

Stakeholder Advisory Committee (SAC): Life and Health Insurance Sector

FSRA

Financial Services Regulatory
Authority of Ontario





AGENDA

1. Introductions
2. Process overview
3. Proposed 2020/2021 Financials & Budget
4. Cross Sectoral Priorities: Prior and Current
5. L&H Sectoral Priorities: Prior and Current
6. Detailed L&H Priorities & Consultation Summaries
7. Next Steps

PROCESS OVERVIEW

FSRA 2020 – 2021 Priorities and Budget

FSRA PRIORITIES 2020-21				
CROSS-SECTORAL PRIORITIES				
Burden Reduction		Regulatory Effectiveness		
1.1 Review internal guidance		2.1 Protect the public interest		
1.2 Establish meaningful service standards		2.2 Enable innovation		
		2.3 Modernize systems and processes		
		3.1 Transition to Principle Based Regulation (PBR)		
		3.2 Improve information sharing with regulators		
SECTOR-SPECIFIC TARGETED HIGH-IMPACT PRIORITIES				
Property & Casualty (Auto) Insurance	Credit Unions	Life & Health Insurance	Mortgage Brokering	Pensions
4.1 Engage and protect consumers	6.1 Support modernization of regulatory framework	6.1 Improve licensing effectiveness and efficiency	7.1 Improve licensing effectiveness and efficiency	8.1 Support plan flexibility
4.2 Leadership in auto insurance reform	6.2 Ensure appropriate contribution framework and Deposit Insurance Reserve Fund (DIRF) oversight	6.2 Establish stabilized market conduct oversight to protect consumers	7.2 Refine established stabilized market conduct oversight to protect consumers	8.2 Review prudential framework
4.3 Develop a comprehensive auto insurance and data analytics strategy	6.3 Enhance credit union market conduct supervision oversight to protect consumers	6.3 Implement Mortgage Brokering Lenders and Administrators Act (MBLAA) review recommendations	7.3 Focus on burden reduction	8.3 Develop processes for the future approval and supervision of credentialing bodies
	6.4 Update supervisory and risk assessment approach			

Stakeholder Advisory Committees



- Property and Casualty (Auto) Insurance
- Life and Health Insurance
- Mortgage Brokering
- Pensions
- Health Service Providers
- Credit Unions

FSRA 2020 – 2023 Business Plan



- ☐ **October 24** – Public Comment Period Opens
- ☐ **November 18** – Public Comment Period Closes



- ☐ **The week of November 12** – FSRA Management Meeting with SAC
- ☐ **November 18** – SAC Submissions
- ☐ **Week of November 25** – FSRA Board Meeting with SAC



- ☐ **December 12** – Approval by FSRA Board
- ☐ **December 15** – Submission of Proposed Annual Business Plan to Ministry of Finance
- ☐ **Mar/Apr 2020** – Final Approval of Annual Business Plan to Minister

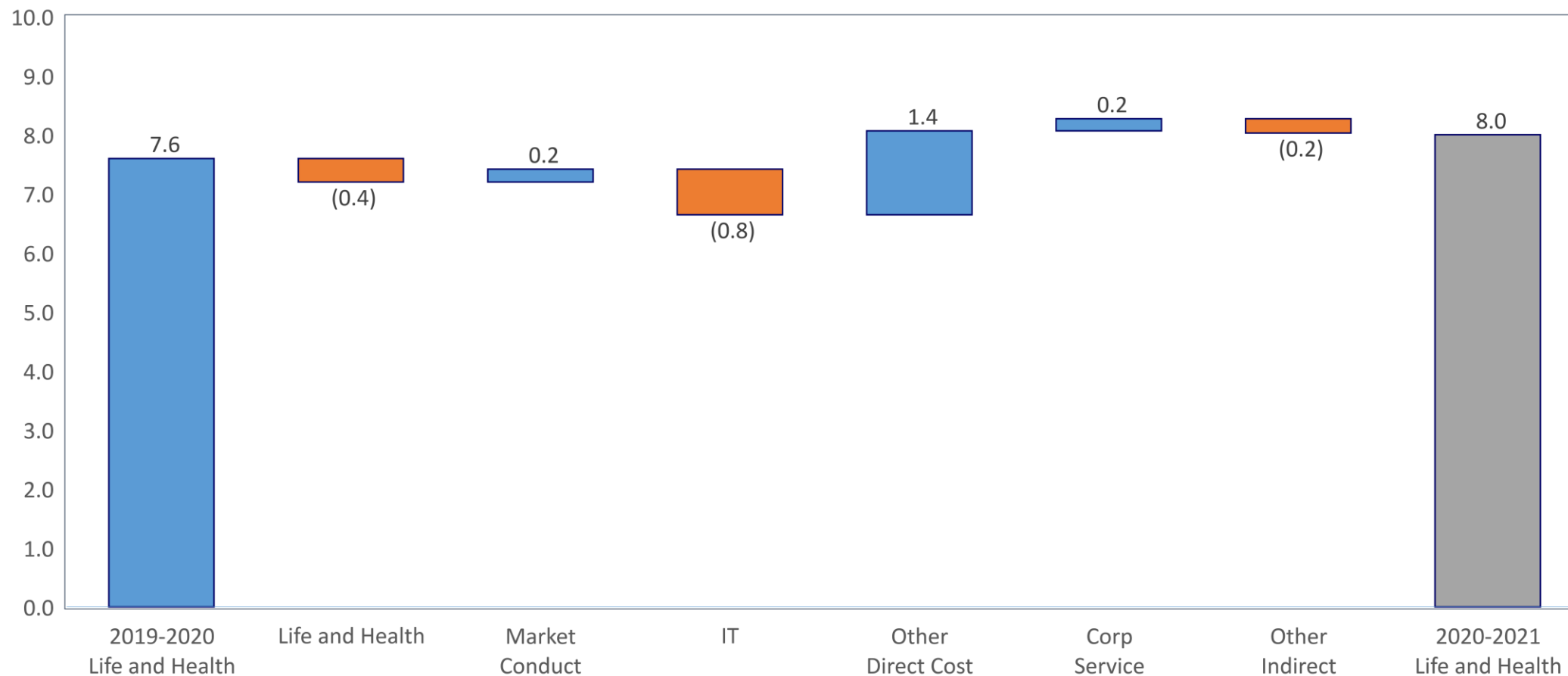


2020 – 2021 FINANCIALS

Sector (000's)	Insurance								Pensions (Fixed and Variable)	Credit Unions (Variable)	Mortgage Brokers (Fixed)	Loans & Trusts (Variable)	Financial Advisor & Financial Planner	Total
Subsector	Auto Products	P&C Conduct	P&C Prudential Regulation	Subtotal: Auto and P&C	Health Service Providers (Fixed)	Life Conduct & Life Health (Variable)	Life Conduct & Life Health (Fixed)	Total Insurance						
2020-2021 Revenue														
Activity Fees	16	187	1	204	148		5,679	6,031	56	113		2		6,201
Fee Assessment	19,767	11,296	210	31,272	4,136	2,351		37,760	27,040	13,343		55	245	78,442
Licensing Fees											13,415			13,415
HSP Shortfall Recovery	882			882				882						882
Total Revenue	20,665	11,483	211	32,359	4,284	2,351	5,679	44,673	27,096	13,456	13,415	56	245	98,940
2020-2021 Cost														
Direct Cost	14,456	8,391	154	23,001	3,775	1,718	4,150	32,644	19,800	9,832	8,556	41	245	71,118
Common Cost	5,675	3,294	60	9,029	1,482	674	1,629	12,815	7,773	3,860	3,359	16	-	27,822
Total Cost	20,131	11,685	215	32,030	5,257	2,392	5,779	45,458	27,573	13,692	11,914	57	245	98,940
Recovery Over/(Under)	534	(202)	(4)	329	(973)	(41)	(100)	(786)	(477)	(237)	1,500	(1)	-	0
2019-2020 Revenue	12,860	19,901	486	33,247	3,679	1,885	5,679	44,490	27,450	13,510	11,304	247	-	97,000
Revenue Variance (\$) F20-21 over F19-21 Over/(Under)	7,805	(8,418)	(275)	(888)	605	466	-	183	(353)	(54)	2,111	(191)	245	1,940
Revenue Variance (%) F20-21 over F19-21 Over/(Under)								0.4%	-1.3%	-0.4%	18.7%	-77.2%		2.0%
2019-2020 Cost	12,476	19,901	486	32,862	4,063	1,885	5,679	44,490	27,450	13,510	11,304	247	-	97,000
Cost Variance F20-21 over F19-21 Over/(Under)	7,655	(8,216)	(271)	(832)	1,194	507	100	968	123	182	610	(189)	245	1,940

2020-2021 Budget: Life and Health (L&H)

FSRA 2020-2021 Budget - Key Changes (\$millions)





2019 – 2020 CROSS SECTORAL PRIORITIES

Cross Sectoral Priorities	
Burden Reduction	Regulatory Effectiveness
<ul style="list-style-type: none">• Review inherited guidance• Review data collection and filing requirements• Establish meaningful service standards	<ul style="list-style-type: none">• Protect the public interest• Increase sectoral expertise• Enable innovation• Enhance stakeholder collaboration• Modernize systems and processes
Progress Report	
<ul style="list-style-type: none">• 40% of guidance reduced from 1,100 guidance• Standardized guidance framework to provide greater clarity for users to understand the types of guidance in their sectors• Reviewed existing data and filing requirements against cost benefits	<ul style="list-style-type: none">• Filled 135 positions (41 internal movement, 94 external hires) to build internal capacity since launch• Launched call for applicant for consumer roundtable.• Developed Office of Innovation Framework Joined Global Financial Innovation Network (GFIN)• Initiated extensive stakeholder engagement across sectors with the creation of Stakeholder Advisory Committees (SAC); sector technical committees and online consultations• Developed digital transformation roadmap which supports regulatory reform to achieve a fully digital, integrated technology and process



CROSS SECTORAL PRIORITIES

What has changed?

2019 – 2020 Priorities

Burden Reduction	Regulatory Effectiveness
1.1 Review inherited guidance 1.2 Review data collection and filing requirements (completed) 1.3 Establish meaningful service standards	2.1 Protect the public interest 2.2 Increase sectoral expertise (completed) 2.3 Enable innovation 2.4 Enhance stakeholder collaboration (completed) 2.5 Modernize systems and processes

2020 – 2021+ Draft Priorities

Burden Reduction	Regulatory Effectiveness
1.1 Review inherited guidance 1.2 Establish meaningful service standards	2.1 Protect the public interest 2.2 Enable innovation 2.3 Modernize systems and processes
3.1 Transition to Principle Based Regulation (PBR) (new) 3.2 Improve information sharing with regulators (new)	



2019-20 PRIORITIES

Cross Sectors				
Burden Reduction		Regulatory Effectiveness		
1.1 Review inherited guidance		2.1 Protect the public interest		
1.2 Review data collection and filing requirements		2.2 Increase sectoral expertise		
1.3 Establish meaningful service standards		2.3 Enable innovation		
		2.4 Enhance stakeholder collaboration		
		2.5 Modernize systems and processes		
Sector-specific: Targeted High-impact Priorities				
Auto Insurance	Credit Unions	L&H Insurance	Mortgage Brokering	Pensions
3.1 Streamline Rate Regulation Process	4.1 Integrate Conduct and Prudential Supervision	5.1 Adopt Effective Conduct Standards	6.1 Provide Effective Syndicated Mortgage Investment (SMI) Oversight	7.1 Support Plan Flexibility
3.2 Support Auto Reform Strategy	4.2 Support Modernization of Regulatory Framework	5.2 Improve Licensing Effectiveness and Efficiency	6.2 Improve Licensing Effectiveness and Efficiency	7.2 Review Prudential Framework
3.3 Review Health Service Provider (HSP) Regulation	4.3 Adopt Industry Code of Conduct	5.3 Harmonize Treating Consumers Fairly Guidance	6.3 Adopt Industry Code of Conduct	7.3 Focus on Burden Reduction
3.4 Develop Fraud and Abuse Reduction Strategy	4.4 Ensure Appropriate Resolution Framework and Deposit Insurance Reserve Fund (DIRF) Oversight			

Additional Priorities (not included in Business Plan)

Implement financial planner / advisor title protection framework following 2019 Budget legislation

2019 – 2020 L&H INSURANCE SECTOR

Cross Sectoral Priorities

- Burden Reduction
- Regulatory Effectiveness

Life & Health Insurance Sector

- Adopt Effective Conduct Standards
- Improve Licensing Effectiveness and Efficiency
- Harmonize Treating Consumers Fairly Guidance

Progress Report

- | | |
|--|--|
| <ul style="list-style-type: none"> • 60% reduction in inherited guidance (from 154, reduced to 61) • Established Rate Regulatory Advisory Committee • Organized proactive speaking engagements with industry and roundtables • Filled 25 Licensing and Market Conduct positions (12 internal movement, 13 external hires) since launch | <ul style="list-style-type: none"> • Completed stakeholder consultation altering conduct standards priority • Engaged with stakeholders and other regulators to understand opportunities, common licensing credentials and criteria to prevent entry of bad actors • Completed the stakeholder/regulator consultations on harmonized conduct expectations |
|--|--|



L&H INSURANCE SECTOR PRIORITIES

What has changed?

2019 – 2020 Priorities

- Adopt Effective Conduct Standards
- Improve Licensing Effectiveness and Efficiency
- Harmonize Treating Consumers Fairly Guidance
(completed)



2020 – 2021+ Priorities

- Enhanced market conduct oversight to protect consumers
- Improve licensing effectiveness and efficiency

2020 - 2021+ DRAFT PRIORITIES

CROSS-SECTORAL PRIORITIES

Burden Reduction

- 1.1 Review inherited guidance
- 1.2 Establish meaningful service standards

Regulatory Effectiveness

- 2.1 Protect the public interest
- 2.2 Enable innovation
- 2.3 Modernize systems and processes

- 3.1 Transition to Principle Based Regulation (PBR)
- 3.2 Improve information sharing with regulators

SECTOR-SPECIFIC: TARGETED HIGH-IMPACT PRIORITIES

Auto Insurance	Credit Unions	L&H Insurance	Mortgage Brokering	Pensions	Financial Planners/ Financial Advisor
4.1 Empower and protect auto insurance consumers 4.2 Support and implement transformative auto insurance reforms 4.3 Develop a comprehensive auto insurance and data analytics strategy	5.1 Support modernization of credit union regulatory framework 5.2 Ensure appropriate resolution and Deposit Insurance Reserve Fund (DIRF) oversight framework 5.3 Enhance credit union market conduct supervision 5.4 Update supervisory and risk assessment approach	6.1 Enhanced market conduct oversight to protect consumers 6.2 Improve licensing effectiveness and efficiency	7.1 Support government policy direction on the Mortgage Brokering, Lenders and Administrators Act (MBLAA) 7.2 Enhance market conduct oversight to protect consumers	8.1 Support plan flexibility 8.2 Review prudential framework 8.3 Focus on burden reduction	9.1 Develop processes for the future approval and supervision of credentialing bodies

L&H INSURANCE SECTOR ACHIEVEMENTS TO DATE

Adopt Effective Conduct Standards

1. Stakeholder consultations have yielded additional insights, which have altered this priority from the original 2019-20 Business Plan.
2. FSRA is participating in work underway by industry and through CCIR/CISRO*.

1. Consult with stakeholders to understand industry expectations for evaluating/improving conduct requirements.
2. Collect, validate and analyze internal data to assess specific market conduct issues as a first step to determining how to address gaps, if any, in distribution channels that rely on Managing General Agents.

Improve Licensing Effectiveness and Efficiency

1. Licensing has been challenged with a loss of resources leading up to transition creating service level gaps. Now fully staffed, processes will be reviewed to align with priorities going forward.
2. Engaging with stakeholders /other regulators to understand opportunities, common licensing credentials and criteria to omit entry to bad players.

1. Gap analysis on due diligence processes, to ensure effective risk based licensing processes.
2. Develop a common process for capturing and consolidating licensing statistics, from the date of assignment to approval for all products.

Harmonize Treating Consumers Fairly Guidance

1. Stakeholder/regulator consultations on harmonized conduct expectations completed.

1. Inform CCIR and CISRO stakeholders of FSRA plan for Fair Treatment of Consumers (FTC) guidance at November CCIR meetings.
2. Prepare stakeholder information bulletin for Fall 2019 publication.

ADOPT EFFECTIVE CONDUCT STANDARDS

Priority Overview

- Stakeholders have raised concerns about the lack of regulation of intermediaries between insurers and agents — licensed corporate agents or managing general agents (MGAs) — who perform oversight/management functions but are not subject to corresponding conduct requirements.
- Improved conduct standards would help to eliminate oversight gaps in the L&H insurance industry, creating a level playing field for all industry participants and increasing fairness to consumers.

Original Milestones		Timeline	Refreshed Milestones		Timeline
A	Engage with stakeholders and other regulators, including RIBO, to better understand positions and opportunities for consensus.		A		
B	Separate consultations to evaluate/improve conduct requirements for L&H and P&C		B		
C	Review any relevant codes of conduct, adopt or not.		C		
D	Develop oversight/enforcement of any new guidelines.		D		
E	Develop resourcing and implementation plan to support oversight /enforcement of any new conduct guidelines.				
F	Complete consultation and review of codes of conduct				



To be sunset, and replaced with new priority

Narrative (Highlights, and Rationale for Change including, if applicable, extension of timeline)

While the identified priorities continue to be seen as key by FSRA and the sector, the delay in FSRA's launch and the impact of the transformation required operational stability improvements. In addition, continued stakeholder consultations have yielded some additional insights, which have in some cases altered priorities from the original 19/20 Business Plan. Considerable work is being undertaken by industry and through CCIR/CISRO, and through the 20/21 business plan FSRA is shifting to participating in this work to address industry conduct, given that stakeholders have expressed the desire for harmonization.

ADOPT EFFECTIVE CONDUCT STANDARDS → ENHANCED MARKET CONDUCT OVERSIGHT TO PROTECT CONSUMERS

Priority Overview

- Establishing stabilized market conduct oversight is critical to ensuring the welfare of consumers and maintaining public confidence in the L&H insurance industry.
- Ensuring the appropriate treatment of consumers through stabilized market conduct oversight is important for the transition from human-based interactions towards a digital-first environment.

#	Milestone/Description of Activities	Proposed Timeline
A	Lead implementation of CISRO's proposal to develop a harmonized industry Code of Conduct for intermediaries (<i>TBD pending CISRO approval of FSRA proposal</i>)	Multi-year initiative with CISRO – late FY 2020-21 or early FY 2021-22
B	<p>In support of FTC principles in the P&C and L&H sectors:</p> <ul style="list-style-type: none"> Develop capacity, skills and approach to targeted, principles-based, and outcomes-focused life insurance conduct reviews. Conduct policy research and undertake targeted supervisory reviews to develop a proposed regulatory framework and supervisory approach for MGAs Build/resource agent conduct team and develop a supervisory framework for implementation in FY 2021-22. <ul style="list-style-type: none"> When building such framework, consider solutions for improving advisor oversight proposed by the industry-regulatory G4 task force (Canadian Life and Health Insurance Association, Canadian Association of Independent Life Brokerage Agencies, Independent Financial Brokers and Financial Advisors Association of Canada). 	<p>Ongoing</p> <p>Publish proposed plan by Spring 2021 for implementation in FY 2021-22</p>

Narrative (Rationale For New Priority)

- Stakeholders have raised concerns about the lack of regulation of intermediaries between insurers and agents — licensed corporate agents or MGAs — who perform oversight / management functions but are not subject to corresponding conduct requirements.
- Improved conduct standards would help to eliminate oversight gaps in the L&H insurance industry, creating a level playing field for all industry participants and helping increase fairness for consumers.



CONSULTATION SUMMARY & TAKEAWAYS – ADOPT EFFECTIVE CONDUCT STANDARDS

- **Conduct research and supervisory reviews to develop an internal proposed regulatory framework for MGAs (#1 Listed Priority)**
 - Model of regulation for MGAs: Direct or Indirect?
 - Consider varying size, shape, and scope of responsibility
 - Review regulatory approaches of other jurisdictions
 - Standardized code of conduct, expected guidelines for MGA needed → consider including MGAs in the discussion
- **Consider solutions for improving advisor oversight proposed by the industry-regulatory task force G4**
 - Consider options: legislative / rulemaking / publication of guidelines
 - Accountability for failures to comply
 - Review/examination: research ways to handle the volume (e.g. risk-based selection)



INSURER-MGA OVERSIGHT THEMATIC REVIEW

Supervisory Plan

- Establish screening criteria for selection of insurers to review Insurer-MGA relationships
 - Focus on insurers with a large independent distribution channel based on market share of net written premiums
- Develop and implement an exam program specific to oversight of MGA
- Understand Insurer-MGA relationships and request supporting documentation
 - e.g. Insurer-MGA contract, CLHIA Annual Survey, monitoring of outsourced activities, risk assessment of MGAs, ownership, audits and reviews
- Review and analyze responses to assess key themes and trends in relation to Insurer-MGA outsourcing arrangements and insurer oversight
- Results will feed into Market Conduct Compliance Framework



IMPROVE LICENSING EFFECTIVENESS AND EFFICIENCY

Priority Overview

- Develop an implementation plan to modernize licensing and tracking systems to ensure appropriate alignment of service level standards in accordance with risk and reduce burden for simplified applications and renewals, while providing industry, FSRA and the public with accurate, real-time licensing status and service levels.
- In consultation with industry and stakeholders, develop new licensing/renewal requirements to ensure appropriate continuing education and E&O requirements, and to restrict entry / require exit of non-compliant registrants.

Original Milestones			Timeline
A	Streamline licensing approvals and improve the service levels being provided		2020
B	In consultation with industry and stakeholders, develop new licensing requirements to ensure appropriate continuing education, insurance requirements and to restrict entry / require exit of non-compliant registrants.		2020
C	Develop criteria to transparently publish service expectations for licence applications.		2020
Refreshed Milestones			Timeline
A	Have a common process for capturing and consolidating licensing statistics, from the date of assignment to approval for all products in order to create meaningful management reporting and key metrics to ensure capacity to deliver on service level standards, absorb future growth and inform our licensees by way of meaningful, real time approval timelines. Develop criteria to transparently publish service expectations for licence applications.		Winter 2020
B	Perform a gap analysis on our current due diligence processes and legislative requirements to ensure that effective licensing processes are in place framed around market conduct risk, in order to create a meaningful process for "escalated" licensing applications and renewals Working with CISRO members on the formalization of inter-jurisdictional information sharing protocols (new), to more efficiently screen applicants subject to enforcement proceedings in other jurisdictions		FSRA analysis – Spring 2020 Work with CISRO, including information sharing: multi-year
C	Develop criteria to transparently publish service expectations for licence applications.		Spring 2020

Narrative (Highlights, and Rationale for Change including, if applicable, extension of timeline)

FSRA's legacy licensing systems have been criticized for lack of ease of use and lack of alignment with other jurisdictions, creating unnecessary burden. Stakeholders have also raised concerns about the perceived lack of coordination and information sharing among regulators to identify and remove "bad actor" (non-compliant) registrants, and weak standards for continuing education and E&O insurance to support good practices.

CONSULTATION SUMMARY & TAKEAWAYS – IMPROVE LICENSING EFFECTIVENESS AND EFFICIENCY

- Concerns on licence renewal process
 - Are current requirements too low?
 - Need to perform reference/background checks on advisors
 - Use information collected during renewal process for risk factors and profiling
 - More probing questions about why certain individuals should remain in industry
- Important for industry to understand the position of FSRA and its enforcement programs
- Harmonization of licensing requirements across jurisdictions – coordination across jurisdictions is key to efficiency



NEXT STEPS

- Consultation Complete – [November 18, 2019](#)
- FSRA Board and SAC Committee Meeting – [November 25, 2019](#)
- Board Approval of the 2020 – 23 Annual Business Plan – [December 12, 2019](#)
- Summary of comments and responses to be available following Board-SAC Consultation – [TBD](#)