Proposed FY2021-2022
Statement of Priorities
October 13, 2020
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Overview

The Financial Services Regulatory Authority of Ontario (FSRA) is pleased to present its proposed FY2021-2022 priorities and corresponding budget. This view for the upcoming fiscal year is intended to generate feedback from stakeholders through a public consultation.

FSRA is an independent regulatory agency, created to improve consumer and pension plan beneficiary protections in Ontario. The agency was established to replace the Financial Services Commission of Ontario (FSCO) and the Deposit Insurance Corporation of Ontario (DICO). FSRA protects Ontario consumers by regulating:

- property and casualty insurance;
- life and health insurance;
- credit unions and caisses populaires;
- loan and trust companies;
- mortgage brokers;
- health services providers (related to auto insurance);
- pension plan administrators; and
- financial planners and advisors (proposed).

The proposed FY2021-2022 priorities drive towards the common goal of regulatory efficiency (e.g. burden reduction) and effectiveness. The cross-sectoral priorities flowing from that focus on:

- Protecting the public interest.
- Enabling innovation.
- Modernizing systems and processes.
- Transitioning to a principle-based regulatory approach.

Each of the priorities for FSRA’s regulated sectors focus on improving supervision capability, enhancing/implementing regulatory framework components, or gaining a better understanding of the consumers.

The Credit Union, Life and Health Insurance and Mortgage Broker sector’s priorities focus on enhanced understanding and conduct regulation intended to improve sector stability and maintain public trust.

The Property and Casualty (Auto) sector priorities aims to enhance consumer choice, increase transparency, promote innovation and foster a competitive and stable auto insurance marketplace.

FSRA will continue to enhance its prudential oversight of both the Credit Union and Pension sectors. Pension oversight will evolve its predictive analysis and capabilities with respect to the Pension Benefit Guarantee Fund (PBGF) eligible pension plans to improve outcomes for pension plan members.

Title protection framework for Financial Planners/Financial Advisors will promote confidence and professionalism in the sector and reduce confusion for investors and consumers.

FSRA will also continue to promote a national dialogue on a harmonized approach to regulatory issues in the areas it regulates, and to this end, FSRA is participating as a member in several forums.
In all sectors, modernizing systems, processes and infrastructure should increase regulatory effectiveness and efficiency. As FSRA evolves, it will shift activities and oversight from the traditional, primarily prescriptive method to a principles-based approach to regulation. Financial services are changing rapidly, as are the opportunities to enable innovation and encourage new entrants to the market. Given that, FSRA needs to move away from “one-size-fits-all” solutions. Further research will identify market and consumer vulnerability within the marketplace. FSRA will continue to build its engagement with stakeholders, the public, consumers, credit union members, pension plan beneficiaries and investors.

FSRA proposes a $104.1 million budget for FY2021-2022 costs to achieve its mandate and stated priorities. The $4.7 million increase is due to key investments in regulatory enhancements and increased conduct supervision, regulatory effectiveness, digital transformation and facilities. These investments are partially funded by internal cost efficiencies. FSRA proposes total sector revenues increase by 1.3% or $1.3 million over the FY2020-2021 budget. Fee assessments in variable fee sectors will increase by 2%. These increases reflect the credit back to the sectors of $3.4 million of FY2019-2020 excess revenues over costs.

Consultation with the public, regulated sectors and other stakeholders begins on October 13, 2020 and ends on November 3, 2020. Once the feedback has been gathered, the proposed priorities and budget will be key components of FSRA’s Annual Business Plan (ABP). FSRA’s ABP will go to the Ministry of Finance for review by December 31, 2020.

To inform its work and progress, FSRA looks forward to hearing comments on the proposed priorities and budget from the regulated sectors, consumers and other stakeholders.
Environmental Scan

FSRA operates in a dynamic market. In the current environment, which has been challenging for all stakeholders, FSRA has continued to focus on providing relief to regulated sectors while maintaining the public interest.

Given COVID-19, operational and strategic plans have required significant changes. Yet FSRA has continued to deliver safety, fairness and choice to all sectors. The focus remains on ensuring that both consumers and providers of financial services and pensions can carry on the bulk of their pre-COVID-19 activities.

Other trends include, but are not limited to, the following:

- Modernization and technological advancements continue to drive increased expectations from the consumer. These factors determine the need to update and often replace outdated internal systems and to launch inclusive products and solutions that meet consumer requirements.

- Global fintech innovation and technological advancements permit new and existing players, and new delivery models. That raises the ability to offer more to the consumer.

- There’s an ongoing imperative to drive down costs to the sector; while freeing the regulated sector participants from burdensome and often unnecessary regulatory activities.

- Diversity and inclusion in the workplace are increasingly acknowledged as a critical element of talent management, engaging employees and enhancing their experience.

- Understanding the impact of climate risk on the financial services sector.

- An enhanced approach to protecting the public interest, to enhance the focus on the consumer, has been core to all of FSRA’s activities.
COVID-19 Impact

The World Health Organization declared the COVID-19 outbreak as a pandemic on March 11, 2020, and global markets ground to a temporary halt. While recovery efforts continue, we are still operating in a pandemic disruption and do not have a set time frame for recovery.

FSRA is working with all sector stakeholders to manage the unknown and is continuing to drive the stated priorities forward. Recent experience demonstrates FSRA’s ability to adapt to this volatile environment and to continue to deliver internally on established plans. Still, future COVID-19-related challenges may impede progress of cross-sector priorities.

As a result of COVID-19, the following sector-specific trends have also been noted and, where possible, addressed by FSRA:

- Pension plan sponsors expressed additional liquidity challenges, to which the government provided relief from certain filing deadlines. The government also provided employers with the option to defer contributions to certain defined benefit (DB) pension plans. This was done to help with their businesses’ cash flow during COVID-19, while providing safeguards for funding member benefits.

- Plan funding levels were affected by a drop in global equity market indices in March 2020. However, capital markets rallied in Q2. That resulted in the median projected solvency ratio increasing to 90% by June 30, 2020, up from 85% at the end of March. To respond to this, FSRA refreshed its guidance on Limitations on Commuted Value Transfers and Annuity Purchases for DB pension plans. FSRA recognizes that administrators and other plan fiduciaries are responsible for prudently managing risks in their pension plans, ensuring the long-term financial sustainability of those plans, and making decisions by taking into account the interests of plan beneficiaries.

- As a prudential regulator, FSRA assesses pension plan risks and the sustainability of a pension plan in relation to the financial stability of the plan sponsor. This is a prudent and necessary step towards ensuring the long-term viability of Ontario’s retirement ecosystem, including the Pension Benefits Guarantee Fund.

- Economic impacts to credit unions have also been closely monitored from a prudential perspective. This monitoring included the adverse cash flow experience associated with the permitted deferral of certain loan payments for up to six months. The health of the organizations affects the products and service guarantees of the consumers, who are also affected as members and depositors.

- After a considerable decrease in traditional distribution channels, COVID-19 has also accelerated industry progress in digitizing the distribution of insurance products.
Technological Advancement and Innovation

While challenges persist, the nature of the evolving financial services and pension sectors continues to drive positive outcomes. Technological innovation and market pressures are:

- changing consumer expectations;
- driving new products;
- prompting mergers among participants; and
- changing operating expenses for new non-traditional entrants.

This has introduced new business models to the sectors and improved existing business models.

The use of technology to interface with clients provides new opportunities to close information gaps. FSRA will continue to monitor these technological developments to ensure that financial institutions are meeting expectations regarding business conduct and fair treatment of customers.

The mortgage and real estate sectors have been using innovative methods to help complete real estate transactions during this time. Credit unions are also actively seeking opportunities to innovate and implement new technologies. These technologies are being used to complete tasks that are traditionally done in person, such as digital transfer of documentation and virtual home appraisals. The goals are to enhance the service experience for members, increase the level of product offerings, decrease costs and ultimately grow businesses.

Cybersecurity breaches in the financial services sector have highlighted the need for financial regulators to have appropriate measures to maintain the privacy and security of their members. That aspect is also very important as consumers and insurers show a greater acceptance for virtual healthcare.

FSRA’s newly formed Innovation Office is working with stakeholders in the innovation ecosystem to analyze changes in underlying technologies, market practices and consumer preferences. This Office is also working to foster controlled innovation testing environments and encourage “responsible innovation” that puts consumers at the forefront.

Consumer Expectation and Needs

Well-functioning financial services markets promote financial stability, growth, efficiency and innovation over the long term. Appropriate consumer protections build public confidence and trust.

In such markets, consumers:

- have access to the products and services, and the information they need to make the best decisions for them;
- are treated equitably;
- are not exposed to deceptive or unfair practices; and
- have their needs taken into account, including vulnerable consumers.
FSRA continues to see rapid changes in how financial services and pension plans are being offered and delivered. This increases the need for regulators to quickly understand the emerging trends, consumer needs and potential vulnerabilities, and to protect the public interest by using the most effective tools and powers.

While there is ongoing consumer expectation for increased choice and value for money, needs vary across the range of financial services sectors. Consumers will also have different needs due to personal circumstances, their financial capability, or the product or service which they are obtaining or the intermediary with which they are interacting.

FSRA is committed to using consumer research and engagement to support regulatory effectiveness and efficiency. This year, FSRA established a new Consumer Office. It undertakes research, sets the strategy for consumer engagement and provides secretariat support to the FSRA Consumer Advisory Panel.

Together, the Consumer Advisory Panel and the Consumer Office, are key to improving opportunities for consumer voices to shape FSRA’s work.

**Market Changes and Economic Intelligence**

The complexity of insurance distribution has increased, with overlapping organizations supporting multiple brands and channels, including the digital channel. Many insurers have set up a wide range of multi-channel distribution systems to improve customer interaction and experience. To further this, FSRA plans to achieve a more comprehensive understanding about modern distribution channels.

Within the mortgage sector, there has been an increase in the use of non-bank financial intermediaries (NBFIs), such as Mortgage Investment Corporations and private lenders, as these lenders do not need to meet the federal mortgage underwriting guidelines. The use of NBFIs may continue to increase if consumers find it difficult to make mortgage payments once temporary, pandemic-related government programs (such as the Canada Emergency Response Benefit and mortgage deferral programs) end, and if federally regulated financial institutions keep tightening their underwriting criteria. There are concerns that borrowers and investors are not being informed about the risks and features of private mortgages. This disclosure is necessary to ensure products are suitable for borrowers and investors, and to address potential conflicts of interest.

Regulation of the sale of certain non-qualified syndicated mortgage investments is being transferred to the OSC. This may lead to changes in how mortgage-based investments are structured and sold. Overall, the economic and environmental impacts on the financial services and pension sectors have been significant and will continue to be a challenge for the foreseeable future. FSRA will continue to monitor the situation and seek to drive positive results for all stakeholders.
FSRA Proposed Statement of Priorities

FSRA continues to focus on regulatory efficiency (including burden reduction) and regulatory effectiveness through cross-sector and sector-specific priorities. FSRA’s proposed priorities will continue to deliver a positive impact by improving:

- stakeholders’ regulatory experience; and
- safety, fairness and choice for consumers of financial services, and members pensions in Ontario.

These priorities signify a new approach, process and/or initiative, ones that have not been part of normal operating procedures in the past. Once they are part regular business practices, they no longer need to be a stated priority, but are simply ingrained.
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**Property & Casualty (Auto) Insurance**
- 5.1 Empower and protect P&C and auto insurance consumers
- 5.2 Support and implement government’s auto insurance priorities
- 5.3 Implement auto insurance data and analytics strategy

**Credit Unions**
- 6.1 Support modernization of credit union framework
- 6.2 Enhance Deposit Insurance Reserve Fund Adequacy Framework and Sector Liquidity Framework
- 6.3 Continue to design and develop the Integrated Risk-Based Supervisory Framework

**Life & Health Insurance**
- 7.1 Enhance market conduct oversight to protect consumers

**Mortgage Brokering**
- 8.1 Support government policy direction on the Mortgage Brokerages, Lenders and administrators Act, 2006 (MBLAA)

**Pensions**
- 9.1 Support plan flexibility, evolution and principles-based applications within the existing regulatory and legislative regime
- 9.2 Develop and consult on prudential supervision framework
- 9.3 Refocus pension regulation to improve regulatory efficiency and effectiveness

**Financial Planners & Advisors**
- 10.1 Implement the title protection framework for Financial Planners and Financial Advisors
Regulatory Efficiency and Effectiveness

1. Protect the Public Interest

The financial services sector continues to undergo significant changes, which heightens the need for regulators to understand and protect the public interest. Consumer protection leads to public confidence and trust in well-functioning financial services markets. That promotes financial stability, growth, efficiency and innovation.

To ensure effective and proportionate financial consumer protection efforts, it is important that all stakeholders, including consumers, participate in the policy-making process.

In January 2020, FSRA established a Consumer Advisory Panel. It complements the newly established Consumer Office, which is dedicated to ensuring that consumer perspectives are understood and considered within FSRA.

FSRA has also convened a new Residents’ Reference Panel on Auto Insurance. It will make recommendations on automobile insurance regulation in Ontario.

FSRA’s Consumer Office has completed preliminary work on consumer mapping, to develop a baseline understanding of consumers and identify potential consumer vulnerability in the regulated sectors.

In addition, the Consumer Office has supported FSRA to access new insights through research on consumer perspectives, expectations and understanding of auto insurance and financial advice professionals.

As a consumer-centred regulator, FSRA will continue to use consumer insights and consultation with stakeholders to further strengthen regulatory approaches.

Effective complaints mechanisms are a significant part of robust regulatory regimes. FSRA is looking at ways to strengthen how complaints are handled in the regulated sectors. The G20/OECD Task Force on Financial Consumer Protection highlights the importance of mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient.

In addition, information disclosure to consumers is also believed to contribute not only to more effective consumer protection but also to increased transparency and trust and is therefore good for both consumers and firms. Where possible, consumer research should be conducted to help determine and improve the effectiveness of consumer disclosure.

To complement regulatory efforts, consumer education and awareness should be promoted by FSRA, industry and other stakeholders. Consumers should find clear and easily accessible information, through multiple channels, on their protection, rights and responsibilities.

Many jurisdictions also have specific approaches related to financial education and awareness for vulnerable groups of financial consumers.

Enhanced outcomes for consumers are supported by regulatory collaboration. FSRA already works with regulators across Canada. In addition, the new Consumer Office will support FSRA in engaging FinCoNet, an umbrella group for consumer financial protection authorities in 25 countries. FinCoNet’s mandate is to
promote sound market conduct and strong consumer protection, contributing to stability in financial services sectors around the world.

**Key Deliverables:**

- Develop and publish a FSRA complaints framework and implementation plan for regulated sectors.
- Develop a FSRA strategy for consumer disclosures and pilot disclosure improvements.
- Develop and publish a framework for consumer education and pilot education tools/strategies.
- Strengthen cross-jurisdiction regulatory collaboration around consumer protection issues.

**Outcomes:**

- Greater confidence among consumers in the regulated sectors and the choices available to consumers.
- Increased understanding of people’s rights and responsibilities as consumers, members and beneficiaries of FSRA’s regulated sectors, including the appropriate mechanisms available if they have a complaint.
- More consumers, members and beneficiaries have the information and confidence required to make informed choices.
- More consumers, including those in positions of vulnerability, are appropriately protected from financial harm (e.g. the mis-selling of products) across FSRA’s regulated sectors.
- More consumers, including those in positions of vulnerability, have access to high-quality financial services and products across FSRA’s regulated sectors.
- A fair, timely and effective dispute resolution system will efficiently address complaints across FSRA’s regulated sectors.

2. **Enable Innovation**

Innovation moves quickly. As a regulator, FSRA needs to be agile in order to support and adjust to the change that comes with it.

FSRA needs to be at the table to influence the innovation process. The Innovation Office has a mission is to enable and support innovation across the sectors. It also aims to foster responsible innovation by driving greater choice and value for consumers, while still managing risk and uncertainty accordingly. The goals are better outcomes for sectors and customers.

The Innovation Office will lead with putting the consumer first, ensuring FSRA continues to deliver on its mandate to protect the public interest, and safeguard public confidence and trust in financial services in Ontario.

In FY2020-2021, the Innovation Office has committed to the following initiatives:

- Develop an inclusive innovation framework (including the vision, strategy and operating model).
• Develop a proactive innovation engagement and outreach strategy.

• Build a two-way communication channel with stakeholders, and harness the knowledge and insight gained to support forward-looking regulatory practices.

• Build an active presence with stakeholders and supporting the provision of proactive and forward-looking regulatory clarity.

• Review the discretionary powers needed (in addition to the rule-making authorities under the current legislative framework) to enable regulatory solutions that respond to the pace of change in the sectors FSRA regulates.

Key Deliverables:

• Execute and continue to refine the Innovation Framework

• Establish communication channels between the Innovation Office the industry, innovation centers and regulatory counterparts, and build presence with the industry and relevant organizations

• Identify cross-jurisdictional regulatory coordination and harmonization opportunities.

• Create financial innovation testing environments and develop a range of tools to facilitate the operation of these environments within prioritized sectors.

Outcomes:

• Minimized friction, reduced regulatory uncertainty and barriers for new entrants.

• Accelerated introduction of new business models, technologies, products and benefits to consumers.

• Fewer pitfalls of innovation, through a controlled testing environment and the agile regulatory approach.

• Deeper tech expertise and understanding of consumer and social trends, and new models to be able to advise on effective regulation of the future.

• Active presence, collaboration and open channels for constructive communication with the industry.

3. Modernize Systems and Processes

FSRA has implemented a modern enterprise resource planning system, telephony system and productivity suite, as well as considerable improvements in online tools and website functionality. Efforts to simplify operations and make them more efficient also include the digitization of paper-based documents, and the automation of data upload and validation in several online processes.

These efforts have yielded considerable improvements in FSRA operations. However, there is an ongoing need to address core regulatory operations and the continued reliance on several outdated, inefficient, costly and, in some cases, end-of-life systems. These are unable to support effective and flexible regulation.
FSRA will continue to modernize its Information Management/Information Technology (IM/IT) systems, and the processes they support, by developing and following a multi-year transformation roadmap.

The roadmap incorporates both sector-specific business priorities and enterprise technology requirements. It also creates a flexible and adaptable business-operating model, supported by streamlined operational processes.

These workflow and system improvements will be key to delivering on the regulatory efficiency priority through:

- optimized and streamlined data and filing collection;
- improved service levels; and
- enhanced ability for FSRA to respond quickly to changing regulatory needs.

FSRA is committed to involving the sectors in the modernization work through communication, consultation and collaboration. This will include outreach through FSRA’s communication channels, forums for discovery and user experience research, and ongoing opportunities for input and feedback as the modernization takes shape.

**Key Deliverables:**

- Implement a technology platform to enable simplified and fully digitized operations, including a 360-degree view of regulated entities (customer relationship management solution), case management system, enterprise content management system and data analytics tools, with enhanced client portals.
- Implement advanced online/web-based information sharing and transactional processing tools on FSRA portals.
- Develop digital document processing capabilities to support streamlined processing of all paper-based channels.
- Enable data analytics for each of the regulated sectors to empower FSRA policy and supervisorial activities. In support of Property and Casualty (Auto) priority 5.3, Credit Unions priority 6.1, Life and Health Insurance priority 7.1, Mortgage Brokering priority 8.1 and Pensions priority 9.1, and Financial Advisors / Financial Planners priority 10.1, 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:**

- Improved regulatory oversight through greater access to data and analytics tools across all sectors.
- Improved relationships with stakeholders through enhanced relationship and case management capabilities, and improved tracking and operational processing capabilities (CRM and
Case Management).

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

• Improved turnaround time for licensing, filing and registration processes

4. Transition to Principles-Based Regulation (PBR)

FSRA is continuing its transition to a principles-based and outcomes-focused approach. This supports an effort to facilitate innovation, and modernize processes and systems.

To work well, such a shift requires enhanced capabilities, both within the regulator and at regulated entities.

As the regulator, FSRA developed a new Guidance Framework and is continuing to build expertise to evaluate whether principles are being applied in a way that is delivering desired outcomes.

FSRA recognizes that regulated entities need to operate differently. For example, directors and management need to embed principles, and have governance, controls, policies, oversight and processes to support/monitor principles. FSRA has already developed new processes for engaging with regulated sectors for their input on FSRA, the sector principles and the desired outcomes. Their view on FSRA’s regulatory approaches is central to any PBR approach.

Key Deliverables:

• Update external supervisory/regulatory processes. That happens first by developing and issuing guidance on a principles-based approach, and subsequently by providing principle-based interpretation, information and decision guidance.

• Complete a review of the FSRA Guidance Framework and update as required to ensure alignment with PBR

• Initiate each sector’s participation in implementing a PBR approach in developed guidance supporting the following key priorities:
  o P&C Insurance - empower and protect auto insurance consumers.
  o Credit Unions - update supervisory and risk assessment approach.
  o L&H Insurance – enhance market conduct oversight to protect consumers.
  o Pensions – support plan flexibility, evolution and principles-based applications within the existing regulatory and legislative regime.
  o Financial Planners and Advisors – implement the title protection framework for FP/FA

• Develop a PBR rollout, to ensure understanding of the approach and clarify examples of PBR deliverables in each sector.

Outcomes:

• A cooperative, principles-based approach is embedded within the regulated sectors and, as a result,
requires less prescriptive oversight resources, entity and regulator combined, while generating improved outcomes for consumers.

- Increased internal and external understanding of PBR and supportive behaviours.

### Property and Casualty (Auto) Priorities

#### 5.1 Empower and protect P&C and auto insurance consumers

FSRA's mission is to promote safety, fairness and choice in financial services, including Property and Casualty (P&C) insurance. FSRA will build on the core priority of enhancing regulatory effectiveness by taking action to empower and protect consumers, including claimants, in P&C insurance generally and with a focus on auto insurance rate regulation in particular. FSRA aims to enhance consumer choice, promote innovation and foster a more competitive and stable auto insurance marketplace.

**Key Deliverables:**

- Find new consumer-focused efficiencies and improvements to continue transformation of auto insurance regulation, including expanding on the success of the Standard Filing Guidance, improving approval timelines on non-standard forms, and implementing rate regulation reforms based on input provided by FSRA's Technical Advisory Group for Transforming Rate Regulation.
- Protecting consumers by ensuring auto insurance rates are reasonable through improved use of benchmarks and developing additional tools for identifying unreasonable rates.
- Establishing expectations for enhanced accountability for insurers in rating and underwriting compliance.
- Identify opportunities and initiate implementation to improve consumer awareness by enhancing transparency, quality and comprehensibility of disclosures to consumers by FSRA and the sector.
- Finalize a proposed rule defining Unfair or Deceptive Acts or Practices (UDAP) under the Insurance Act, seek approval from the Minister of Finance to bring the proposed rule into force, and implement a supporting supervisory regime.
- Enhance market conduct oversight through improved coordination with RIBO, data analytics and insurer examinations with an emphasis on the fair treatment of customers. This includes monitoring activities that pose significant harm to consumers, such as the circumvention of “take all comers” auto insurance requirements, and exploring opportunities to review existing conduct standards.
- In consultation with stakeholders and regulators, seek consistent application of Fair Treatment of Customers guidance across Canada.
Outcomes

- Improved effectiveness of Ontario’s rate regulation framework.
- Improved transparency, disclosures and public awareness regarding P&C insurance in general and auto insurance rates in particular.
- Improved regulatory effectiveness and remove barriers to competition and innovation.
- Improved oversight of auto insurance rating and underwriting accuracy.
- Improved monitoring of consumer harms.

5.2 Support and implement government’s auto insurance priorities

FSRA is taking action in support of the government’s priorities in the auto insurance sector, including deterring fraud and abuse, improving regulatory effectiveness, enabling electronic communication, removing barriers to innovation, and enhancing consumer choice. While supporting government auto insurance priorities, FSRA will continue to identify and recommend areas within its purview where it can take action to protect the public interest and improve regulatory effectiveness and efficiency. For example, in collaboration with stakeholders, FSRA is building a fraud and abuse strategy aimed at better detection, prevention and deterrence.

Key Deliverables:

- Implement appropriate changes within FSRA’s purview to support government priorities.
- Build and operationalize a fraud and abuse strategy, including Health Service Provider (HSP) supervisory reforms, to deliver reduced costs, improved consumer protection, enhanced regulatory efficiency and reduced regulatory burden.

Outcomes

- Principles-based approach to support expected government auto insurance priorities, while acting within FSRA’s purview.
- Improved consumer outcomes.
- Improved deterrence of fraud and abuse.
- Improved regulatory effectiveness and efficiency, including oversight, forms and processes.

5.3 Implement auto insurance data and analytics strategy

Understanding the regulatory environment, how the industry behaves, and the outcomes for consumers and markets is key to FSRA’s role. As the amount of data generated by the insurance industry and collected by the regulator continues to grow and change, the importance of leveraging collected data to support rate and underwriting regulation transformation and auto insurance reform becomes critical. FSRA will continue to develop and implement its auto insurance data and analytics strategy, with a focus on modernizing FSRA’s data infrastructure and analytical capabilities to enhance the regulation of Ontario’s auto insurance sector.
Key Deliverables:

- Develop a detailed implementation plan for FSRA’s auto insurance data collection strategy on prioritized external data sources, and use collected data to monitor auto insurance market health, understand consumer needs, and to support FSRA’s fraud and abuse strategy (in support of priorities 5.1 and 5.2).

- Implement new data and reporting requirements for insurers and develop supervisory analytical tools with a focus on verifying insurer underwriting and rating compliance, assessing consumer impacts and model fairness, and identifying unjust or unreasonable rates (in support of priority 5.1).

Outcomes

- Improved ability to access, share and process data in a timely way by leveraging technology.

- Improved supervisory efficiency and support for auto insurance reforms and fraud reduction.

- Enhanced analytical support for supervisory approach for underwriting and rating compliance.

Credit Unions

6.1 Support modernization of credit union framework

In 2020-21, FSRA held a series of meetings with credit union and caisse populaire sector representatives and worked collaboratively to establish a mutually agreed upon work plan, which prioritizes the review and development of guidance, rules and supervisory changes to implement efficient and effective regulation. FSRA has begun to implement the work plan, promoting the modernization of the credit union framework. Moving forward, FSRA will continue to follow this work plan as well as develop new rules to support any new legislation that may be introduced by the government to the extent that FSRA is granted the authority to do so.

Key Deliverables:

- Support MOF in the development of regulations under the new credit union legislation, once introduced.

- Develop, consult on and issue high priority guidance documents and, where legislative authority is provided, principles-based rules identified in FSRA’s work plan, including those to:
  - support the new legislative framework once introduced by the government (e.g., Capital and Liquidity)
  - set standards on sound business and outline financial practices to replace those currently set out in DICO By-Law #5
  - provide guidance on Data Governance and IT Risk Management.

Outcomes

- A modernized framework, reinforced by FSRA’s work plan with the sector, will ensure better protection of credit union member deposits and
promote member confidence, through stronger, better governed and more resilient credit unions. This will also result in more transparent, efficient and effective regulation.

6.2: Enhance Deposit Insurance Reserve Fund Adequacy Framework and Sector Liquidity Framework

Preserving strong governance of the Deposit Insurance Reserve Fund (DIRF) is important for promoting safety, soundness and consumer confidence in Ontario’s credit union system. In the past year, FSRA commissioned the development of a stress-testing framework to assess the adequacy of the DIRF. FSRA has also worked to ensure better structural liquidity tools and reporting are in place. Moving forward, FSRA will work with the credit union sector to refine the DIRF assessment in order to ensure the DIRF is able to meet potential deposit insurance obligations.

Key Deliverables:

- Engage the credit union sector to determine risk data needs for the DIRF framework and advance the work for DIRF framework enhancement.
- Consult on and finalize a framework for assessing DIRF adequacy, reassess the DIRF premium assessment regime and report to the Minister on DIRF adequacy.
- Continue work with external partners (e.g. MOF, Bank of Canada) on sectoral structural liquidity issues to secure access to sufficient emergency liquidity for Ontario credit unions.

Outcomes

- Improved depositor protection and sector stability.
- Greater public, sector and regulatory confidence in the liquidity and capital resources of the sector.
- Confidence that statutory deposit insurance obligations will be honoured and that the sector will be resilient under a broad variety of defined scenarios.

6.3: Continue to design and develop the Integrated Risk-Based Supervisory Framework

Major changes and developments in the financial services industry have changed the nature of risks and risk management of financial institutions. In 2020-21, FSRA identified principles and worked on the design of the supervisory framework. The new integrated Risk-Based Supervisory Framework will be principles-based and reflect the enhancements FSRA has made to address these changes. These enhancements ensure that FSRA’s risk-based supervision is principles-based, outcomes-focused, dynamic and forward-looking. It will help ensure that FSRA can respond proactively and effectively to changes in the Ontario credit union system. It will also promote sector stability and institutional resiliency by encompassing a sound resolution regime and recovery planning standards for credit unions.

The Risk-Based Supervisory Framework sets out the principles, standards, concepts
and processes that FSRA uses to guide its supervision of credit unions. The Framework is guidance for FSRA supervisory staff and explains why and how supervisory work is carried out. This Framework will be a key component of FSRA’s principles-based and outcomes-focused approach to credit union regulation. The primary focus of FSRA’s supervisory work is to determine the impact of current and potential future events, in both the internal and external environment, on the risk profile of each credit union.

Key Deliverables:

- Prepare the draft Framework documents and complete stakeholder consultation on approach guidance.
- Identify data requirements from external sources, based on the supervisory framework and its objectives.
- Identify IT systems requirements to support the Framework.
- Finalize and further implement the new market conduct supervisory approach for credit unions.
- Work with credit unions to implement the recovery planning guidance developed in 2020-21 (e.g. Develop recovery plans where required)
- Work with MOF and the credit union sector on development and documentation of FSRA’s approach to resolution.

Outcomes

- A principles-based, risk-based and outcomes-focused supervisory framework for Ontario credit unions, which efficiently and effectively promotes institutional resilience and sector stability.

Life and Health Insurance

7.1 Enhance market conduct oversight to protect consumers

Establishing enhanced market conduct oversight is critical to ensuring consumer protection and maintaining public confidence in the Life and Health (L&H) insurance industry.

In this sector, insurers have increasingly been outsourcing a variety of functions across a distribution network, which includes intermediaries such as managing general agents (MGA). Large proportions of L&H insurance sales are generated by the distribution network.

Given this trend, and to ensure market conduct requirements are met, FSRA is assessing distribution channels that rely on MGAs to understand the sales process and how insurers, agents and MGAs interact with the public.

To date, FSRA has explored the development of a Code of Conduct with the Canadian Insurance Services Regulatory Organizations (CISRO) that would apply to intermediaries such as MGA’s.

In addition, FSRA completed a study of data derived from Life Agent Reporting Forms (LARFs) submitted to FSRA by
insurers to report on possible misconduct and lack of suitability among life insurance agents. The study’s conclusions will contribute to the key deliverables.

In recent years, there have been a number of initiatives to improve and strengthen regulatory standards for the distribution of investment products, particularly in relation to the level of information that is disclosed to consumers. FSRA is reviewing the distribution of segregated funds and considering the extent to which similar enhancements are needed.

Key Deliverables

- Support the Fair Treatment of Customers (FTC) principles by leading the implementation of a CISRO-harmonized industry Code of Conduct for intermediaries, for implementation in 2022.

- Support FTC principles by reviewing commercial practices of Tier-1 Insurers to evaluate implementation of FTC principles across distribution channels (e.g., MGAs). Launch implementation of the regulatory framework and supervisory approach as appropriate.

- Prioritize the building of an agent conduct team and development of a supervisory framework. When building this framework, FSRA would consider solutions for improving advisor oversight proposed by the industry’s regulatory G4 task force. Launch implementation of the supervisory framework for agent conduct.

- Review the distribution and administration of segregated funds in Ontario, including concerns related to consumer harm and the disclosure available for similar investment products. Review the developments in FTC principles and determine whether new standards are needed to enhance investor protection for segregated funds.

- Support FTC principles by reviewing commercial practices of Tier-1 Insurers to evaluate implementation of FTC principles across distribution channels.

Outcomes

- Consumer protection is enhanced as: industry associations promote the CISRO Code of Conduct, which provides clear guidance on conduct; the Code provides consumers a reference tool for appropriate conduct.

- Industry is clear regarding FSRA’s expectations of the Insurer-MGA relationship, increasing public interest outcomes.

- Additional insights are gathered on life agent conduct through the establishment of the supervisory plan and team, to inform FSRA of approaches for improving consumer protection.

- Industry is clear regarding FSRA’s expectations with regard to information for consumers about the total cost of their segregated funds, to help them make more informed decisions.
Mortgage Brokering

8.1 Support government policy direction on the Mortgage Brokerages, Lenders and Administrators Act, 2006 (MBLAA)

FSRA will support government policy direction related to the five-year review of the Mortgage Brokerages, Lenders and Administrators Act, 2006 (MBLAA). The report’s recommendations focus on:

- Modernizing and streamlining the MBLAA to increase access to the mortgage market for homeowners, lenders and investors, by improving regulatory efficiency and reducing burden; and
- Improving consumer and investor protection.

Key Deliverables:
Support government direction with respect to the recommendations of the MBLAA legislative review. If and where appropriate, FSRA will support the government in implementing any required changes that are within FSRA’s purview and jurisdiction.

Outcomes
- Ongoing support for government priorities and policy direction, with a focus on burden reduction and consumer protection.

Pensions

9.1 Support plan flexibility, evolution and principles-based applications within the existing regulatory and legislative regime

FSRA will work to ensure appropriate principles-based and outcomes-focused implementation of the regulatory framework to facilitate evolution in the sector, for example through plan transactions, including transfers and consolidation.

FSRA will also continue work that supports vibrancy and flexibility in Ontario’s pension sector by examining ways to increase regulatory efficiency and effectiveness, reduce costs and other sector evolution and innovation activities. To ensure a strong foundation, FSRA will continue to build relationship management as a key skill.

Building on initiatives around reconnecting members to their pension plan, work on defined contribution (DC) pension plan supervision (Priority 9.3), work on defined benefit (DB) multi-employer pension plan (MEPP) targeted review (Priority 9.2) and, with research from FSRA’s Consumer and Innovation Offices, FSRA will engage with the sector on issues around pension plan member communication and engagement strategies to improve outcomes in retirement and to support FSRA’s statutory objects to promote good administration of pension plans and protect and safeguard the pension benefits and rights of pension plan members.
Key Deliverables:

- Continue consultation that will begin in FY2020-21 with a special purpose Technical Advisory Committee to identify ways within the regulatory framework to foster a vibrant employment-based pension pillar in Ontario. FSRA will examine regulatory barriers with an objective of promoting good administration of pension plans that is facilitative for employers, cost efficient and can leverage innovative practices; and ensure that Ontario pension plan members are well-informed regarding their retirement benefits and how those pension benefits are protected.

- Towards the end of FY2021-2022, FSRA will engage the pension sector through a special purpose Technical Advisory Committee to develop thought leadership on member communication and engagement strategies. The focus of this foundational work being to ensure members understand their pension rights through easily understood language, enabling well-informed decisions and finding simplification opportunities within the current legislative and regulatory framework through existing rule-making powers. This engagement will (1) draw on existing research and practice; and (2) help focus the development of potential future initiatives under this priority. This priority will be completed in FY 2022-23.

Outcomes

- Through the report from the new special purpose Technical Advisory Committee on fostering a vibrant employment-based pension pillar, FSRA will promote good administration of pension plans that is facilitative for employers, cost efficient and can leverage innovative practices; and ensure that Ontario plan members are well-informed regarding their retirement benefits and how those pension benefits are protected.

- To support better outcomes for members, through the member communications and engagement special purpose Technical Advisory Committee established at the end of FY2021-2022.

9.2 Develop and consult on prudential supervision framework

FSRA will continue to enhance its oversight of prudential pension matters to ensure appropriate assessment of risks and targeting of supervision. FSRA will continue to engage the sector through its existing standing Technical Advisory Committees and Retiree Advisory Panel.

Key Deliverables:

- FSRA will continue to deliver its supervisory approach for DB single-employer pension plans (SEPP) that are Actively Monitored. FSRA uses a number of predictive and preventative tools and supervisory methods to improve outcomes for pension plan beneficiaries of
Ontario-registered DB SEPPs where there may be a concern with respect to the security of the pension benefits promised. FSRA will also continue to work on the long-term viability and financial sustainability of the PBGF. To that end, FSRA will enhance its predictive analysis with stochastic modeling and adding expertise to FSRA’s risk analytics team.

- Continue to work collaboratively with large public sector pension plans to monitor and enhance FSRA’s supervision of investment risks and understanding of governance and systemic risks in Ontario’s largest pension plans, in terms of plan assets and membership. FSRA will engage in follow-up discussions and pilot common liquidity risk metrics amongst the large public sector pension plans. Discussions with large public sector plans will also focus on best practice recommendations with respect to the identification and monitoring of investment risk, including appropriate disclosures for leverage and illiquid assets. FSRA will also develop a leverage risk governance framework through chairing the CAPSA leverage committee.

- Implement learnings, share findings with MOF from a targeted review of DB MEPPs, and pilot benchmarks against highest impact best practices for governance, risk management and communication, and consider appropriate supervisory tools (e.g., scorecards, etc.).

- FSRA will continue to support MOF with its implementation of a target benefit framework. To support the legislative framework once implemented, FSRA will develop and consult on an appropriate principles-based and outcomes focused supervisory approach for DB MEPPs.

**Outcomes**

- FSRA will continue to evolve its predictive analysis and capabilities with respect to PBGF-eligible pension plans that are registered in Ontario and will continue to engage with single-employer DB pension plans that are Actively Monitored. These tools and supervisory methods serve to improve outcomes for pension plan members, allow FSRA to gain a deeper understanding and management of potential risks to the PBGF and, improve focus on regulatory efficiency and effectiveness.

- The use of common liquidity metrics for large public sector pension plans will result in a more effective and efficient understanding and supervision of liquidity risk and greater understanding of governance and systemic risks in Ontario’s largest pension plans.

- The use of scorecard and benchmarking with DB MEPPs will result in more unified governance, risk management, operational and communication practices across MEPPs, enhanced risk profiles and
improved focus on regulatory efficiency and effectiveness.

9.3 Refocus pension regulation to improve regulatory efficiency and effectiveness

FSRA will continue to focus resources on high-value regulatory activities and on improving regulatory efficiency and effectiveness by completing the update of its guidance framework, describing approaches, improving processes, and modernizing information management and information technology.

In doing so, FSRA will continue to assess the effectiveness and efficiency of its regulatory framework and other practices for all plan types, to ensure they are principles-based, outcomes-focused and proportionate to regulatory objectives. Across its work, FSRA will collaborate with MOF on regulatory improvements identified by the Ministry’s consultations, as well as those of FSRA.

FSRA will also collect and report on certain process and system changes that could support regulatory efficiency for pension plan administrators (e.g., DC wind-ups, Form 7 updates).

Key Deliverables:

- Through a joint collaboration with the Office of the Superintendent of Financial Institutions (OSFI), continue the work of a special purpose Technical Advisory Committee for DC pension plans to develop a principles-based and outcomes-focused supervisory approaches for DC plans (e.g., member behaviour and engagement, investments, fees, governance, etc.). Once the committee concludes its work, FSRA will initiate a public consultation on new guidance and will commence implementing such guidance, approaches and other key changes.

- Conclude the work of the special purpose Technical Advisory Committee on pension division resulting from marriage breakdown and issue final guidance following public consultation. FSRA will explore with the committee the impact of drafting a new Rule through the existing rule-making powers under the PBA with respect to family law matters. If a new Rule is proposed, FSRA will consult in FY2021-2022.

Outcomes

- The committee work on DC pension plans will result in enhanced understanding of issues and risks for DC plan members and administrators, a more appropriate supervisory approach for DC pension plans and improved regulatory effectiveness and efficiency.

- FSRA will track other metrics and trends associated with asset transfer applications.

- FSRA will shift its guidance on pension division on marriage breakdown to a more principles-based, comprehensive document and produce a plain-language guide for plan members. This will result in
a simpler, more transparent and more equitable regime for pension division on marriage breakdown to enable plan members and spouses to make well-informed decisions and to promote good plan administration practices.

Financial Planners / Financial Advisors

10.1 Implement the title protection framework for Financial Planners / Financial Advisors

The goal of the Financial Planner / Financial Advisor (FP/FA) title protection framework is to ensure that individuals using the “financial planner” and “financial advisor” titles are appropriately qualified through meeting minimum standards. This will promote confidence and professionalism in the sector and avoid confusion for investors/consumers that may see the title used without assurance of qualifications.

Under the framework, FSRA will establish:

- minimum standards for FP/FA qualifications; and
- approval criteria that entities must meet in order to obtain approval as a credentialing body for FP/FA credentials.

Organizations seeking approval as credentialing bodies under the Financial Professionals Title Protection Act, 2019 (FPTPA) will need to meet certain standards, including education requirements, monitoring of FP/FA title users, and effective compliance and enforcement.

FSRA will also implement efficient processes and procedures to approve credentialing bodies and FP/FA credentials, as well as develop an effective supervisory approach for the oversight of the framework. FSRA will have the authority to conduct examinations and issue compliance orders against credentialing bodies as required for breaches of the FPTPA, as well as take action against non-credentialed FP/FA title users. Under the framework, credentialing bodies will be required to oversee the conduct of individual FP/FA title users.

Key Deliverables:

- Complete consultation process for all rules and guidance governing the title protection framework.
- Finalize operational processes and procedures to approve credentialing bodies and FP/FA credentials.
- Develop and implement a supervisory approach for the title protection framework with respect to credentialing bodies and action against non-credentialed FP/FA title users.
- Accept applications from entities seeking approval as credentialing bodies under the FPTPA and determine which should be approved.
- Operationalize and fully implement the title protection framework, including a public education campaign.
- Work with MOF and other stakeholders to identify and
implement any required changes to legislation and/or regulations to support the implementation of the FP/FA framework.

Outcomes

- Increased consumer knowledge and awareness as a result of a successful consumer education campaign at implementation.

- Increased consumer confidence that FP/FA title users are qualified to provide financial planning and advisory services.
Financial Outlook

FSRA proposes a $104.0 million cost budget for F2021-2022 to achieve its mandate and stated priorities. The table below analyzes the net increase of proposed budgeted costs compared to the FY2020-2021 cost and revenue budget.

The $4.6 million cost increase is due to a number of key investments primarily in regulatory enhancements and increased conduct supervision, regulatory effectiveness, digital transformation and facilities. These investments are partially funded by internal cost efficiencies.

Based on insights gained since the June 2019 launch, FSRA will invest $1.0 million in increased conduct supervision to achieve acceptable minimal levels of supervisory oversight of life agents, auto enforcement and credit union conduct. Priorities such as the consistent adoption of the credit union code of conduct, and increased diligence to credit union conduct issues observed in FY2020-2021. This illustrates the need for additional conduct resources.

FSRA will invest an additional $0.2 million to enhance its credit union resolution and recovery capabilities due to the increased risk presented by the COVID-19 pandemic and ensuing economic stress. Investments to replace the inadequate core IT systems will also continue.

FSRA will incur digital transformation amortization cost increase of $1.2 million ($6.2 million current year investment, of which $5.0 million will be deferred and amortized over five years).
Facilities expense also increased by $0.9 million. That was due to the commencement of leasehold improvement amortization and the completion of the rent-free period at the 25 Sheppard West facility. This enables FSRA to operate more effectively both in and out of the office.

The $3.2 million expense increase in regulatory effectiveness includes investments to support FSRA’s commitment to regulate better. This includes investments to address credit union and auto insurance data analytics initiatives to support risk assessments and principle based regulatory approaches. The investment also includes PBGF stochastic modelling to assess adequacy of the fund and to manage single employer pension plan risks more effectively. Additional investments are sector participant/consumer and stakeholder communication initiatives and IT operations.

FSRA will generate $2.2 million of cost efficiencies through management of staffing deployments in both direct sector activities and back-office support functions.

Other items totaling $0.3 million reflect the net impact of less material activities.

### Sector Fee Assessments

FSRA proposes total sector revenues showing a net increase of 1.4% or $1.4 million over the FY2020-2021 budget. The variable sectors fee assessment component of these total revenues increases by 2% after accounting for the anticipated reduction in revenues for fixed fee/activity fees. The assessment fee increase is limited to 2% by crediting $3.2 million of F2019-2020 excess revenues over costs back to the sectors in FY2021-2022.
Several sub-sectors or sectors will see increased fees:

- P&C Prudential sub-sector from an increase in regulation activities and analysis.
- Life and Health Conduct sub-sector reflecting increased conduct supervision.
- Credit union driven by conduct supervision and specific regulatory effectiveness initiatives.

FP/FA activity continues to increase during the year, significantly increasing the costs to regulate the sector. All other variable assessment fee sectors will see reductions ranging from 2.0% for pensions to 11.7% for P&C Conduct.

Fixed or activity fee sector volumes are expected to see lower registrations and applications due to attrition anticipated from the current economic climate. That will amount to drops of 22.3% for HSPs and 8.4% for Mortgage Brokers.

**FSRA Budget**

The draft FY2021-2022 FSRA consolidated budget was developed to:

- support FSRA’s mandate to be an independent, self-funding and effective regulator; and
- enable FSRA to address its key priorities, including regulatory effectiveness and efficiency.

The draft budget below presents the forecasted financial activities for the period April 1, 2021 to March 31, 2022. Subject to revisions after stakeholder feedback, it will form the basis of FSRA’s proposed FY2021-2024 Annual Business Plan. See the appendices for assumptions and methodologies on which the budget is based.

This budget reflects the estimated resources FSRA requires to fulfill its regulatory requirements and to continue the transformation into a principles-based, independent and transparent regulator through its priorities and operating activities.
The total FY2021-2022 FSRA proposed expense budget is $104.0 million, a 4.7% increase over the prior year. For comparative purposes, the FY2020-2021 budget is illustrated below. Proposed revenues for FY2021-2022 increased by 1.4% with variable sector fee assessments increasing by 2% from prior year's budget. Expenses of $3.2 million of FY2021-22 budgeted cost will be funded by excess revenues over costs from FY2019-2020. This proposed annual budget is $2.1 million in cost and $5.3 million in revenue less than the F2020-2023 Annual Business Plan projection for FY2021-22.

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<th>($000's)</th>
<th>FSRA 2021-2022 Proposed Budget</th>
<th>FSRA 2020-2021 Budget</th>
<th>Variance</th>
<th>Variance (%)</th>
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<td>Revenue:</td>
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<tr>
<td>Activity Fees (^1)</td>
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<td>Licensing Fees (^3)</td>
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<td>13,457</td>
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<td>Other (^4)</td>
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<td>Total Revenue</td>
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<td>Direct Costs (^5)</td>
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<td>Common Costs (^6)</td>
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<td>Recovery Over /(Under)</td>
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<td>3,246</td>
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Funding from F19-20 Excess Revenue
Over Cost

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 except FP/FA revenue which does not yet have a fee rule to permit charges
3. Includes Mortgage Brokers revenue
4. Includes HSP under-recovery (charge to auto sector) and FP/FA revenue
5 & 6. F20-21 budget restatement - IT cost moved from Direct Cost to Common Costs
Appendix 1: Financial Assumptions

- All FSRA financial information assumes 12 months of activity.
- Comparable figures are based on the April 1, 2020 – March 31, 2021 budget approved by the FSRA Board and used to charge FY2020-2021 fee assessments.
- Technology operating investments made during the year are recovered over five years from the sectors rather than expensed in the year paid, to better match the cost and benefit.
- No allocation methodology changes from prior year except for IT non project specific costs moved from Direct allocation to Common allocation and the Credit Union sector IT cost allocation change noted below.
- With more than a year since the merger of FSRA and DICO, we’ve seen the declining relevance of the Credit Union sector IT facilities inherited from DICO, and the start of digital transformation and other IT benefits starting to accrue to the CU sector. Therefore, CU IT costs are being transitioned over three years to bear their pro rata share of common IT costs. This is reflected in the cost allocations.
- The Financial Planners/Financial Advisors sector costs will be recovered from the sector once regulation commences and a fee rule is in place. Costs are being accrued to ensure other sectors are not bearing the costs of the FP/FA (including a proportionate share of common costs) through the establishment of the regime.
- FSRA regulates Health Service Providers as part of its Auto Insurance regulation activities, HSPs, as a fixed fee payer under the FSRA fee rule, are merged into the Auto Insurance sub-sector and any revenue under recovery/overage is charged to/credited to the variable fee assessment auto sectors.
- Life Conduct for L&H agents is a fixed fee sub-sector. Any cost overage/underage will be charged to life insurers as a variable sub-sector.
- FSRA will recover expenses for its review of Co-Op offering statements.
Appendix 2: Sector Allocation Methodology Highlights

Direct Cost Allocation: Includes Insurance, Pension, Credit Union, Market Conduct, Legal, Policy, 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. one FTE from Credit Union is allocated to the P&C Prudential Regulation sector)
- Market Conduct and Policy Division: based on dedicated FTEs to specific sectors. FTEs 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 FTE's allocated to each sector and historical activity.
- Lease costs: allocated based on FTE.
- IT costs for Credit Union sector: being transitioned from credit union-specific (DICO) costs to the proportionate costs of shared IT. The DICO IT architecture inherited in the merger with FSRA become less relevant given investments in IT and the move towards a fully integrated, secure and reliable digitally transformed FSRA IT environment. The transition will be complete in F2022-23.
- 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, Corp Services (which included IT non-specific project costs), Public Affairs, Interest, Amortization

- Based on the overall direct costs allocation rates.