Financial Services Regulatory Authority of Ontario

Proposed FY2023-2024 Statement of Priorities

October 13, 2022

Ontario

Contents

Overview

The Financial Services Regulatory Authority of Ontario (FSRA) is pleased to present its proposed fiscal year (FY) 2023-2024 priorities and recommended financial plan. This outlook for the upcoming fiscal year is intended to generate feedback from stakeholders through a public consultation.

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

FSRA protects the Ontario public, which includes consumers,[1] credit union members, pension plan beneficiaries, investors, and other stakeholders, by regulating:

- Property and casualty 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 plan administrators, agents of pension plan administrators, employers and pension fund trustees
- Financial planners and advisors

FSRA's Focus

In FY2021-2022, FSRA developed and implemented the Strategic Framework that embodies its legislative objects, vision, mission and values. The Framework consists of four pillars that articulate FSRA's high-level strategic objectives and supports its goal to be a more proactive regulator and make better use of its resources.

FSRA's mandate is to protect and educate the public with a sustainable organization that focuses on people, technology and processes to achieve regulatory excellence. FSRA works continuously to deliver on its mandate and focuses on being an adaptive and responsive regulator.

In FY2019-2020, FSRA collaborated with stakeholders to identify issues that inform its strategic priorities. Since 2020, FSRA has developed a regulatory approach designed to meet the demands of the fast-paced financial environment. It has adopted a principles-based, outcomes-focused approach and sector-specific supervisory plans. FSRA also created regulatory frameworks to address sector risks, publishing eight rules and 55 pieces of guidance along with targeted consumer education campaign.

[1] For the purposes of this document, the term 'consumers' includes the public, credit union members, pension plan beneficiaries, investors, borrowers and other stakeholders. It also includes insurance customers and potential customers. A customer refers to policyholder, 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.

While FSRA continues to focus on its FY2022-2023 priorities and deliver on its core priorities, it is maturing as an organization. New or revised priorities reflect an enhanced need to protect the public interest while enabling creative ideas and more choice within Ontario's financial services sector.

Looking forward, FSRA will focus on operational efficiencies in the core areas of compliance, supervision, and enforcement. FSRA's deliverables and outcomes align with the pillars and enable it to better address emerging risks, build supervisory capacity, support innovation and protect consumer interests.

Environmental Scan

The COVID-19 pandemic continues to have a profound impact on the global economy and social interaction, and FSRA remains committed to managing its impact on regulated sectors and the people on which they rely. Rather than a return to business-as-usual, Ontario's financial services and pension plan sectors have transitioned to a "new normal." Fully remote or hybrid workplaces and increased reliance on digital technologies have greatly impacted the sectors that FSRA regulates, including consumer interactions.

As Ontario transitions to a new normal, FSRA must navigate different challenges and realities amid a period of global economic uncertainty. Many factors, including supply chain disruptions and geopolitical issues, have led to historically high inflation rates, interest rate increases and financial market volatility. The rising costs of gasoline, groceries and housing have led to increased affordability issues for the average consumer. The wild swings in financial markets are also impacting pension plans and personal investments. FSRA is closely monitoring the twin effects of inflation and affordability, along with the new risks associated with these broader trends, on its regulated sectors and will remain agile and adaptable in navigating the new landscape.

Economic Outlook

Inflation and affordability loom large over the outlook for consumers that FSRA protects and the entities/individuals it regulates. Prolonged periods of economic uncertainty and volatility can directly or indirectly reduce consumers' financial resilience and increase their vulnerability, which can lead to concerns about fraud and product suitability.

FSRA monitors the key economic indicators in Ontario and Canada to identify trends affecting the regulated sectors.

Macro highlights include:

- According to Statistics Canada, consumer inflation has risen consistently throughout 2022. As of June 2022, the Canada-wide consumer price index (CPI) reached 8.1 per cent, which is a 39-year high. For Ontario, the CPI for all items falls below the national average at 7.6 per cent over the same period. The cost of gasoline, one of the main drivers of price increases across the board, is up 43 per cent year-over-year in Ontario. Food prices have increased by 9.1 per cent, shelter by 6.5 per cent and services by 4.9 per cent.[3]

- Housing affordability continues to be a significant issue facing consumers in Ontario and Canada. According to the Canada Mortgage and Housing Corporation (CMHC), the average household devoted close to 60 per cent of their income to housing in 2022, up from approximately 40 per cent in 2003 and 2004. CMHC notes that limited housing supply continues to be a major contributor to housing price increases.[4] According to The Canadian Real Estate Association (CREA), the national average home price is forecast to rise by 10.8 per cent on an annual basis to $762,386 in 2022.[5] This follows an increase of 26.3 per cent in CREA's Housing Price Index (HPI) in January 2022.[6] In a bid to counter rising inflation, the Bank of Canada (BoC) began a policy of quantitative tightening, increasing the policy interest rate by 1 per cent in July 2022, marking a 2.25 per cent hike since the beginning of 2022.[7]

- According to the BoC in its *Canadian Survey of Consumer Expectations—Second Quarter of 2022*, the high cost of goods and services is impacting consumer confidence and will likely result in Canadians cutting back on spending and looking for more affordable options.[8] *The Business Outlook Survey—Second Quarter of 2022* shows that companies are more optimistic about the state of the economy, with most expecting sales growth. Canadian businesses also expect wage and price increases and supply chain issues to continue to pressure prices.[9]

Sector highlights include:

- FSRA closely monitors the funding of defined benefit pension plans that are subject to solvency funding. Despite most pension plans experiencing negative investment returns in Q2 2022, the median projected solvency ratio as of June 30, 2022, was 110 per cent, decreasing slightly from 112 per cent as of March 31, 2022. The percentage of pension plans that were projected to be fully funded on a solvency basis as of June 30, 2022, was 79 per cent, with only 3 per cent projected to have a solvency ratio below 85 per cent.[10]

- FSRA also examines the overall performance of provincial credit unions/caisses populaires. According to FSRA's *Sector Outlook Report Q1 2022*, the overall profitability of credit unions in Ontario was nine basis points (bps) higher than the prior year. While liquidity remained strong at 13 per cent,[11] it was 370 bps below the same period in 2021, which witnessed unusually high rates due to softness in core lending lines of business. The average assets per credit union

[3] https://www150.statcan.gc.ca/n1/daily-quotidien/220720/dq220720a-eng.htm
[4] https://www.cmhc-schl.gc.ca/en/blog/2022/canadas-housing-supply-shortage-restoring-affordability-2030
[5] https://www.crea.ca/media-hub/news/canadian-home-sales-down-again-in-june-but-declines-are-getting-smaller/
[6] https://creastats.crea.ca/en-CA/
[7] https://www.bankofcanada.ca/2022/07/fad-press-release-2022-07-13/
[8] https://www.bankofcanada.ca/2022/07/canadian-survey-of-consumer-expectations-second-quarter-of-2022/?utm_source=alert&utm_medium=email&utm_campaign=BOSCE220704
[9] https://www.bankofcanada.ca/2022/07/business-outlook-survey-second-quarter-of-2022/?utm_source=alert&utm_medium=email&utm_campaign=BOSCE220704
[10] https://www.fsrao.ca/media/12331/download
[11] The liquidity ratio represents the liquid assets held by a credit divided by its total deposits, bank borrowings and securitizations.

increased by 8.7 per cent year-over-year to $1.392 billion. FSRA expects that Ontario's credit unions are bracing for a prolonged period of economic uncertainty and volatility resulting from inflation and rising interest rates. This may put increased pressure on the short-term solvency, liquidity and profitability of Ontario's credit unions.[12]

- Ontario's average auto insurance rates are increasing due to a range of factors, including rising interest rates, inflation, higher physical damage costs and a return to pre-pandemic driving patterns. Rising physical damage costs are primarily driven by auto parts price increases and labour rates, as well as to factors such as greater replacement costs resulting from more vehicle theft.

- For non-auto property and casualty (P&C) insurance lines, historically, inflationary pressures have increased claims costs. As the BoC increases its key interest rate to counteract inflation, higher rates will likely impact the market value of insurers' investment portfolios, resulting in a negative impact on capital levels. The increased number and severity of natural catastrophe events is also expected to put pressure on insurer profitability and consumer prices.

- Life and Health insurance profits experienced a downturn during the COVID-19 pandemic but are expected to improve on increased interest rates. Furthermore, in uncertain economic climates, consumers tend to look for financial products with guarantees, and the Life and Health sector's products are uniquely positioned to meet this demand.

Technological Advancement and Innovation

The COVID-19 pandemic transformed the use of technology in Ontario's financial services and pensions sectors. Whether out of choice or necessity, consumer use of digital services is rising. Regulated entities and individuals use technological advances to increase efficiency, reduce costs and minimize consumer harm. 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 telematics in auto insurance** – As consumers spent more time at home during the COVID-19 pandemic, they put less mileage on vehicles, leading many to explore usage-based insurance (UBI), including pay-as-you-drive models. Likewise, the number of auto insurers offering UBI discounts has also increased. This segment is expected to continue to grow in the short term as consumers look to save money on premiums.[13] Although FSRA encourages innovation such as telematics in the auto sector, the technology also has the potential to disrupt the fair treatment of customer outcomes (e.g., privacy concerns).

- **Digital platforms** – Digital platforms offer consumers a means to manage their financial services and pension plans virtually. Consumers can look at

[12] https://www.fsrao.ca/media/11366/download
[13] https://www.lowestrates.ca/resource-centre/auto-insurance/usage-based-car-insurance-trends

dashboards and receive up-to-date information on their products and services, purchase products and contact a customer service representative as needed. For example, Ontarians are now able to buy a multitude of insurance products, designate a beneficiary or facilitate the purchase of a home through a mortgage broker – all online. Consumers are also adopting new do-it-yourself (DIY) platforms that enable them to manage their own investment portfolios, a trend that is expected to grow over the next few years.[14,15] The rising use of digital platforms, particularly as a purchasing medium for financial products, comes with heightened concerns over suitability and value for money. DIY investing platforms will likely have significant impacts on the Financial Planner (FP) and Financial Agent (FA) industry.

- **Crypto assets** – According to KPMG 2022 surveys, financial services companies, institutional and retail investors have shown a greater interest in the adoption of Bitcoin or other crypto asset funds and services.[16] As investors add these assets to their holdings, crypto assets will impact the pension plan, credit union, FP/FA and life insurance industries. FSRA is closely assessing the issues surrounding crypto assets, particularly custodial protection.

- **Automation** – Financial services companies make use of automated technology and artificial intelligence to detect fraudulent or illegal activities such as money laundering. They also employ chatbots to facilitate customer service, purchase products and process insurance claims. Parametric insurance, for instance, automatically pays a claimant in the event of a pre-programmed trigger event. While FSRA encourages innovation to improve efficiencies, it is also mindful that automation can negatively affect the fair treatment of consumer outcomes (e.g., data bias).

- **Open banking** – The Government of Canada released the *Final Report – Advisory Committee on Open Banking* in August 2021. Based on the report's recommendations, the Government of Canada will launch an open banking system. The emergence of this system will have profound implications for Ontario's financial services consumers, with particularly notable impacts expected for the credit unions, mortgage brokering and insurance sectors.

Emerging Issues and Trends in FSRA's Regulated Sectors

FSRA performs ongoing scans of its regulated sectors and financial services more broadly to better understand trends, as well as identify emerging risks and potential issues that may impact consumers. FSRA is closely monitoring the following:

- **Vulnerable persons** – FSRA is mindful of the added pressure facing Ontario's most vulnerable consumers in times of economic uncertainty (e.g., seniors, consumers with health issues or a disability, consumers with lower financial literacy, consumers with language barriers, consumers with

[14] https://www.bnnbloomberg.ca/younger-canadians-drop-financial-advisers-for-diy-investing-1.1623130
[15] https://www.rbc.com/newsroom/news/article.html?article=125564
[16] https://home.kpmg/ca/en/home/media/press-releases/2022/04/canadian-investors-adding-crypto-to-their-portfolios.html

lower income, etc.). The current economic climate may result in greater fraud and criminal activity, disproportionately impacting more vulnerable consumers. Affordability issues, likewise, disproportionately impact seniors on a fixed income, lower-income consumers and visible minorities. Even at the best of times, financial services are difficult for consumers to navigate. FSRA is focused on increasing consumer education to enable them to make more informed decisions.

- **Suitability-related issues** – Economic anxiety and inflationary pressure may lead to an increase in suitability-related issues. The average consumer looking to reduce costs may buy financial services products that are less suited to their needs but more cost-effective. Furthermore, there may be more pressure in the financial sector to sell products that are not suitable for clients' unique circumstances. The increased reliance on digital technologies could also lead consumers to buy products and services they may not fully understand.

- **Consolidation of pension plans** – Pension plans in Ontario are increasingly considering consolidation through mergers with select, jointly-sponsored pension plans.[17] The key driving forces behind consolidation include benefit security for plan beneficiaries and the opportunity to maintain or introduce a defined benefit plan at a workplace.

- **New ways of looking at retirement and decumulation** – Policymakers and stakeholders are exploring new approaches to adjust to an evolving marketplace, including forming "large collective plans" to more efficiently deliver deferred compensation. These plans can also better leverage scale and expertise. The industry has seen the emergence of "collective" decumulation products that may offer some of the benefits of traditional pensions, but at the same time lack risk mitigants or raise new ones. Industry observers have noted the lack of effective decumulation vehicles for savers in Defined Contributions (DC) plans and group registered retirement savings plans (RRSPs) to convert accumulated balances into lifetime retirement income. In 2019, the Government of Canada introduced legislation, which could permit a pension within a DC plan – known as Variable Payment Life Annuities.

- **Third-party outsourcing** – Financial services companies and pension plans are relying more on third-party service providers to supply technology services or fulfill operational needs. Third parties can help companies that are hampered by legacy systems. However, third parties come with increased risks, including operational disruptions and privacy/data breaches.

- **Alternative and private lending in the mortgage broker industry** – As interest rates increase, and affordability issues continue, consumers may increasingly turn to alternative mortgage products and private lending to secure mortgages. These financial options can present additional risks that may not typically be

[17] https://www.cibcmellon.com/en/_locale-assets/pdf/our-thinking/2021/cibc-mellon-isonv202104-6-ch3-rise-of-the-consolidators.pdf

associated with mortgages from traditional lenders.

- **Professionalization of Financial Planner/Financial Advisor (FP/FA) sector** – For many years, the use of the FP and FA titles lacked a regulatory framework. FSRA is now monitoring how the implementation of the framework will increase professionalism in the marketplace and create greater consistency and understanding of FP/FA title usage.

- **Cyber/information technology (IT) risk** – With more reliance on digital technology and innovation prompted by the COVID-19 pandemic, FSRA's regulated sectors and consumers face greater cyber and IT risks. Cyber and IT risk incidents, such as data breaches, ransomware attacks or an internal IT disruption, can significantly affect the operations of regulated entities, resulting in financial losses, consumer harm and reputational loss to the regulated entity.

- **Environmental, social and governance (ESG)** – The risks associated with climate change are present throughout all FSRA's regulated sectors, particularly insurance companies, credit unions and pension plans. Some financial institutions and pension plans have already started to adopt climate risk mitigation policies, as well as ESG criteria in their investment strategies. Likewise, financial institutions and pension plans are incorporating diversity, equity and inclusion (DEI) strategies to strengthen their own internal governance and improve their internal and external relationships.

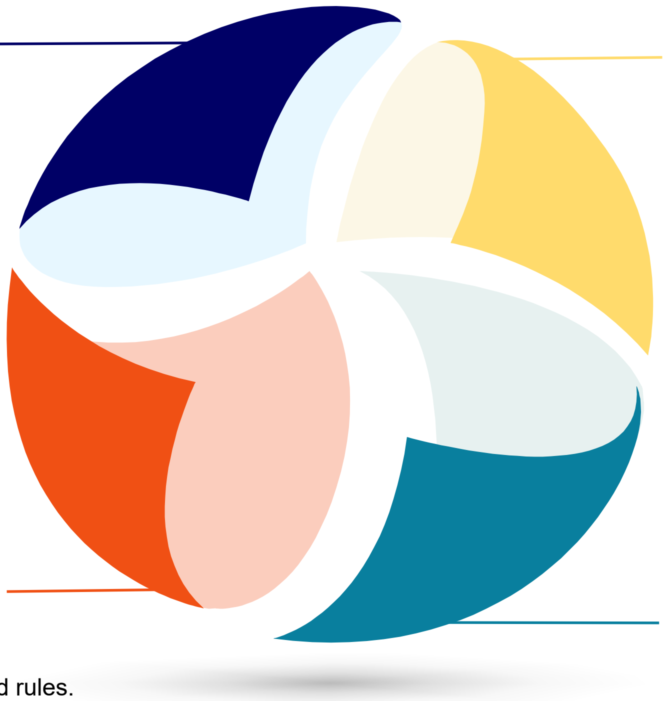
FSRA Proposed Statement of Priorities

Strategic Framework

In 2021-2022, 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 2023-2024 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.



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 evidenced- 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.

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 to 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.

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 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

Strategic Priorities

1. Strengthen the consumer focus

Overview

FSRA undertakes activities that support its vision of financial safety, fairness and choice for Ontarians. FSRA's Consumer Office helps maintain vision alignment by:

Building on the strong foundation established through the Consumer Office and the Consumer Advisory Panel, FSRA continues to look for opportunities to increase and deepen consumer stakeholder participation in its policymaking (i.e., rulemaking and guidance development).

- Providing a consumer lens for key FSRA policy and oversight activities
- Conducting research and analysis to respond to trends that impact consumers
- Partnering with the public interest community to strengthen consumer representation in FSRA's outreach and consultations

The Consumer Office works closely with FSRA partners to deliver on its commitments. Past activities, including supporting the Consumer Advisory Panel and developing cross-sectoral, research-based frameworks and consumer personas, have created a solid foundation for FSRA to foster consumer engagement. The Consumer Office will build on that foundation in FY2023-2024 by developing relationships with public sector groups, academia, and organizations with substantial consumer memberships, audiences or research to improve access to diverse insights.

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
   - Create a policy initiative using FSRA's consumer disclosure framework to generate greater public awareness

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 at the forefront of relevant developments in leading consumer protection practices of other regulators and examine areas for potential application.

Planned 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 community partnerships

2. Modernize Systems and Processes

Overview

FSRA continues to modernize processes and systems. This commitment will enable FSRA to operate as a high-performing regulator by creating 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. This roadmap is supported by FSRA’s cybersecurity program which ensures that the modern processes and systems are resilient to ever growing cyber threats. The cybersecurity program is risk based, has a robust governance and reporting structure, and is aligned with the industry best practices and security controls.

These workflow and system improvements will be key to supporting FSRA’s strategic pillars by:

- Delivering improved service levels by reducing turnaround times for managing regulatory processes.
- Optimizing and streamlining data collection and filings.
- Enhancing FSRA’s ability to respond quickly to changing regulatory needs.

In FY2022-2023, FSRA will deliver the first components of a new regulatory system and portals to significantly improve licensing and registration processes for the mortgage brokering and insurance sectors and health providers. The solution will be launched in phases for all sectors, with implementation targeted by FY2024-2025.

In this timeframe, FSRA will also work with regulated sectors to improve data collection, reduce reporting and administration by sector participants. Better data will improve FSRA's ability to efficiently provide regulatory oversight.

All sectors FSRA regulates are taking part in the modernization work through communication, consultation and collaboration. This includes outreach through FSRA's communication channels, forums for discovery, user experience research and ongoing opportunities for input and feedback as the work takes shape.

Key deliverables

More innovative and competitive financial services through:

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, enhance infrastructure, establish new data interfaces (both new sources and improved exchanges), and implement advanced analytics and reporting systems to enable more efficient decision-making.

Planned 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, 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

3. Enable Innovation

Overview

The Innovation Office has been working to move FSRA's ambitions from theory into practice. FSRA actively undertakes the principles of the Innovation Framework, assessing the Innovation Process and deploying FSRA's Test and Learn Environments (TLEs). FSRA is also assessing how it can use its discretionary powers to support responsible innovation.

FSRA will work with stakeholders to build a stronger Ontario financial services market. FSRA will accomplish this goal with the Innovation Framework as its guide, using its first TLE as a pilot case and ongoing work to discover innovation opportunities.

The Innovation Office will pursue this objective by:

- Expanding the scope of its TLEs
- Deepening its connections with crucial financial services stakeholders
- Building its knowledge as a centre of expertise in financial services innovation
- Continuing to assess how FSRA can use its regulatory tools to support innovation via the ongoing discretionary powers project

Key deliverables

a) Use data and knowledge gained from the pilot TLE to refine FSRA's future usage. FSRA will scale the TLE model to include more such initiatives across FSRA's regulated sectors.

b) Build the Innovation Office into a centre of expertise and a champion of innovation. FSRA will continue to convene industry leaders for knowledge-sharing on key issues. FSRA will also advocate for consumer-centered 'responsible innovation' in regulated sectors.

c) Improve FSRA's use of its regulatory toolkit. FSRA will use the toolkit to implement concepts outlined in prior discretionary powers projects for the *Mortgage Brokers, Lenders and Administrators Act, 2006* (MBLAA) and the Insurance Act. FSRA will conduct similar analysis of discretionary powers across remaining FSRA-regulated sectors.

d) 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.

Planned 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

4. Enhance FSRA's Talent Management Framework and Strategy

Overview

Human Resources will enhance FSRA's talent management strategy to meet operational priorities. FSRA's new target operating models require the development and recruitment of new employees. Effective change management and an evolved and inclusive organizational culture will drive this initiative.

FSRA has not been immune to the record levels of pandemic-related resignations and retirements. The FY2023-2024 focus for Human Resources will be to build and implement an innovative human capital strategy that addresses these challenges with a focus on retention and skills development.

New approaches will be used to recruit early mid-career and seasoned talent and identify new talent channels. Investment will be made to support a learning organization that trains new FSRA team members and develops existing staff. FSRA will be positioned as an employer of choice through an attraction and retention strategy that exemplifies its values and behaviours, promotes flexible hybrid work and a recognition culture.

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 that are articulated and embedded into leadership development, recognition, succession planning and high potential development programs and plans.

c) A review of changes within FSRA and the nature of regulation to keep abreast of evolving workplace developments – ensuring the right processes, people and systems are in place to thrive and achieve FSRA's vision.

Planned outcomes

i) Attraction, recruitment, training, development, and retention of talent with expertise, skills and knowledge to ensure FSRA has 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 deliver on FSRA's strategic priorities and regulatory operational requirements effectively and efficiently

iv) A culture that is inclusive, equitable and diverse, where staff are actively empowered to lead, be accountable, supported and recognized for outcomes

5. Property and Casualty (Auto) Priorities

5.1 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 and reasonable rates.

Key deliverables

a) Develop legal framework changes based on consultation feedback to define fairness in rates and underwriting.

b) Act on consultation feedback to implement a new supervisory framework that evaluates and monitors adherence to rates and underwriting requirements.

c) Act on consultation feedback to promote informed decision-making and increase transparency throughout the sector to create more accountability.

d) Explore the development of consumer satisfaction benchmarking in support of informed decision-making and increased transparency.

e) Provide data analytics support for the regulatory reform of rates and underwriting, assisted by the development of an evidence-based risk assessment methodology.

Planned Outcomes

i) A reformed legal and supervisory framework to ensure fairer treatment of consumers

ii) Improve sector operations through FSRA process reforms that enable market entry, responsiveness, innovation and deliver value-for-money to consumers

iii) Empower consumers to make more informed decisions by enhancing transparency and providing resources to enhance the understanding of auto insurance

5.2 Develop recommendations and act on reforms of the auto insurance system

Overview

FSRA will continue to support legislative changes to reform auto insurance regulation and provide expert advice on key trends and opportunities to improve outcomes for consumers.

Key deliverables

a) Work with the Ministry of Finance to develop and implement initiatives to reduce fraud and abuse in the system.

b) Work with health providers and auto insurers to improve the Health Claims for Auto Insurance system, including the efficiency of billing and data practices to enhance consumer outcomes.

c) Complete the implementation of legislative amendments that will allow consumers to opt-out of Direct Compensation-Property Damage coverage and work with insurers on any related innovative consumer offerings.

d) Consult with public stakeholders, including consumer advocates, insurers, service providers, medical professionals and legal representatives, to identify opportunities to improve consumer outcomes.

Planned outcomes

i) Lower auto insurance system costs and the incidence of consumer harm resulting from fraud and abuse

ii) Improved protection of consumer rights and interests

5.3 Ensure the fair treatment of property and casualty consumers

Overview

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 will continue to apply a risk-based and outcomes-focused approach to setting conduct expectations.

Key deliverables

a) Build on FSRA's current supervision activities to develop a market conduct framework for P&C insurance to address priority areas for supervision, including insurance distribution.

Planned Outcomes

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.

5.4 Achieve supervisory excellence for the Ontario-incorporated insurance companies and reciprocals sector

Overview

FSRA requires the tools and resources necessary to supervise Ontario-incorporated insurance companies, including farm mutuals and reciprocals (insurers). Effective and efficient oversight will protect the rights and interests of consumers and enhance sector resilience and stability. As part of FSRA's multi-year initiative to transform its supervisory approach and satisfy its statutory objects, FSRA developed and is implementing the Risk Based Supervisory Framework for Ontario-Incorporated Insurance Companies and Reciprocals (RBSF-I). FSRA also issued guidance that details FSRA's practices for integrated market conduct and prudential supervision. This enhanced framework, which is aligned with international best practices, guides FSRA in its assessment and supervision of insurers and supports its objectives.

Key deliverables

a) Enhance relationship management for each insurer

b) Continue to build prudential and market conduct supervisory capacity and capability.

c) Achieve supervisory excellence by assessing and proactively addressing inherent business risks and issues (e.g., solvency and governance). FSRA will work with stakeholders, including the

Ontario Mutual Insurers Association, to implement the RBSF-I, tailored proportionately to the characteristics of the various segments of the insurance sector, including farm mutuals and reciprocals.

d) Enhance data collection and transform FSRA's supervisory processes to make evidence- and risk-based decisions.

e) Issue guidance that enables effective regulation and supervision of insurers, as outlined the work plan FSRA developed in collaboration with key sector stakeholders in FY2022-2023.

Planned outcomes

i) Better understanding of insurers' business and enhanced regulatory oversight

ii) Enhanced resilience and reduction in the probability of insurer failure

iii) Forward-looking assessments, monitoring, and effective supervision

iv) A strong, stable, and resilient sector in which policyholders and consumers are protected and have confidence in the sector

6. Credit Union Priorities

6.1 Achieve supervisory excellence for Ontario's credit union sector

Overview

FSRA's Risk Based Supervisory Framework (RBSF), launched in April 2022, sets out new supervisory practices and approaches that have been key to FSRA's goal of achieving supervisory excellence. FSRA has collaborated closely with the sector to implement the new framework. With a focus on continuous proactive supervision and effective intervention, FSRA will build the capacity and capability for credit unions to deal with change, stress events and crises.

The regulatory and legislative landscape for Ontario credit unions has experienced significant change. The *Credit Unions and Caisses Populaires Act, 2020* (CUCPA 2020) came into force on March 1, 2022. It included new guidance and rules developed by FSRA to support CUCPA 2020 and transition to a more principles-based and outcomes-focused approach for regulation and supervision. Three new FSRA rules set out key elements of the credit union framework: (1) Sound Business and Financial Practices, (2) Capital Adequacy Requirements, and (3) Liquidity Adequacy Requirements.

As FSRA matures as a regulator, it requires modern, risk-based practices and the right tools to support its supervisory activities. For example, FSRA is taking the initiative to be more forward-looking by modernizing data systems to better analyze, manage and monitor risks. This will promote sector resilience, better protect depositors, enhance sector stability and improve regulatory efficiency. FSRA will also continue to integrate the new legislative framework, rules and guidance into credit union assessments through the application of the RBSF-1. FSRA will maintain its work with the Ministry of Finance and key credit union stakeholders in a transparent and consultative manner, following its multi-year work plan to address areas of emerging risks and ensure that it remains current with existing requirements.

Key deliverables

a) Striving for supervisory excellence, FSRA is upgrading its supervisory approach to complete and maintain accurate risk assessments for each credit union every year.

b) Incorporate risk data received through the Enhance Data Collection system into the supervisory approach to better analyze, manage and monitor risks.

c) Initiate a review of FSRA's Capital Adequacy Requirements Rule to examine and propose updates to areas that require better risk alignment.

d) Complete consultations and issue a new Unclaimed Deposits Rule to bring the CUCPA 2020 framework into effect. This will improve the process by which members can search for and claim deposit accounts with credit unions that have been dormant for more than 10 years.

Planned outcomes

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

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

iii) A stronger, more stable, resilient, and better-governed credit union sector under FSRA's effective and efficient supervision

iv) A regulatory framework that facilitates effective and efficient supervision of the Ontario credit union sector

6.2 Enhance financial stability structures

Overview

FSRA will continue 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, as well as enabling access to emergency liquidity. These structures ensure members' deposits are protected, particularly during stressful events, and promote sector stability.

Key deliverables

a) Work with the BoC and other partners to facilitate access to emergency liquidity for credit unions, if necessary, by refining internal processes and controls and working with the sector to complete their recovery and resolution plans.

b) Update and complete the Differential Premium System methodology to better reflect individual credit unions' risk profiles and publish a revised Differential Premium Score Determination document.

c) Determine the adequacy of DIRF target funding levels and existing deposit insurance premiums.

d) Continue to enhance the DIRF Adequacy Assessment Framework through the inclusion of additional risk data from Ontario credit unions through the Enhanced Data Collection project.

Planned outcomes

i) Reduce the DIRF’s exposure to loss

ii) Strengthen depositor protection and sector stability

iii) Enhance resolution and recovery planning

iv) Further enhance public confidence in credit unions

7. Life and Health Insurance Priorities

7.1 Enhance market conduct oversight to protect consumers

Overview

The International Association of Insurance Supervisors’ globally accepted framework requires insurers and intermediaries to treat consumers fairly, including the period before entering into a contract through to the point at which all contractual obligations have been satisfied.

Since the 2018 release of the Canadian Council of Insurance Regulators (CCIR)/Canadian Insurance Services Regulatory Organizations (CISRO) guidance on the Fair Treatment of Customers, FSRA and regulators across Canada have been assessing whether consumers are receiving fair treatment. In response to regulatory findings and to enhance trust and increase confidence in the sector, FSRA has taken steps to enable supervisory excellence in the sector through enhancements to its supervisory approach, improved consumer disclosure, and by releasing guidance that will address consumer harms. In particular:

- **Insurance Distribution:** In the last two years, FSRA has published supervisory reports focusing on oversight in the end-to-end distribution of individual life and health insurance products and services. The findings identified consumer risks and gaps in market conduct compliance, particularly in independent distribution channels such as Managing General Agents (MGAs), where the delegation of oversight responsibilities may not be clearly defined and sufficiently monitored. In response, FSRA is:

- Developing an evidence-based regulatory framework to address potential risks and challenges posed by the MGA distribution channel.

- Continuing to build its capacity for proactive reviews of life insurance agents following the establishment of a dedicated life agent supervision team in 2020 and a supervisory framework in 2022.

- **Segregated Fund Contracts:** FSRA continues to work with other regulators across Canada to enhance regulatory standards for segregated fund contracts, building on the recommendations in the 2017 *CCIR Segregated Funds Working Group Position Paper*. This work includes the planned implementation of FSRA Rules relating to deferred sales charges, which follows the February 2022 CCIR/CISRO announcement intended to stop deferred sales charges for new segregated fund contracts by June 1, 2023.

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 such 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

Planned outcomes

i) Stakeholders have clarity and an 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.

8. Mortgage Brokering Priorities

8.1 Promote high standards of governance and business conduct

Overview

A strong conduct culture is particularly important for large mortgage brokerages and administrators that employ many licensed individuals, originate and/or administer a high volume of mortgages and deal with a significant number of consumers. The industry's reach results in a potentially greater impact on consumer outcomes and on its own reputation. Consequently, in FY2023-2024, FSRA intends to strive for supervisory excellence by supporting the sector to promote a strong culture of appropriate business conduct and compliance.

With a strong conduct culture, brokerages, administrators, and their licensed individuals make business decisions and keep clients' (borrowers and/or lenders) interests top of mind. An organization's culture can influence its conduct and compliance with regulatory requirements and industry best practices. A sustainable culture that emphasizes fair treatment of consumers and meets regulatory requirements demands a strong "tone from the top."

Mortgage brokerages are required to have processes and policies in place to help promote strong business conduct and high standards of compliance with the Mortgage Broker Regulators' Council of Canada's National Code of Conduct and the MBLAA.

Principal brokers are required by law to ensure that their brokerages, as well as each associated broker and agent, comply with all requirements under the MBLAA. Principal brokers play a key role in creating a culture that promotes strong business conduct and that deters deceptive or fraudulent acts within the sector. Their effectiveness depends in part on their ability to influence conduct and the overall culture within their brokerages.

Key deliverables

a) Consult on best practices to improve the effectiveness of the principal broker's role in contributing to a strong business conduct culture and ensuring compliance at mortgage brokerages.

b) Develop a supervisory engagement model for mortgage brokerages and administrators whose conduct has the most impact on consumers and the industry's reputation, enabling more effective allocation of supervision resources.

Planned outcomes

i) Principal brokers have the appropriate authority and effective supervision programs to promote a strong conduct mindset within their brokerages that ensures the fair treatment of consumers.

ii) Supervisory excellence through effective allocation of FSRA supervision resources on matters and licensed firms that have the most impact on consumer protection and industry reputation.

8.2 Enhance professional competence of licensed individuals

Overview

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.

Following the government's direction from the MBLAA review, FSRA worked with industry and licensing education providers to raise education standards for mortgage brokers and agents and improve delivery systems for such providers. For example, FSRA and government collaboration resulted in the introduction of a new licensing regime with enhanced proficiency and experience requirements for agents (as well as brokers) who deal with private mortgages.

FSRA will finalize its work of strengthening the educational requirements of this sector, which is critical in an uncertain market with volatile interest rates and a historically high rate 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.

Key deliverables

a) Continue work to update the broker and agent licensing education courses.

b) Execute the multi-year plan to enhance continuous education requirements, as consulted on with the industry, along with the introduction of the new licensing classes.

c) Consult on best practices to ensure the suitability of mortgage recommendations for consumers

Planned outcomes

i) Enhance curriculum to ensure agents and brokers are equipped with professional standards and competencies that are aligned with increasingly sophisticated options and products for consumers in a complex financial services industry.

ii) Consumers receive mortgage advice that is suitable to their specific circumstances and needs, protecting their rights and interests and promoting high standards of business conduct and public confidence in the sector.

9. Pension Priorities

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

Overview

Since FSRA was launched, it has proactively supported the protection of benefits in Ontario's pension sector. While these important initiatives are not listed as deliverables in this year's Annual Business Plan, they have become FSRA's "new normal" in the supervision of the sector as they consume considerable regulatory resources. Some of the approaches FSRA has taken include:

- A focus on single employer defined benefit plans where there may be a concern over the security of benefits.
- Work with large public-sector pension plans to monitor and enhance FSRA's supervision of investment risk governance, plan governance and systemic risks. FSRA will continue this work in FY2023-2024.

- Review of the long-term viability and financial sustainability of the Pension Benefits Guarantee Fund, including enhancing FSRA's predictive analysis.[18]

- Benchmark defined benefit multi-employer pension plans against FSRA's published leading practices.

- Host webinars and develop frequently asked question (FAQ) documents to support plan administrators and other stakeholders.

- Dedicate resources to transactions such as asset transfers and wind-ups.

FSRA has also heard from the sector that feedback loops on FSRA's transactions and results are important. To help the sector better understand how FSRA exercises its discretion, it has published a new report on approved uses in asset transfer transactions. FSRA has published new fact sheets on the sector and key trends it observes from filings.

FSRA continues to focus on automation with, for example, plan viewings. This automation will evolve over time and may experience some growing pains as FSRA shifts its approach.

As a risk-based regulator, FSRA is mindful of key risks and trends in the pension sector. In the recent past, the International Monetary Fund (IMF) called on regulators to strengthen their oversight of large public sector plans. FSRA has published its observations on alternative assets and risk management and continues to work on liquidity coverage ratios. FSRA has followed issues around economic uncertainty and inflation, publishing an article on the topic in 2022. FSRA has also closely followed developments in securities and pension regulations on cryptocurrency and ESG.

Key deliverables

a) Building on work to-date and to respond to systemic importance of large public sector plans and the IMF's Financial Sector Assessment Program, FSRA will continue to engage with large public sector plans on risk management and investment risk governance practices. FSRA will identify leading practices on risk management processes that allow plans to evaluate risk management controls and better protect assets. Risk management assists plan administrators in keeping plan assets safe, protecting the plan from adverse risks and supports the plan in meeting its objectives.

b) Work with colleague regulators at the Canadian Association of Pension Supervisory Authorities (CAPSA) to develop guidelines that highlight leading practices in risk management, giving due consideration to proportionality.

c) Develop and publish a new FSRA Performance Report, built on FSRA's 2021 and 2022 annual reports, showing activities in key transactions, including changes in backlogs.

[18] Under the *Pension Benefits Act,* the CEO of FSRA is responsible for the administration of the Pension Benefits Guarantee Fund (PBGF), not FSRA. FSRA staff support the CEO. Eligible expenses associated with administration are charged to the PBGF, not FSRA Assessment Fees.

Planned outcomes

These outcomes are aligned with FSRA's statutory objects of promoting good administration of pension plans and protecting and safeguarding the pension benefits and rights of plan beneficiaries.

i) Improved risk monitoring and assessment of significant and systemically important plans under supervision.

ii) Enhanced capacity to engage with plans within FSRA using analytics and delivering a measured and graduated approach to supervision.

9.2 Support the development of target benefit regulation

Overview

FSRA is committed to supporting the government in its development of a new target benefit framework for multi-employer pension plans, as announced in the 2022 Ontario Budget released on April 28, 2022. Since launch, FSRA has worked closely with the government to align priorities and support effective feedback loops on key trends and issues in the sector. Part of FSRA's approach has been to engage the government as observers in all ad hoc or standing advisory committees. Moving forward, FSRA is prepared to continue to support the government, as appropriate, on this and other initiatives that would enable innovation in the sector.

Key deliverables

a) Assist the government with its target benefit framework for multi-employer pension plans, as needed.

b) Initiate the implementation of a supervisory framework for target benefit multi-employer pension plans.

Planned outcomes

i) Continue benchmarking multi-employer pension plans and new supervisory guidance that supports policy implementation in a timely fashion, a responsive regulatory environment to a sector under transformation, and improved regulatory effectiveness and efficiency.

10. Financial Planner/Financial Advisor Priorities

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

Overview

On March 28, 2022, the *Financial Professionals Title Protection Act, 2019* (FPTPA) and FSRA's Financial Professionals Title Protection Rule came into force, implementing the Financial Professionals Title Protection Framework (FPTPF).

The FPTPF is intended to promote confidence and professionalism in the sector by ensuring that individuals using the FP and FA titles are appropriately qualified by meeting minimum standards. Consumers who work with a 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.

The FPTPF also requires that FP and FA title users abide by a code of conduct and professional ethics that requires them to put client interests first.

In the FPTPF's second year of operation, FSRA will focus its resources on:

- Ensuring effective implementation of the intended framework through supervision and assessment of each approved credentialing body.
- Monitoring the marketplace for relevant trends and issues that could inform future changes to the FPTPF.

FSRA will also continue to work with other Canadian jurisdictions that are adopting similar frameworks to discuss opportunities for harmonization.

Key deliverables

a) Assess credentialing bodies to ensure that they meet FSRA's minimum standards, appropriately share information, consistently communicate requirements with credential holders, and have the necessary policies and procedures in place to protect consumers.

b) Conduct a review of the framework to evaluate its effectiveness in achieving expected outcomes, and assess opportunities for improvement, including consultation with key stakeholders, where applicable.

c) Work with the Ministry of Finance and other stakeholders to identify and implement any required changes to legislation and/or regulations to enhance the FP/FA framework.

Planned outcomes

i) Effective oversight of credentialing bodies to ensure consumer protection.

ii) Successful transition of designation providers to regulated credentialing bodies, ensuring integrity and professional conduct in the sector.

iii) Enhanced public confidence, informing consumers that their financial planners and advisors meet consistent minimum education standards and are required to abide by a code of conduct that puts consumer interests first.

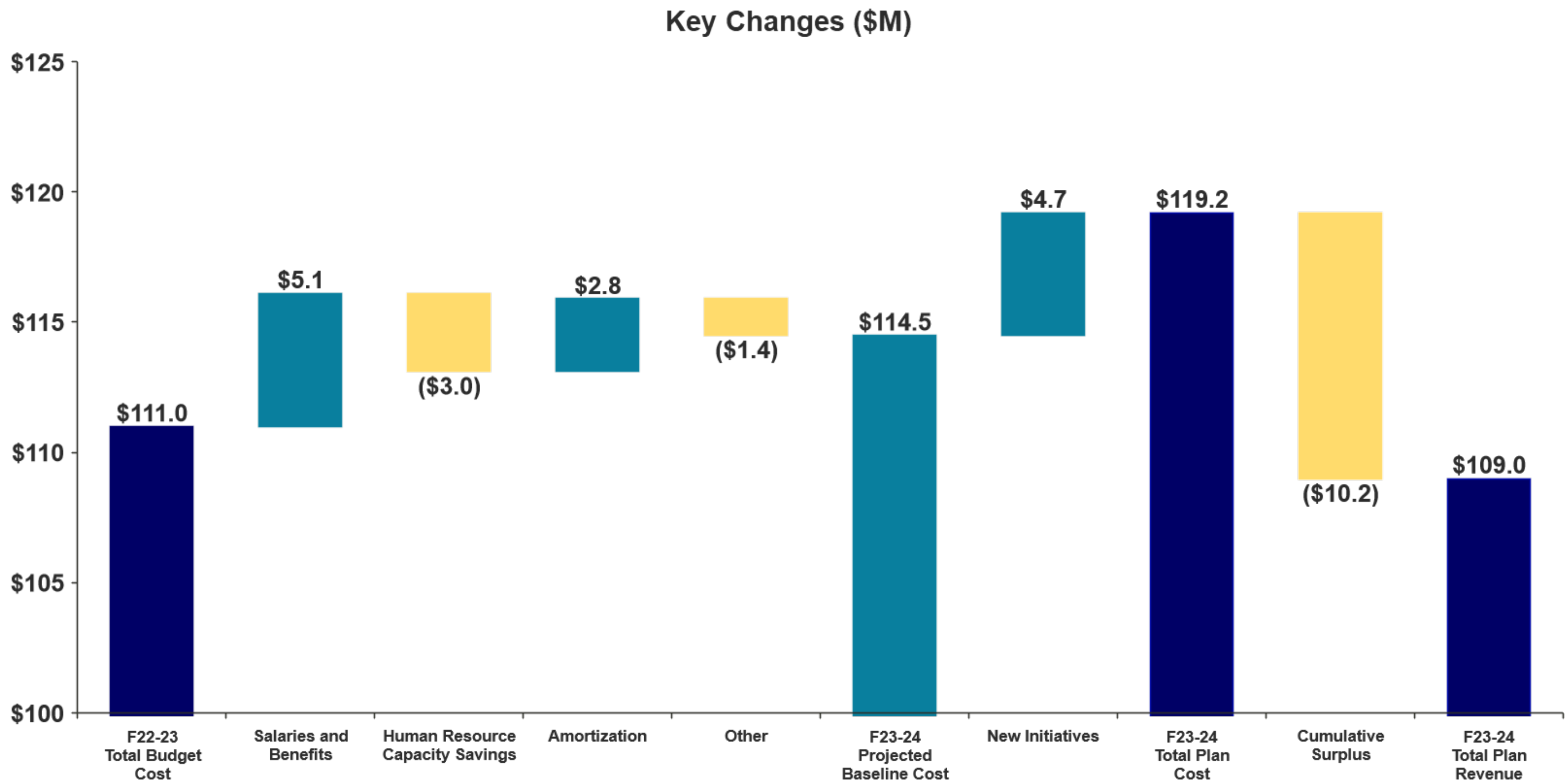
iv) Harmonize, to the extent possible, with other Canadian jurisdictions' title protection frameworks.

Financial Outlook

Cost Projection

To achieve its mandate and stated priorities, FSRA is proposing a $119.2 million financial plan for FY2023-2024. This is 7.4% higher than the FY2022-2023 budget and 3.1% higher than FY2023-2024 in the FY2022-2025 Annual Business Plan (ABP).

The chart below demonstrates the projected costs compared to the FY2022-2023 budget.



Salaries and Benefits are projected to increase by $5.1 million primarily due to mandatory collective bargaining agreements, and mandated increases for non-union staff as per the Protecting a Sustainable Public Sector for Future Generations Act (“Bill 124”).

The savings of $3.0 million in Human Resource Capacity Savings primarily represent savings from efficiencies netted against the delivery of out-of-budget projects across the organization and a permanent reduction to the baseline budget in Corporate Services division.

Overall Amortization increases by $2.8 million. FSRA will incur an increase of $2.3 million in FSRAForward amortization ($11.7 million in-year investment, of which $9.4 million will be deferred and amortized over five years). In FY2024-2025 FSRAForward amortization is anticipated to peak at $7.0 million and subsequently taper off in the following years.

The reduction of $1.4 million in Other spend includes:

- Higher recoveries of $0.4 million from Pension Benefit Guarantee Fund for salaries and benefits reimbursement.
- Projected earned interest income of $0.8 million on operating cash offset by the loan interest.

FSRA anticipates spending $4.7 million in new initiatives to build regulatory capacity and close regulatory gaps in Life and Health, Credit Union, Mortgage Broker, and Financial Planners / Financial Advisors sectors. Spending also includes preparation for delivering on FSRA’s regulatory priorities in Auto and Pensions sectors.

- Address critical regulatory gap in Life and Health Sector to protect consumer interest (Priority 7.1).
- Ensure effectiveness of the title protection framework for Financial Planners / Financial Advisors (Priority 10).
- Implement advanced information sharing and transactional Credit Union processing tools (Priority 6.1).
- Increasing supervisory coverage of existing programs relating to private mortgage brokering and mortgage administration (Priority 8.2).
- Support and implement Auto Insurance reform on rates and underwriting processes (Priority 5.1).
- Continue to ensure the good administration of pension plans and protect plan members’ interest and improve on information for pension stakeholders by collaborating with other regulators and to promote consumer education (Priority 9.1).
- Invest in Public Affairs to apply a consistent and transparent approach to regulatory oversight and decision making.

Sector fee assessments

- Total revenue is proposed to be $109.0 million. It is expected to increase by 2.8% or $3.0 million over the FY2022-2023 budget. The assessment fee increase is limited to 3.6% by crediting $10.2 million of cumulative excess revenues over costs and $0.6M from Mortgage Broker revenue overage back to the sectors in FY2023-2024.

- The fee assessment is 8.5% lower and $7.4 million below the year two commitment in the FY2022-2025 ABP.

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 Increase/(Decrease)	**(582)**	**(199)**	**377**	**1,033**	**629**	**682**	**(38)**	**644**	**179**	**691**	**814**	**(26)**	**37**	**2,967**
	-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 Increase/(Decrease)	**171**	**(199)**	**939**	**1,268**	**2,179**	**1,187**	**(38)**	**1,149**	**1,386**	**1,576**	**1,857**	**(36)**	**56**	**8,167**
	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%**

The proposed business plan is currently presented at a high level. Management is developing a detailed budget for FY2023-2024, 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 to 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, 2023, to March 31, 2024. Subject to revisions based on stakeholders' feedback, it will form the basis of FSRA's proposed F2023-2026 ABP. See the appendices for assumptions and methodologies on which the budget is based.
- Total revenue is expected to increase 2.8% year over year compared to the FY2022-2023 Budget. The proposed fee assessment is 3.6% higher than prior year and $7.4 million lower than FY2023-2024 in the FY2022-2025 ABP.
- Fixed and activity fees are expected to be 3.4% lower due to a decrease in renewal and emerging applications primarily in the Health Service Providers (HSP) and Life and Health sectors.
- Mortgage Broker License Fees are projected to increase by 4.8% from FY2022-2023.

($000's)	FY2023-2024 Proposed Plan	FY2022-2023 Budget	Variance vs. Budget ($)	(%)
Revenue:				
Activity Fees[1]	11,600	12,004	(404)	-3.4%
Fee Assessment[2]	79,600	76,864	2,736	3.6%
Licensing Fees[3]	17,800	16,986	814	4.8%
Other[4]	-	178	(178)	-100.0%
Total Revenue	109,000	106,033	2,967	2.8%
Direct Costs	68,000	63,557	4,443	7.0%
Common Costs	51,200	47,475	3,725	7.8%
Total Costs	119,200	111,033	8,167	7.4%
Recovery Over /(Under)	(10,200)	(5,000)		
Utilization of Cumulative Surplus	10,200	5,000		
Net Balance	-	-		

Notes: the following items were restated for comparison purposes

1. Includes HSP and Life & Health Conduct fixed revenue
2. Includes all variable sector revenue
3. Includes Mortgage Brokers revenue
4. Includes HSP under/(over) recovery

Appendix 1: Financial Assumptions

- FSRA plans a fee rule consultation, which could result in fee changes in FY2024-2025. Projected revenue for FY2023-2024 assumes no fee rule changes.
- Comparable figures are based on the April 1, 2022 – March 31, 2023, budget approved by the FSRA Board and used to charge FY2022-2023 fee assessments.
- The financial information for FY2023-2024 SOP is a high-level projection. The detailed budget will be published in the FY2023-2026 ABP.
- 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.
- There were no allocation methodology changes from prior year (Refer to the following appendix for allocation rule details).
- Credit Unions IT costs are being transitioned over five years to bear their pro rata share of common IT costs. This is reflected in the cost allocation.
- FSRA regulates HSP as part of its Auto Insurance regulatory activities. Any revenue under recovery/overage from HSP is charged to/credited to the variable 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, FP/FA, Legal, Policy, 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., 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.
- Lease costs: allocated based on full time equivalent.
- 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), Public Affairs, 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% of overall direct costs of $68.0M, then its share of $52.5M total common costs would be $7.8M (or 15%).