilience, better protect depositors, enhance sector stability, and improve regulatory efficiency.

Outcomes we are seeking

i) A better-governed and stronger credit union sector.

ii) Enhanced credit union resilience and reduction in the likelihood of failure.

iii) Improved protection of members and their deposits and greater public confidence in the credit union sector.

Key activities to achieve outcomes

a) Continuing to incorporate risk data received through Enhanced Data Collection into the supervisory approach to assess the risk profiles of credit unions more accurately and consistently.

b) Completing and maintaining accurate and consistent risk profile assessments of credit unions.

5.2 Enhance FSRA’s regulatory framework

Overview

FSRA is continuing to enhance the regulatory framework for Ontario credit unions by way of rules and guidance that promote high standards of business conduct, sector stability, confidence in the sector, and the protection of credit union depositors, members, and consumers.

In 2022-23, FSRA engaged with key credit union stakeholders to develop a 5-year work plan for rules and guidance impacting the sector. FSRA continues to work with the Ministry of Finance and key stakeholders in a transparent and collaborative manner to carry out the initiatives set out in the work plan. FSRA will address areas of emerging risks and ensure that the regulatory framework remains effective in enabling FSRA to carry out its statutory objects for the credit union sector.

Outcomes we are seeking

i) A stable and resilient credit union sector in Ontario with better alignment of capital and risk.

ii) Better protection of credit union members’ rights and their deposits.

iii) Continued transparency among credit union stakeholders.

Key activities to achieve outcomes

a) Reviewing FSRA’s Capital Adequacy Framework (including the Capital Adequacy Requirements Rule and related guidance), Liquidity Adequacy Framework (including Stress Testing Guidance and Liquidity Guidance) and the Securitization Guidance to identify and make pre-liminary recommendations on elements to be added or amended.

b) Developing and publicly consulting on a new Unclaimed Deposits Rule, and subject to approval by the Minister of Finance, issuing the Rule, to fully bring the *Credit Unions and Caisses Populaires Act, 2020* framework into effect.

c) Enhancing stakeholder engagement by continuing to improve understanding of FSRA’s supervisory approach and expectations (i.e., Annual FSRA conference for Credit Union Board of Directors etc.).

5.3 Enhance financial stability structures

Overview

FSRA is continuing to promote a stable and resilient credit union sector through enhanced financial stability structures such as the Deposit Insurance Reserve Fund (“DIRF”), a robust resolution regime, and enabling access to emergency liquidity. These structures ensure members’ deposits are protected, particularly during stressful events, and promote sector stability.

Outcomes we are seeking

i) Reduced exposure of the DIRF to loss.

ii) Strengthened depositor protection and sector stability.

iii) Enhanced confidence in credit unions.

Key activities to achieve outcomes

a) Enhancing credit unions' access to adequate emergency funding during idiosyncratic and systemic stress in order to reduce the likelihood of disruption of credit union operations and service to members.

b) Continuing to work with credit unions to develop and enhance credible recovery and resolution plans.

c) Enhancing the modelling and analytics of the DIRF Adequacy Assessment Framework by the inclusion of additional risk data received from Ontario credit unions through the Enhanced Data Collection project.

6. Life and Health Insurance priorities

6.1 Strengthen Managing General Agents (“MGA”) regulatory framework

Overview

FSRA continues to identify consumer risks and gaps in market conduct compliance, particularly in independent distribution channels such as MGAs.

In response, FSRA is strengthening the regulatory framework to address potential consumer risks and challenges posed by the MGA distribution channel and continuing proactive and risk-informed supervision under its Life Agent Supervisory Framework.

Outcomes we are seeking

i) Obligations of insurers, MGAs and sales agents in product sales/service are clear, particularly in relation to distribution practices.

ii) Consumers are treated fairly and sold products that suit their needs based on advice provided by an adequately trained/monitored life agent.

Key activities to achieve outcomes

a) Completing stakeholder consultation on proposed MGA Rule and supporting guidance and implementing new standards, and, subject to Finance Minister approval, a new Rule.

b) FSRA is developing a plan and acquiring resources and capabilities to effectively oversee new regulatory standards.

6.2 Protect consumers who invest in segregated fund contracts

Overview

FSRA is continuing to enhance standards for the design, distribution and administration of segregated fund contracts. These standards will help ensure agents give customers suitable advice. They will also give customers the information they need to understand the contracts in which they invest, including what they pay to invest, and help them to make suitable choices about insurance and investments.

Outcomes we are seeking

i) Insurers and agents put customers' interests first and manage conflicts of interest appropriately when they design, sell and administer segregated fund contracts.

ii) Agents take appropriate steps to ensure they understand the products they sell and their customers' needs, give suitable advice about how segregated fund contracts can meet those needs, and give customers the information they need to make suitable choices.

iii) Insurers train and monitor agents to ensure they make suitable recommendations and provide appropriate service over the lifetime of the contracts.

Key activities to achieve outcomes

a) Working with the Canadian Council of Insurance Regulators (CCIR) and Canadian Insurance Services Regulatory Organizations (CISRO) to create consolidated national guidance relating to the design, distribution, issuance, sale, and administration of segregated funds.

b) Developing a rule and (if necessary) guidance, consistent with the CCIR and CISRO consolidated national guidance, to address related gaps in consumer protection.

7. Mortgage Brokering priorities

7.1 Promote strong conduct culture

Overview

FSRA is continuing to actively promote strong conduct culture in the sector in 2023-25. A firm's conduct culture drives the norms, attitudes and behaviours of its management and staff with respect to treatment and outcomes for their customers.

Outcomes we are seeking

i) Governance, controls and processes at licensed firms help ensure these firms and their licensed individuals make decisions and carry out their business activities in a manner that delivers fair outcomes for their clients and fulfills regulatory requirements.

ii) Consumers receive mortgage advice that is suitable to them based on their needs and circumstances.

Key activities to achieve outcomes

a) Developing rules and accompanying guidance to enhance principal broker effectiveness.

b) Commencing supervision against regulatory expectations outlined in the mortgage suitability guidance and mortgage administrator financial filing guidance.

c) Implementing a risk-based conduct intervention approach to address deficiencies in a licensed firm's operations or misconduct in a proportional way based on impact on consumer protection.

7.2 Enhance professional competence of licensed individuals

Overview

Professional competence ensures that brokers and agents have the necessary knowledge and skills to provide clients (borrowers and/or lenders/investors) suitable recommendations for mortgages and/or mortgage investments based on the client's needs and circumstances. Industry participants have continuously made suggestions to strengthen the proficiency and education of mortgage brokers and agents to increase the sector's overall professional standards.

FSRA will finalize its work of enhancing the educational requirements of this sector, which is critical in an uncertain market with changing interest rates and high rates of inflation. Within this environment, consumers may be driven to mortgages funded by alternative and private lenders. With enhanced competency and a more systematic approach to assessing the suitability of a mortgage recommendation, brokers and agents will be better placed to serve their clients.

Outcomes we are seeking

i) Agents and brokers are equipped with appropriate competencies to work with increasingly sophisticated options and products for consumers in a complex financial services industry.

ii) Consumers receive recommendations for mortgages/mortgage investments that are suitable for their specific circumstances and needs, protect their rights and interests, and promote high standards of business conduct and public confidence in the sector.

Key activities to achieve outcomes

a) Publishing final guidance that outlines FSRA's interpretation of how it evaluates the suitability of mortgage brokers and agents to hold a licence.

b) Publishing final guidance to support appropriate conduct of suitability assessments by brokers and agents.

c) Developing and implementing a framework to supervise against the licensing and mortgage suitability guidance that leverages the governance, controls and processes within licensee firms to help achieve the desired outcomes.

d) Implementing enhanced competency and continuing education frameworks for brokers and agents.

8. Pension priorities

8.1 Assess systemic and high priority risks in Ontario's pension sector

Overview

FSRA supports the good administration of pension plans and protection of benefits in Ontario's pension sector through various initiatives. Many of the initiatives that FSRA implemented over the past four years are now part of FSRA's on-going regulatory and supervisory activities.

Over the fiscal year 2024-25, FSRA will focus regulatory resources and efforts on the assessment of systemic and high-priority risks in Ontario's pension sector.

- review and enhance FSRA's supervisory framework to strengthen prudential supervision of large public sector pension plans ("LPSPPs")
- deliver regulatory excellence with priority focus on plan amendments and surplus applications that is principles-based and outcomes-focused
- continue to review the long-term viability and financial sustainability of the Pension Benefits Guarantee Fund, including the impact of the federal *Pensions Protection Act* (Bill C-228)

Outcomes we are seeking

i) Identify and help proactively mitigate potential risks and reduce possible harms.

ii) Maintain public confidence in the pension sector.

iii) Preparedness for full implementation of the federal Pension Protection Act, including supporting the Government with its mandated reviews of the PBGF.

iv) Transparency of FSRA's pension supervisory activities.

Key activities to achieve outcomes

a) Finalizing and implementing the prudential supervisory guidance for LPSPPs.

b) Developing the prudential supervision approach, tools, and capabilities to effectively implement the LPSPPs supervisory framework.

c) Publishing the final plan amendment guidance and initiate stakeholder engagement on an updated draft surplus guidance.

8.2 Support the development of target benefit regulation

Overview

FSRA is supporting the government in its development and implementation of a new target benefit framework for defined benefit multi-employer pension plans (“DB MEPPs”), as announced in the 2022 Ontario Budget released on April 28, 2022. This will require FSRA to develop and implement a supervisory approach, tools, and methods that it will use in its proactive supervision.

Outcomes we are seeking

i) Support the successful implementation of the new target benefit framework.

ii) Adoption of effective funding and governance policies by DB MEPPs.

iii) Members understand the reducibility nature of their target benefit plans.

iv) Identify and proactively mitigate potential risks and reduce possible harms.

Key activities to achieve outcomes

a) Publishing for consultation the draft prudential supervisory guidance for target benefit plans for DB MEPPs.

b) Developing and implementing supervisory approach, tools, and resources to effectively supervise DB MEPPs.

c) Publishing a benchmarking report of defined benefit multi-employer pension plans against FSRA’s published leading practices.

9. Financial Planner/Financial Advisor priorities

9.1 Ensure the effectiveness of the title protection framework for Financial Planners/Financial Advisors

Overview

The Financial Professionals Title Protection Framework ("FPTPF") is intended to promote confidence and professionalism in the sector by ensuring that individuals using the Financial Planner ("FP") / Financial Advisor ("FA") titles are appropriately qualified by meeting minimum standards. Consumers who work with an FP or FA can have confidence that they are dealing with an individual who:

- has a minimum standard of education
- is actively supervised by an approved credentialing body
- is subject to a complaints and discipline process

A way to ensure the effectiveness of the title protection framework is through national harmonization of minimum standards and a robust oversight program that holds credentialing bodies, and by extension credential holders, to a high standard of professionalism and accountability.

The FPTPF's third year of operation corresponds with the end of the transition period for individuals using the FA title. After March 28, 2024, individuals who wish to continue to use the FA title in Ontario will be required to obtain an approved credential from a FSRA-approved credentialing body.

FSRA will also focus resources on consumer education to create awareness of the framework and provide consumers with the information they need to make informed decisions when choosing a FP or FA.

Outcomes we are seeking

i) Protect consumers through effective oversight of credentialing bodies and individuals misusing the FP and FA titles.

ii) Harmonize, to the extent possible, with other Canadian jurisdictions' title protection frameworks.

iii) Ensure individuals using the FP/FA title are appropriately credentialed post-transition.

Key activities to achieve outcomes

a) Implementing a supervision plan for approved credentialing bodies and individuals who use the FA title without an approved credential, including developing the necessary supervisory tools, resources and capabilities to implement the plan.

b) Continuing to work with other Canadian jurisdictions to implement similar title protection frameworks.

c) Publishing a report on framework evaluation, which would explore possible future enhancements to the framework.

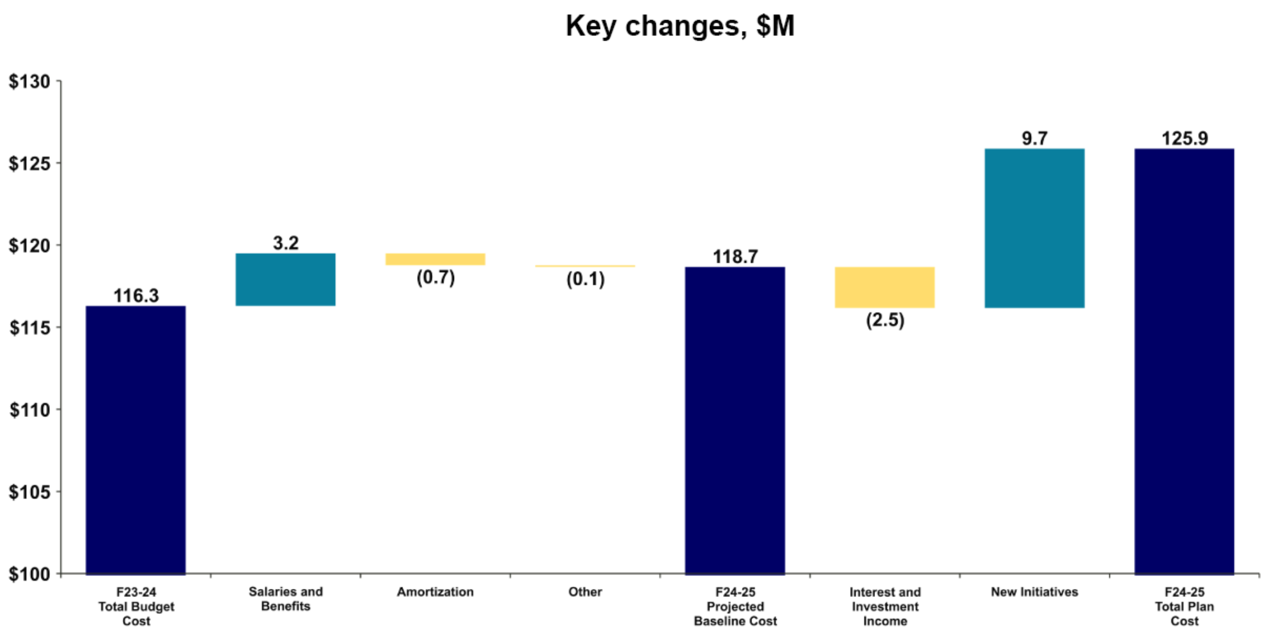
d) Conducting a targeted campaign for businesses to assess and improve compliance with title usage.

Financial outlook

Cost projection

To fulfill its mandate and stated priorities, FSRA is proposing a $125.9 million financial plan for FY2024-25. This is an 8.3% increase from the FY2023-24 budget and 5.1% higher than the FY2024-25 plan in the 2023-2026 ABP.

The chart below demonstrates the projected costs compared to the FY2023-24 budget.



Salaries and benefits are projected to increase by $3.2 million primarily due to mandatory collective bargaining agreements, anticipated increase in benefit premiums, higher pension bucket, and adjustments for the impact of the *Protecting a Sustainable Public Sector for Future Generations Act* disputes.

Overall amortization has decreased by $0.7 million. The decrease in amortization expense is attributed to the delay in the FSRAForward project, resulting in a reduction of $0.4 million in the FY2024-25 Plan to align with the year-to-date actual and projected FSRAForward amortization expenses. The in-year investment for FSRAForward is $6.3 million, of which $5.0 million of the Non-GAAP will be deferred and amortized over a five-year period. In FY2025-26 FSRAForward amortization is expected to peak at $6.6 million and will gradually decrease in the subsequent years.

The reduction of $0.1 million in the other category is due to increased recoveries from Pension Benefit Guarantee Fund (“PBGF”) for salaries and benefits reimbursement.

The projected operating cash balance is expected to generate interest and investment income of $5.3 million. This represents an increase of $2.5 million or 89.3% compared to FY2023-24.

New initiatives

FSRA anticipates spending $9.7 million in new initiatives to advance FSRA's statutory objects to protect the rights and interests of consumers, supports and enable innovation, improve regulatory oversight through greater access to data and analytics tools across all sectors, and effectively enforce regulatory requirements. More specifically, in each sector, the new initiatives would allow FSRA to deliver the following:

- support Auto Insurance product reform and conduct proactive supervision of operational risks (Priority 4.1)
- develop and implement initiatives to reduce fraud and abuse in the Auto Insurance system, including the development of a new Fraud Reporting Service Rule and guidance (Priority 4.2)
- launch supervisory review of unsupervised insurance company functions carried out by P&C Managing General Agents ("MGAs") (Priority 4.3)
- build capacity and expertise in Credit Union while realigning resources to implement principles-based regulation and risk-based supervision (Priority 5.2)
- lead the development, calibration, and implementation of risk modelling to enhance the long-term financial sustainability of the Deposit Insurance Reserve Fund ("DIRF") (Priority 5.3)
- strengthen Managing General Agents ("MGA") Regulatory Framework, including continuing proactive and risk-informed supervision under its FSRA's Life Agent Supervisory Framework (Priority 6.1)
- support Innovation Office to sustain its ability to conduct on-going outreach and maintain an active presence and engage with the ecosystem / relevant external stakeholders to better support awareness and interest in FSRA's Test and Learn Environment and strengthen FSRA's brand recognition (Priority 2)
- implement a new framework for providing legal advice and opinions to support a more principles-based and outcomes focused approach (Priority 5.2)
- support development, implementation and monitoring of supervisory guidance to Multi Employer Pension Plans/Target Benefit Plans (Priority 8.2)
- support development, implementation and monitoring of prudential supervision framework for Large Public Sector Pension Plans ("LPSPPs") (Priority 8.1)

- improve technology solutions for monitoring, VPN, SAN Technology, Network Access Control, Software & Hardware Maintenance, Software Licenses & Subscriptions, Cloud Subscriptions & Services, and Telecommunications (Priority 3)

Sector fee assessments

FSRA proposes total sector revenues showing a net increase of 4.2% or $4.6 million over the FY2023-24 budget. The variable sector fee assessment component of these total revenues increases by 6.0% after accounting for the anticipated increase in revenues for fixed fee/activity fees and by crediting $12.0 million of cumulative surplus to offset variable sector fee increases.

- the variable sector fee assessment is $1.8 million or 2.2% above the committed year 2 in the 2023-2026 ABP.

Sector view summary: proposed FY2024-2025 plan of $125.9M

Sector ($000's)	Insurance					Pensions	Credit Unions	Mortgage Brokers	Loans & Trusts	Financial Planners & Financial Advisors	Total
Subsector	Auto Products	Health Service Providers	P&C Conduct	P&C Prudential	Life & Health						
Activity and Licensing Fees		3,500	1,300		7,300			18,200		100	**30,400**
Fee Assessment	15,800		9,300	3,600	9,500	24,900	18,900		800	700	**83,500**
FY2024-2025 Proposed Revenue	**15,800**	**3,500**	**10,600**	**3,600**	**16,800**	**24,900**	**18,900**	**18,200**	**800**	**800**	**113,900**
Direct Cost	12,100	2,400	8,100	2,800	12,100	19,000	14,400	12,800	600	600	**84,900**
Common Cost	5,700	1,100	3,900	1,300	6,000	9,200	7,000	6,200	300	300	**41,000**
FY2024-2025 Proposed Cost	**17,800**	**3,500**	**12,000**	**4,100**	**18,100**	**28,200**	**21,400**	**19,000**	**900**	**900**	**125,900**
Expected Fixed Fee Over/(Under) Contribution to Common Costs	200	-	100	-	100	200	200	(800)	-	-	-
Recovery Over/(Under)	(2,200)	-	(1,500)	(500)	(1,400)	(3,500)	(2,700)	-	(100)	(100)	**(12,000)**
Funding from Cumulative Surplus	**2,200**	**-**	**1,500**	**500**	**1,300**	**3,500**	**2,700**	**-**	**100**	**100**	**12,000**
FY2023-2024 Budget Revenue	**14,220**	**3,616**	**9,500**	**3,416**	**15,564**	**24,857**	**18,741**	**17,798**	**534**	**1,051**	**109,297**
Revenue Variance	**1,580**	**(116)**	**1,100**	**184**	**1,236**	**43**	**159**	**402**	**266**	**(251)**	**4,603**
Increase/(Decrease)	**11.1%**	**-3.2%**	**11.6%**	**5.4%**	**7.9%**	**0.2%**	**0.9%**	**2.3%**	**49.8%**	**-23.9%**	**4.2%**
FY2023-2024 Cost	**15,356**	**3,616**	**10,258**	**3,690**	**16,188**	**26,839**	**20,282**	**18,358**	**576**	**1,134**	**116,297**
Cost Variance	**2,444**	**(116)**	**1,742**	**410**	**1,912**	**1,361**	**1,118**	**642**	**324**	**(234)**	**9,603**
Increase/(Decrease)	**15.9%**	**-3.2%**	**17.0%**	**11.1%**	**11.8%**	**5.1%**	**5.5%**	**3.5%**	**56.1%**	**-20.6%**	**8.3%**

Note: In the view above, net interest income is included as a reduction to the common cost across all sectors. It will be depicted as a revenue item in the FSRA's annual financial statement.

Sector allocation rates are based on the last year's ABP, except for where the information provided by the business division

The proposed business plan is presented at a high level. Management is developing a detailed budget for FY2024-25, which will include specific spend and benefits of new initiatives and revenue impacts on individual sectors. This will be included in the upcoming ABP.

FSRA financial plan

- This financial plan reflects the estimated resources FSRA requires to fulfill its regulatory mandate and continue the transformation into a principles-based, independent, and transparent regulator through its priorities and operating activities.

- The draft financial plan below presents the forecasted financial activities for the fiscal year from April 1, 2024, to March 31, 2025. Subject to revisions based on stakeholders' feedback, it will form the basis of FSRA's proposed 2024-2027 Annual Business Plan. See the appendices for assumptions and methodologies on which the budget is based.

- Total revenue will increase 4.2% year over year compared to the FY2023-24 Budget. The proposed variable sector fee assessment is 6.0% higher than prior year and $1.8 million higher than FY2024-25 Plan in the 2023-2026 ABP.

- Activity and Licensing fees are expected to be 0.5% lower due to an anticipated decrease in renewal and emerging applications primarily in the HSP and Life and Health sectors. Mortgage Broker License Fees are projected to increase by 2.3% from FY2023-24.

- Direct Costs are expected to increase by $18.4 million or 27.7% compared to the FY2023-24 Budget, partially due to Public Affairs ($7.1 million) transitioning from using a common rate to a direct rate allocation approach. Net increase in Direct Cost (without Public Affairs transition) is $11.3 million or 17.1% compared to the previous year.

- Implementation of the new Fee Rule would have a limited impact at the sector level with licensing and activity fees in Life & Health and Mortgage Brokers increasing by $1.4 million.

- The new Fee Rule would require changing the operating reserve amount from $5.0 million to 5.0% of the proposed plan cost. FSRA intends to fund the $1.3 million difference using its accumulated surplus, which was $36.8 million on a Non-GAAP basis as of March 31, 2023.

($000's)	FY2024-2025 Proposed Plan	FY2023-2024 Budget	Variance vs Last Year Budget ($)	(%)
Revenue:				
Activity and Licensing Fees	30,400	30,556	(156)	-0.5%
Fee Assessment	83,500	78,741	4,759	6.0%
Total Revenue	113,900	109,297	4,603	4.2%
Direct Costs	84,900	66,464	18,436	27.7%
Common Costs	41,000	49,833	(8,833)	-17.7%
Total Costs	125,900	116,297	9,603	8.3%
Utilization of Cumulative Surplus	12,000	7,000		

Appendix 1: Financial assumptions

- FSRA plans implementation of the new Fee Rule, which could result in fee changes. Projected revenue for FY2024-25 is based on the new fee rule.
- Comparable figures are based on the April 1, 2023 – March 31, 2024, budget approved by the FSRA Board and used to charge FY2023-24 variable sector fee assessments.
- The financial information for FY2024-25 SOP is a high-level projection. The detailed budget will be published in the 2024-2027 Annual Business Plan.
- Technology operating investments made during the year are recovered over five years from the sectors rather than expensed in the year paid, to better align costs and benefits.
- The cost allocation methodology for Public Affairs was changed this year from Common Costs to Direct (refer to the following appendix for direct rate allocation rule details).
- Credit Unions IT costs are being transitioned over five years (ending FY2024-25) to bear their pro rata share of common IT costs. This is reflected in the cost allocation.
- FSRA regulates Health Service Providers as part of its Auto Insurance regulatory activities. Any revenue under recovery/overage from Health Service Providers is charged to/credited to the variable sector fee assessment Auto Insurance Product.
- Life Conduct for Life and Health agents is a fixed fee sub-sector. Any cost overage/underage will be charged to life insurers as a variable sub-sector.
- FSRA will recover expenses for its review of Co-op offering statements.

Appendix 2: Sector allocation methodology highlights

Direct cost allocation: includes Insurance, Pension, Credit Union, Market Conduct, Legal, Policy, Public Affairs, Lease and IT Direct (project-specific expenses)

- Pension, Credit Union, and Insurance Division costs: allocated 100% to their respective sectors (with minor exceptions, i.e., the designated team within Credit Union is allocated to the P&C Prudential Regulation sector).
- Market Conduct and Policy Division: based on dedicated full-time equivalents to specific sectors. Full-time equivalents that are not dedicated to specific sectors are allocated based on Market Conduct and Policy direct allocation rates.
- Legal Division: allocation based on anticipated use of service considering full-time equivalents allocated to each sector and historical activity.
- Public Affairs: Allocation is determined by the anticipated use of service, considering the number of full-time equivalent employees assigned to each sector as well as past activity. The allocation of operating expenses will be based on projections for their respective sectors. Full-time equivalents and operating expenses that aren't dedicated to specific sectors will be distributed according to Public Affairs' direct allocation rates.
- Lease costs: allocated based on full-time equivalents.
- IT specific sector projects: charged to sectors directly. Additional IT costs are allocated to sectors proportionately based on their direct costs.

Common cost allocation: includes CEO Office, Corporate Services (which included IT non-specific project costs), Interest, Amortization

- FSRA allocates common costs to sectors proportionately based on individual sector's direct cost. E.g., if Auto Product's direct costs represent 15.0% of overall direct costs of $68.0M, then its share of $52.5 million total common costs would be $7.8 million (or 15.0%).