

2023-24 FSRA Life & Health SAC

Monday, October 3rd, 2022

FSRA

Financial Services Regulatory
Authority of Ontario



Ontario



Agenda

1. Process Overview
2. FSRA 2023-24+ Priorities
3. Life & Health Insurance Environmental Scan
4. 7.1 Enhance market conduct oversight to protect consumer
5. Market Conduct updates
6. Sector view financial summary
7. Sector 2023-2024 Plan
8. Fall 2022 – Consultation on FSRA Fee Rule
9. Appendix A: Strategic Framework
10. Appendix B: FY2022-2023 FSRA Priorities
11. Appendix C: FY2023-2024 FSRA-wide Priorities

Process Overview

FSRA 2023-2024 Priorities and Financial Plan



- ☐ **September 29** – Board approval of SOP and financial plan for consultation
- ☐ **October 5** – Public Comment Period Opens
- ☐ **November 4** – Public Comment Period Closes

Stakeholder Advisory Committees



- Property and Casualty (P&C), Auto Insurance
- Financial Advisors/Planners
- Pensions
- Life and Health Insurance
- Health Service Providers
- Mortgage Brokering
- Credit Unions
- FSRA-wide



- ☐ **October 3 to October 14**– FSRA Management Meeting with SAC
- ☐ **Week of November 15** – Updated SOP and financial plan input to ABP

FSRA 2023-2026 Annual Business Plan (ABP)











- ☐ **December 16** – Approval by FSRA Board of ABP
- ☐ **December 16** – Submission of proposed ABP to Ministry of Finance
- ☐ **February 28** – Deadline to submit ABP to Minister of Finance

FSRA 2023-24+ Priorities













Strategic Pillars

- **Protect the public interest to enhance trust and confidence in the sectors we regulate**
- **Operate effectively to be a high-performing regulator**
- **Transform our regulatory processes to make evidence-based and risk-based decisions**
- **Attract talent and evolve our culture to achieve the mission and vision of the organization**

FSRA-Wide

- **1. Strengthen the consumer focus**
- **2. Modernize systems and processes**
- **3. Enable innovation**
- **4. Enhance FSRA's talent management framework and strategy**

5. Property & Casualty (Auto) Insurance

- **5.1 Execute strategy for reforming the regulation of auto insurance rates and underwriting**
- **5.2 Develop recommendations and act on reforms of the auto insurance system**
- **5.3 Ensure the fair treatment of property and casualty consumers**
- **5.4 Achieve supervisory excellence for the Ontario-Incorporated insurance companies and reciprocals sector**







6. Credit Unions

- **6.1 Achieve supervisory excellence for Ontario's credit union sector**
- **6.2 Enhance financial stability structures**

7. Life & Health Insurance

- **7.1 Enhance market conduct oversight to protect consumers**




8. Mortgage Brokering

- **8.1 Promote high standards of governance and business conduct**
- **8.2 Enhance professional competence of licensed individuals**

9. Pensions

- **9.1 Assess systemic and high priority risks in Ontario's pension sector**
- **9.2 Support the development of target benefit regulation**

10. Financial Planners & Advisors

- **10.1 Ensure the effectiveness of the title protection framework for financial planners/financial advisors**

Legend

Modified / New Title

New Priority

Economic Outlook

- Inflation and affordability loom large over all of FSRA's regulated sectors.
- The Ontario economy has entered a period of prolonged economic uncertainty.

Technological Advancement and Innovation

- The pandemic has altered how technology is used in Ontario's financial services and pensions sectors.
- Consumer use of digital services is increasing, either out of choice or necessity.
- Regulated entities and individuals use technological developments to increase efficiency, reduce costs and minimize consumer harm.

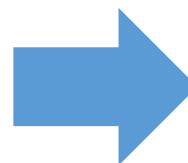
Emerging Issues and Trends

- Ontario's most vulnerable consumers are increasingly facing more pressures. The current economic climate may result in more affordability and suitability issues, which can lead to issues relating to fraud and misconduct.
- Consumers need advice in connection with increasingly complex financial services products.
- Climate change and cyber/technology risks continue to be closely monitored by FSRA.

7.1 Enhance market conduct oversight to protect consumers

Key Deliverables

- a) Publish, for consultation, proposed changes to the framework for agencies with a contractual responsibility to screen, train, and/or monitor individuals under their supervision who sell life and health insurance products.
- b) Implement a FSRA Rule that will ban deferred sales charges for new segregated fund contracts, prevent insurers from amending existing contracts to make deferred sales charges more onerous for customers, and require disclosure regarding further deferred sales charge deposits to existing contracts.
- c) Work with regulators across Canada to enhance standards related to segregated funds, in particular:
 - Finalize national guidance on total cost reporting disclosure requirements for segregated fund contracts.
 - Consult on national guidance about the design, distribution, issuance, sale, and administration of individual variable insurance contracts.
 - Consult on national guidance relating to upfront compensation paid for the sale of segregated funds.



Outcomes

- i. Stakeholders have clarity and increased understanding of FSRA's regulatory requirements with respect to the role of insurers and MGAs in the distribution channel for Life and Health products.
- ii. Segregated fund customers are treated fairly and better informed, as:
 - The use of deferred sales charges in segregated fund sales will be banned.
 - Industry has a clear understanding of regulatory requirements regarding the information consumers will receive about the total cost of their segregated fund contracts.
 - Industry has a clear understanding of regulatory requirements with respect to the sale and administration of segregated fund contracts.

Pillars

-  Operate effectively to be a high-performing regulator
-  Protect the public interest to enhance trust and confidence in the sectors we regulate
-  Transform our regulatory processes to make evidence-based and risk-based decisions



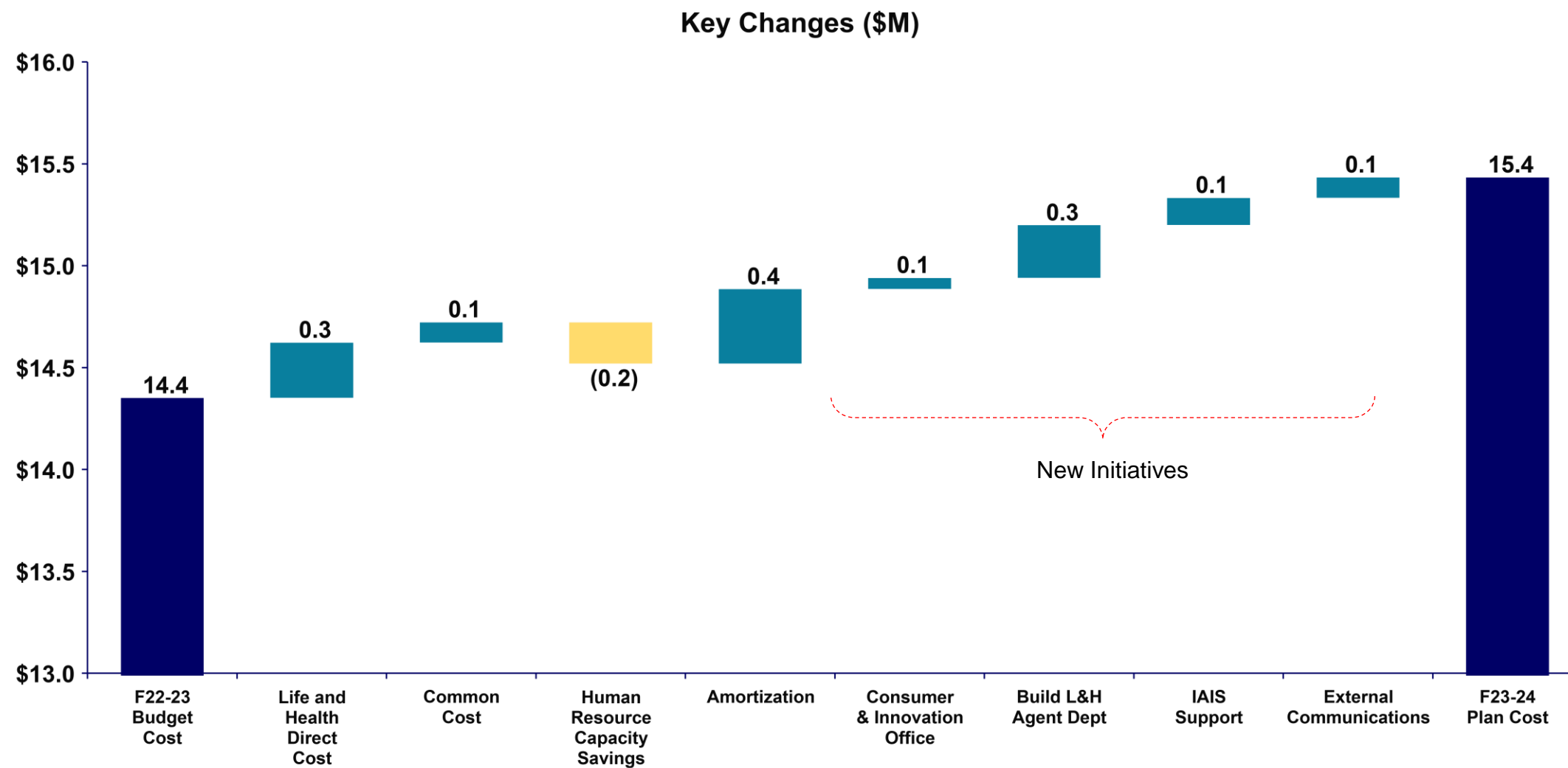
Market Conduct Updates

- L&H MGAs
- Segregated Funds
- LARF 3rd edition
- International regulatory developments

Sector View Summary: Proposed F2023-2024 Plan of \$119.2M

Sector (\$000's)	Insurance								Pensions (Fixed and Variable)	Credit Unions (Variable)	Mortgage Brokers (Fixed)	Loans & Trusts (Variable)	Financial Planner & Financial Advisor	Total
Subsector	Auto Products	Health Service Providers (Fixed)	P&C Conduct	P&C Prudential	Total Auto/HSP/ P&C	Life & Health Conduct (Variable)	Life & Health Conduct (Fixed)	Total Life & Health						
Activity Fees		3,600	1,200		4,800		6,600	6,600					200	11,600
Fee Assessment	15,700		9,200	3,000	27,900	7,800		7,800	25,200	17,800		100	800	79,600
Licensing Fees											17,800			17,800
FY2023-2024 Proposed Revenue	15,700	3,600	10,400	3,000	32,700	7,800	6,600	14,400	25,200	17,800	17,800	100	1,000	109,000
Direct Cost	10,100	2,000	6,700	1,900	20,700	5,100	3,800	8,900	16,200	11,700	9,800	100	600	68,000
Common Cost	7,700	1,600	5,100	1,500	15,900	3,800	2,800	6,600	12,300	8,500	7,400	-	500	51,200
FY2023-2024 Proposed Cost	17,800	3,600	11,800	3,400	36,600	8,900	6,600	15,500	28,500	20,200	17,200	100	1,100	119,200
Expected Fixed Fee Over Contribution to Common Costs	(100)	-	(100)	-	(200)	(100)	-	(100)	(200)	(100)	600	-	-	-
Recovery Over/(Under)	(2,000)	-	(1,300)	(400)	(3,700)	(1,000)	-	(1,000)	(3,100)	(2,300)	-	-	(100)	(10,200)
Funding from Cumulative Surplus	2,000	-	1,300	400	3,700	1,000	-	1,000	3,100	2,300	-	-	100	10,200
FY2022-2023 Budget Revenue	16,282	3,799	10,023	1,967	32,071	7,118	6,638	13,756	25,021	17,109	16,986	126	963	106,033
Revenue Variance	(582)	(199)	377	1,033	629	682	(38)	644	179	691	814	(26)	37	2,967
Increase/(Decrease)	-3.6%	-5.2%	3.8%	52.5%	2.0%	9.6%	-0.6%	4.7%	0.7%	4.0%	4.8%	-20.6%	3.8%	2.8%
FY2022-2023 Cost	17,629	3,799	10,861	2,132	34,421	7,713	6,638	14,351	27,114	18,624	15,343	136	1,044	111,033
Cost Variance	171	(199)	939	1,268	2,179	1,187	(38)	1,149	1,386	1,576	1,857	(36)	56	8,167
Increase/(Decrease)	1.0%	-5.2%	8.6%	59.5%	6.3%	15.4%	-0.6%	8.0%	5.1%	8.5%	12.1%	-26.7%	5.4%	7.4%

F2023-2024 Plan: Life and Health



Fee Rule Update

- FSRA is undertaking a review to evaluate the relevance and the resilience of the current fee structures across all sectors ensuring that the fees are aligned to the Fee Rule Vision and Principles
- FSRA is seeking to obtain MoF preclearance for public consultation in November
- The proposed changes are expected to come into effect either in October 2023 or February 2024, depending on whether one or two public consultations is required

Fee Rule Proposal Summary

- Fee structures and fees in the Insurance sectors (Auto Product, P&C Conduct, Health Service Providers), Financial Planners and Financial Advisors and in Loan and Trust were found to be appropriate and require no change
- The following changes are proposed for Life & Health Conduct, P&C Prudential, Pensions, Credit Unions, and Mortgage Brokering

Sector	Proposed Changes
L&H Conduct	Increase Individual Agent's licence fee No change for Variable Assessment
P&C Prudential	Substitute Direct Written Premiums with Required Capital as the Variable Assessment driver
Pensions	Adjust the tiers of the Assessment Distribution Table No change for Fixed Fees
Credit Unions	Update Activity and Application Fees No change to Variable Assessment
Mortgage Brokering	Increase licence fees for Mortgage Administrators, Brokers, Brokerages and Agents Level 2 No change to the current fee for Agents Level 1

- We propose new fees for use of the Innovation Office's Test and Learn Environments
- We recommend replacing the absolute amount of the Contingency Reserve with a variable amount for Operating Reserve at 5% of the Total Operating Budget



Fee Rule Update - L&H Conduct Changes

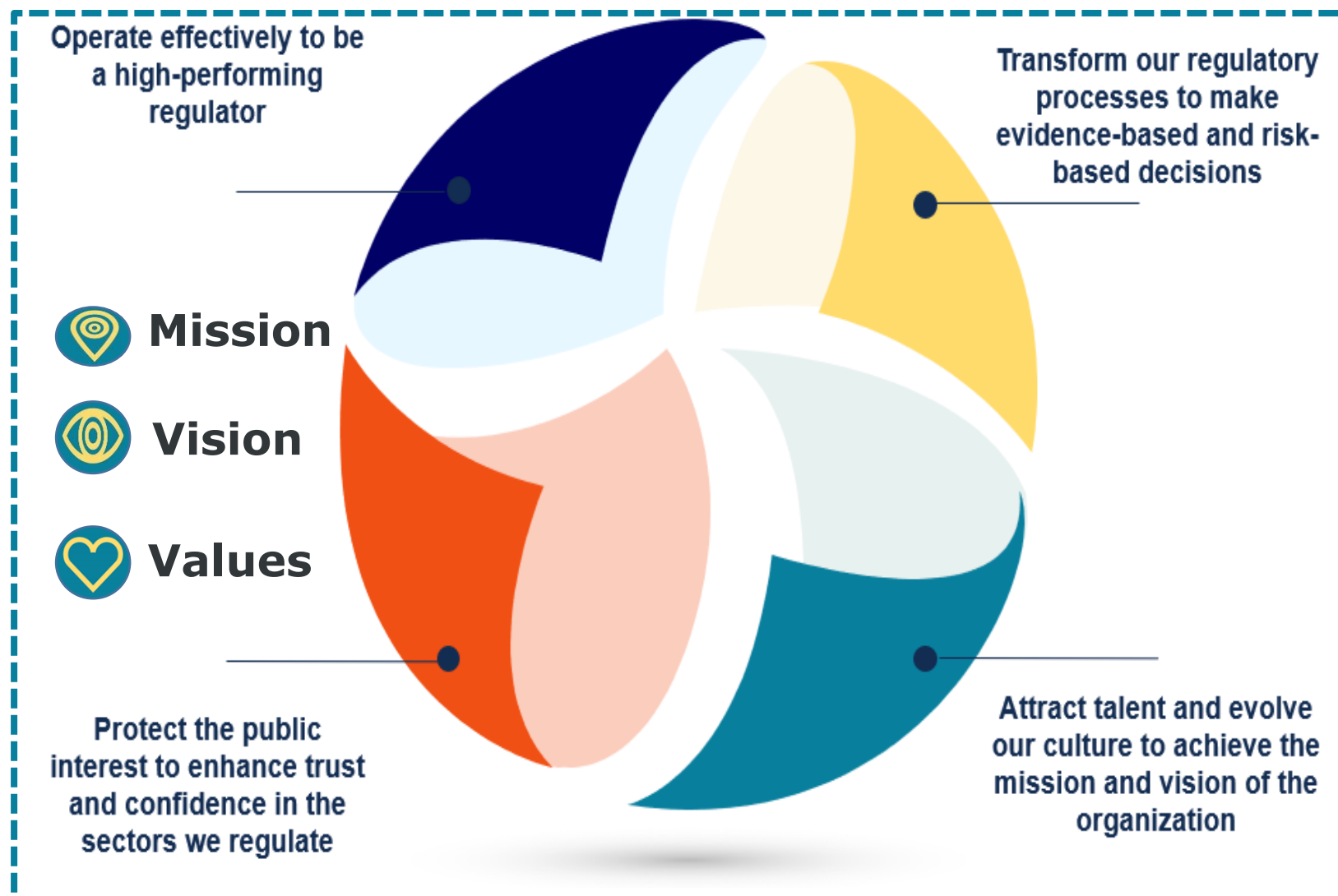
- **Recommendation:**
 - **Keep Direct Written Premiums as the driver for the Assessment**
 - **Increase L&H Individual Agent license fee from \$150 to \$170 (every 2 years)**
 - **Keep all other Activity and License fees unchanged**
- The current fee rule consists of variable assessment fees and fixed activity and license fees
- The assessment fee is based on Direct Written Premiums (DWP), a measure of the revenue for insurance companies
 - DWP continues to be a reliable and stable metric in all insurance sub-sectors
- The supervisory and licensing efforts at FSRA for L&H agents have expanded and changed significantly over the years
 - Overall, the cost of regulating the sector has gone up over that last few years
 - With agent fees remaining the same, the variable assessment of the insurance companies has increased disproportionately with the efforts allocated
- The proposed increase in the L&H Individual Agent license fees would result in \$0.7M increase in fixed fee revenue (based on the F22-23 Budget)
 - The increase would likely be offset by a decrease in the variable assessment



Appendix A: Strategic Framework

FRSA's Strategic Framework

- Developed and implemented the in 2021/22.
- Defines the high-level strategic objectives of the organization
- Reflects FSRA's legislative objectives
- Encompasses the organization's Vision, Mission, and Values
- Consists of FSRA's 4 Pillars. The Pillars are elements of the Framework that must be in place for FSRA to achieve its mission
- Priorities support the pillars and articulate what FSRA will focus on over the next 3 years





Appendix B: FY2022-2023 FSRA Priorities

FSRA 2022-23+ Priorities

Cross-Sectoral Priorities

Regulatory Efficiency and Effectiveness

1. Strengthen the consumer focus

2. Enable innovation

3. Modernize systems and processes

Sector-Specific: Targeted High-Impact Priorities

Property & Casualty (Auto) Insurance

- 4.1 Implement a new strategy for reforming the regulation of auto insurance rates and underwriting
- 4.2 Develop recommendations and act on reforms of the auto insurance system
- 4.3 Ensure the Fair Treatment of P&C/Auto Consumers
- 4.4 Implement insurance prudential supervision

Credit Unions

- 5.1 Implement new credit union legislative framework
- 5.2 Enhance financial stability structures
- 5.3 Implement Risk Based Supervision

Life & Health Insurance

- 6.1 Enhance market conduct oversight to protect consumers

Mortgage Brokering

- 7.1 Implement recommendations from the review of the Mortgage Brokerages, Lenders and Administrators Act, 2006 (MBLAA)
- 7.2 Promote high standards of governance and a strong compliance culture

Pensions

- 8.1 Enabling plan beneficiaries
- 8.2 Protection of pension benefits in Ontario's pension sector

Financial Planners & Advisors

- 9.1 Operationalize the title protection framework for Financial Planners/Financial Advisors

Legend

In Progress

Completed

Operate effectively to be a high-performing regulator

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

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

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

*Priorities have not been mapped to the Talent pillar, specifically. As part of all FSRA activities, including items not identified as priorities, we seek to attract talent and evolve our culture to meet our organizational objectives.

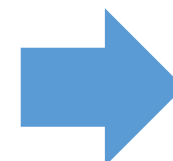


Appendix C: FY2023-2024 FSRA- wide Priorities

1. Strengthen the consumer focus

Key Deliverables

- a) Deliver and promote research, data insights and analysis into trends, processes, and issues that impact consumers in FSRA's regulated sectors and identify opportunities for practical application of findings in policy and oversight. For example:
 - Publish research related to outcomes for vulnerable consumers in sectors regulated by FSRA, and act on opportunities to improve those outcomes through targeted policy initiatives or supervisory action.
 - Work with insurance regulators across Canada to evaluate the sector's external dispute resolution framework.
 - Use FSRA's consumer disclosure framework in a policy initiative to generate greater consumer awareness of FSRA through disclosure.
- b) Implement existing FSRA guidance by building processes to use revenues retained outside of the Consolidated Revenue Fund under the Financial Services Regulatory Authority of Ontario Act, 2016 for educational, research and knowledge or information enhancement initiatives.'
- c) Enhance FSRA's ability to access the broader community, including community Diversity Equity and Inclusion (DEI) perspectives, to increase consumer sector engagement in public policy, and to better enable collaboration.
- d) Stay on the forefront of relevant developments in leading consumer protection practices of other regulators and examine areas for their potential application



Outcomes

- i. Enhanced protection of consumer rights and interests, with an emphasis on vulnerable consumers.
- ii. Empower consumers through initiatives and thought leadership in consumer awareness and behavioural insights.
- iii. Strengthen Consumer Advisory Panel engagement, and create more consumer outreach, engagement, and opportunities for partnership in the community

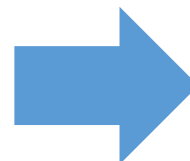
Pillar

-  Protect the public interest to enhance trust and confidence in the sectors we regulate
-  Transform our regulatory processes to make evidence-based and risk-based decisions

2. Modernize systems and processes

Key Deliverables



- a) Implement technology solutions to enable simplified and fully digitized operations, including a 360-degree view of regulated entities (customer information system), case management, content management and data analytics tools, with enhanced client portals.
- b) Implement advanced online/web-based information sharing on FSRA portals.
- c) Extend digital document processing and digital signature capabilities to support streamlined processing of all paper-based channels.
- d) Enable data analytics for each of the regulated sectors to empower FSRA policy and supervisory activities. Across the sectors, we will enhance infrastructure and establish new data interfaces (both new data sources and improved data exchanges) and implement advanced analytics and reporting systems to enable more efficient decision-making across all sectors.



Outcomes

- 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, and improved 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.

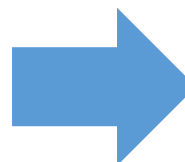
Pillars

-  Operate effectively to be a high-performing regulator
-  Transform our regulatory processes to make evidence-based and risk-based decisions

3. Enable innovation

Key Deliverables

- a) Use data and knowledge gained from the pilot TLE to refine FSRA's use of TLEs. FSRA will scale the TLE model to include more TLEs across FSRA's regulated sectors.
- b) Build the Innovation Office into a centre of expertise and champion of innovation. FSRA will continue to convene industry leaders for knowledge-sharing on key issues. FSRA will also advocate for consumer-centred 'responsible innovation' in FSRA's regulated sectors.
- c) Launch FSRA's Innovation Advisory Council. The council will be a venue for critiquing and shaping FSRA's approach.
- d) Improve FSRA's use of its regulatory toolkit. FSRA will use the toolkit to implement concepts outlined in prior discretionary powers projects for the MBLAA and Insurance Act. FSRA will also conduct further similar analysis of discretionary powers across remaining FSRA regulated sectors.
- e) Develop stronger ties with peer regulators and key stakeholders. FSRA will help create an innovation 'community of practice' to compare regulatory approaches and address mutual challenges.



Outcomes

- i. Use FSRA's TLEs and regulatory toolkit to establish Ontario as an attractive market for testing new financial services.
- ii. Improve FSRA's knowledge of innovation trends and champion reasonable innovation through engagement with stakeholders.
- iii. Expand connections with peer regulators, innovators, consumer groups, industry groups, and sector stakeholders.
- iv. Improve FSRA's use of its regulatory toolkit through the discretionary powers project.
- v. Ensure FSRA supports innovation while maintaining a strong focus on consumer safety.

Pillars

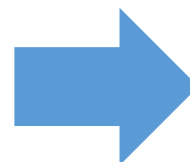
-  Transform our regulatory processes to make evidence-based and risk-based decisions
-  Operate effectively to be a high-performing regulator
-  Protect the public interest to enhance trust and confidence in the sectors we regulate

4. Enhance FSRA's talent management framework and strategy

Key Deliverables

A refreshed talent management framework and strategy that includes:

- a) A review of FSRA's compensation structure and recruitment strategy to ensure competitiveness
- b) Core and leadership capabilities articulated and embedded into leadership development, recognition, succession planning and high potential development programs and plans.
- c) A review of the changes within FSRA and the nature of regulation to be abreast of the changing future of work – ensuring the right process, people, and systems are in place to thrive and achieve FSRA's vision.



Outcomes

- i. Attraction, recruitment, training, development, and retention of talent with expertise, skills, and knowledge to ensure we have the right people in the right place at the right time.
- ii. A culture that exemplifies FSRA's values and behaviours.
- iii. Talent that is supported to effectively and efficiently deliver on FSRA's strategic priorities and regulatory operational requirements.
- iv. A culture that is inclusive, equitable and diverse, where staff are actively empowered to lead, held accountable, supported, and recognized for outcomes.

Pillar



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