September 6, 2018

Mr. Bryan Davies
Chair of the Board

Mr. Mark White
Chief Executive Officer
Financial Services Regulatory Authority (FSRA)
130 Adelaide Street
Toronto, Ontario
M5H 3P5

Dear Bryan and Mark,

RE: FSRA Industry Advisory Group – Life and Health Insurance – Proposed Fee Rules

Thank you for giving us the opportunity to provide feedback regarding the development of FSRA's fee structure. We are happy to provide FSRA with any support that it may need during this foundational period and we support the consultative approach that is being taken.

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

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

Overall, we agree with the six principles that FSRA is using to structure its fees. Below are the life conduct sector responses to the seven questions provided by FSRA:

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

At this early stage of FSRA's operationalization, and without more detail about the financial needs of FSRA, it is difficult for the life and health insurance industry to comment on the specific budget presented in the

Proposed Fee Rule Deck provided by FSRA's management. However, we would agree with using the annual FSCO/DICO budgets as a baseline to begin the planning process.

There are pros and cons to both fixed rate and a variable rate fee structures. A fixed rate model supports greater predictability and certainty for both the industry and for FSRA. A variable rate model offers greater flexibility. Regardless of the funding model and fee rule chosen, the fee structure should support reasonable stability. The variability of fees year-to-year should be modest so that insurers can plan accordingly for regulatory fees when developing their own operating budgets. Regardless of the funding model and fee rule approach chosen, we strongly support FSRA's having regular and ongoing industry engagement with regard to setting its budgets and the subsequent fee assessments.

- **Variable Rate:** We recognize that while FSRA is in its early years, a variable rate may be desirable, in order to provide the organization with the flexibility it may need to respond to change and build itself. If this approach is chosen, we would recommend a percentage limit on fee increase for insurers so that they can factor a known range into their own operating budgets. We would strongly support annual consultation with the industry with a variable rate funding model.

- **Fixed Rate:** To support fee predictability, FSRA might consider having a fixed rate that is re-evaluated after a set number of years in consultation with the life and health insurance industry. Having multiyear assessments would help to stabilize fees. In this scenario, industry consultation should occur whenever FSRA budgets and assessments are being developed.

Additionally, we understand that there will be number of startup fees associated with establishing a new Agency (e.g. IT infrastructure). We would like to better understand how these initial temporary costs will impact fee assessments at the outset.

2. Have we represented the sectors appropriately?

Yes, we agree with proportional approach that FSRA has taken to setting fees in particular with regard to the allocation of fees between sectors. We support the creation of a "Life Conduct" sector that represents companies in the life and health insurance market.

We would note that our industry has a combined interest in the Pension Sector. A number of our members are active in the retirement services market. Many pension plans, including those with both defined contribution and defined benefit activities, are managed by insurers. If FSRA receives a contribution based fee from a pension plan, they should not receive a premium based fee from a life insurer, the same entity is paying for cost of regulation twice. There may be some opportunity to further examine if there are certain circumstances where an insurer is paying fees twice for the same activity.

We also appreciate the efforts by FSRA to consult with advisor groups on the entire rule making process. As well, we would note for future consultation processes that some insurers also have their own advisors within the organization, and would be interested in participating in these discussions.

3. Is the allocation method between sectors appropriate?

Generally speaking, the allocation between sectors seems fair as each sector is calibrated to be self sufficient. We note the following points in this regard:

a. Our understanding is that scenario 2 is an example and that the 30% increase spread evenly is an assumption that would be revised to make sure that each sector supports its own costs.

b. Common costs are challenging to eliminate completely, but they should be minimized to the extent possible.

c. We would urge transparency around the sources of numbers that are used to complete calculations of fee assessments. To allow the industry to better assess if the allocations among and within the sectors are fair, we recommend that FSRA release its quantitative analysis of the insurance company fees to be proposed, based on information filed with OSFI or in response to CCIR's 2018 Annual statement on Market Conduct.

4. Is the allocation method within your sector appropriate?

We agree that building proportionality into FSRA's funding model and fee rule approach is important. We also support the commitment, articulated by FSRA management, to refining processes to increase the Authority's accuracy in determining sectoral fee allocations (i.e., cost per sector).

However, basing fees upon direct written premiums, rather than upon net premiums as FSCO does at present, will result in a very substantial increase in fee assessments for some insurers.

Additionally, there are some points on which we seek further clarification:

a. We would like to ask for further clarification as to how gross premium is to be determined. Particularly, we are wondering if this would include segregated fund deposits?

b. We would like to verify whether the formula for determining an insurer's fee assessment is based on market share in Ontario only. As presented, the formula can be interpreted as reflecting national market share. National market share is not necessarily indicative of regulatory costs in Ontario if an insurer primarily operates in another province. As such, basing Ontario fees on national market share may create a disproportionate regulatory burden for some companies.

c. We would also like to confirm whether the formula is calculated using data from the prior year. If so, estimates will need to be used based on historical data, given that current year data is not final until after fiscal year-end. If such historical estimates are to be used, we recommend that FSRA build in an adjustments process, to be completed at the end of its fiscal year.

d. Many life and health insurers pay for a substantial portion of their agents' licensing and related fees. As such, it would be only fair and appropriate for insurers to be invited to participate in discussions about any future adjustments to agents' licensing and related fees.

e. Overall, transparency around surplus funds is important. A better understanding is needed of how surplus money is allocated. One possibility would be for surpluses to be pushed ahead to reduce fees in subsequent payment periods.

f. We would like to know if consideration been given to changes (and potential volatility) that will be introduced by IFRS 17.

5. Are there areas for further consideration?

With the objective of creating relatively stable fees, it may be useful to examine further and give consideration to the factors that could impact annual fees (e.g. industry growth, inflation). In that connection, it would add transparency and assurance for the industry if FSRA were to develop and articulate some overarching principles or rules to control costs. We also strongly encourage FSRA to identify factors that would limit or cap fee increases.

6. Are there other process protection that should be built in (e.g., Ministry of Finance could mandate FSRA to undertake new rule-making)?

As well, we believe there should be representation from the life and health insurance sector on FSRA's Board of Directors given the broad range of products that insurers offer. In our view, the perspectives that such a representative would be able to offer would support FSRA in fulfilling its mandate.

As an additional process protection, it would be useful for FSRA to introduce a formal dispute review mechanism to address circumstances where an insurer thinks that its assessed fee is unfair. This may be particularly useful given that it is not possible to account for every possible variable that could influence fees (e.g. sudden change in financial market conductions, natural disasters etc.).

7. Do you have any other guidance for FSRA?

If FSRA is planning to develop a contingency fund within its annual budget, we would like to consult further with FSRA on its structure and features. We would like to better understand the targeted amount of the contingency fund; what percentage of annual operating expenses does FSRA view as reasonable for a contingency fund; and the number of years expected to build the fund up to its full target level.

In the spirit of managing costs, and creating efficiencies, we think there are some opportunities for the Ontario Licensing system to be updated to better interact with other jurisdictions given that advisors are often licensed in multiple jurisdictions. Perhaps the transition of licensing link from FSCO to FSRA could be an opportunity to introduce new functionalities.

Yours sincerely,

S Frank

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