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The Canadian Association of Financial Institutions in Insurance | L'association canadienne des institutions financières en assurance

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January 4, 2019

Mr. Mark White, CEO; and
Mr. Bryan Davies, Board Chair
Financial Services Regulatory Authority of Ontario
130 Adelaide St. West, Suite 800
Toronto, ON
M5H 3P5
http://fsrao.ca/en/consultations/form?rule=assessment-and-fees

RE: ***Proposed FSRA Rule 2019 – 001 Assessments And Fees: Notice And Request For Comment***

Dear Sirs:

The Canadian Association of Financial Institutions in Insurance (CAFII) thanks the Financial Services Regulatory Authority (FSRA) of Ontario for the opportunity to provide comments on *Proposed FSRA Rule 2019 – 001 Assessments And Fees*.

In this response submission, we have restricted our comments and observations to those sections of *Proposed FSRA Rule 2019 – 001 Assessment And Fees* which are germane to CAFII members, i.e. to *Part 4: Insurance Sector Assessments and Fees*; and those sections that are of general application to all regulated sectors. Within *Part 4: Insurance Sector Assessments and Fees*, our input focuses exclusively on those clauses which pertain to accident, sickness and life insurance since those are the provisions of the Proposed Rule which are "in scope" for our Association.

Development of Proposed Fee Rule
CAFII supports FSRA's Fee Rule Vision and Principles. We have been involved in FSRA's Industry Advisory Group (IAG)-based pre-consultation process with respect to the Proposed Fee Rule; and we appreciate FSRA's open, transparent, and consultative approach to its development.

We support FSRA's proposed variable rate approach for the regulated sectors which have larger participants, including our own Insurance Sector. We concur that a variable rate approach will help to avoid potential intra-sector inequities; and will lend itself more readily to an annual transparent and well-governed process rooted in dialogue between FSRA and its stakeholders as to priorities, resources, and costs. We agree with FSRA's expectation that this process will develop over time, as experience grows and lessons are learned, particularly following the Authority's first budget cycle.

Substance and Purpose of the Proposed Fee Rule
CAFII is comfortable with and supports the rationale for the key changes that FSRA will be making to the approach currently used by FSCO, in particular that assessments will be based on budgeted expenses and expenditures rather than actual expenses and expenditures.

We also support the Proposed Fee Rule's provision that any surplus or deficit from one assessment period will be taken into account in setting the budget for the subsequent assessment period.

Our Association supports FSRA's proposed sectoral assessment process, under which a final FSRA budget in respect of an assessment period, after the Authority has consulted on it, will be posted on the FSRA website and be used for the sectoral allocation process related to the funding of FSRA's expenses and expenditures.

CAFII appreciates and supports FSRA's inclusion of a commitment that strict governance mechanisms will be put in place to set and monitor the level of the contingency reserve amount; and that it will be capped at $4 million in aggregate and can only be used if approved by the FSRA Board.

Comparison to FSCO/DICO Approach
With respect to the key change provision that "for the market conduct regulation of property and casualty insurance and accident, sickness and life insurance, the assessment basis has changed from net (i.e., net of reinsurance) premiums to direct written premiums," CAFII concurs with FSRA's view that direct written premiums are a reasonable proxy for the proportion of regulatory activity generated by each insurer.

However, we recommend that FSRA implement this change in a graduated manner over multiple years (at least two) in order to smooth out and ease the impact upon those companies affected (e.g. limit any increase to 50% of the prior year's assessment in Year 1 or some similar logic). This change to basing assessments upon direct written premiums, rather than upon net premiums as FSCO does at present, will result in a substantial increase in assessments for some insurers.

Appendix A, Part 4: Insurance Sector Assessments And Fees
CAFII is comfortable with and supports the following definitions and proposals set out in Appendix A, Part 4:

- the definitions related to accident, sickness and life insurance in 1(a) and 1(b); and the definition of "accident, sickness and life insurance market conduct activities in 1(c) on page 6;
- the definitions of "direct written premiums for accident, sickness, and life insurance" and "direct written premiums for accident and sickness insurance" in 1(f) and 1(g) on page 6;
- the definition of "total budgeted expenses for accident, sickness and life insurance market conduct activities" in 1(r) on page 8;
- the definition of "total budgeted fees for accident, sickness and life insurance market conduct activities" in 1(v) on page 8;
- the approach proposed in (2) of 4.1 Assessments on page 9 with respect to the determination and allocation of direct costs and common costs within the Insurance Sector; and
- the approach proposed in 4(1)(6) on page 10 as the formula for calculating an insurer's share of an assessment of the insurance sector for an assessment period in respect of accident, sickness and life insurance market conduct activities. We find the formula proposed to be an easily understood and transparent calculation formula.

In addition, we offer the following comments and observations with respect to other provisions within Appendix A, Part 4:

With respect to the assessment payment timelines/terms set out in 4(1)(8) on page 10 – ie. that assessments must be paid within 14 days after the date of the invoice for the assessment – CAFII strongly recommends that the assessment payment due date be set at 30 days after the data of the invoice for the assessment, which is more in keeping with industry standards and expectations.

Our Association is comfortable with the licence fees set out in the table under 4.2 (1) on page 11 of Appendix A, as we recognize that the fees specified are status quo amounts which have not been changed from the current fees charged by FSCO.

However, we also note that while the fees table set out here in FSRA's "Proposed Fee Rule 2019 – 001: Assessments and Fees" is nearly identical to the table set out on pps. 2-3 of FSRA's "Proposed Fee Rule 2019 – 001B: Fees and Assessments (Interim)," the one notable exception is that the latter includes an additional row at the end related to LLQP fees in respect of the purchase of LLQP course material. We therefore recommend that the fee tables in the two proposed Fee Rules be made identical to and consistent with each other.

With respect to Clause 1 under 10.1 Effective Date on page 20 of FSRA's "Proposed Fee Rule 2019 – 001: Assessments and Fees" which states that "This Rule comes into force on ________, 2019," CAFII respectfully requests that FSRA provide a minimum of 60 days' advance notice and confirmation of the date on which the Rule will come into force.

With respect to the several clauses in 10.2 (2) on page 21 of Appendix A, CAFII appreciates the rigour and care that FSRA is taking to specify that the double-billing of a fee will not be permitted to occur in the transition from the current regulatory regime to FSRA as the new regulator.

Conclusion
Thank you again for the opportunity to provide input and feedback on *Proposed FSRA Rule 2019 – 001 Assessments And Fees*. Should you require further information from CAFII or wish to meet with representatives from our Association at any time, please contact Brendan Wycks, CAFII Co-Executive Director, at brendan.wycks@cafii.com or 647-218-8243.

We also extend a note of thanks and appreciation to FSRA for inviting our Association -- as a key stakeholder within the Insurance regulated sector -- to participate, alongside the Canadian Life and Health Insurance Association, in Industry Advisory Group-based pre-consultation processes related to the Authority's assessments and fees; and the priorities and budget for your 2019-20 start-up year.

We have found our participation in the IAG – Life and Health Insurance to be meaningful and productive. In that connection, CAFII representatives have experienced directly FSRA's commendable commitment to put dialogue and consultation at the core of its approach to modernizing, launching, and regulating; and we appreciate your commitment to maintain that open, transparent, and consultative approach even after FSRA is launched this year as the successor regulator to FSCO and DICO.

Sincerely,

Martin Boyle
Board Secretary and Chair, Executive Operations Committee

About CAFII

CAFII is a not-for-profit industry Association dedicated to the development of an open and flexible insurance marketplace. Our Association was established in 1997 to create a voice for financial institutions involved in selling insurance through a variety of distribution channels. Our members provide insurance through client contact centres, agents and brokers, travel agents, direct mail, branches of financial institutions, and the internet.

CAFII believes consumers are best served when they have meaningful choice in the purchase of insurance products and services. Our members offer travel, life, health, property and casualty, and creditor's group insurance across Canada. In particular, creditor's group insurance and travel insurance are the product lines of primary focus for CAFII as our members' common ground.

CAFII's diverse membership enables our Association to take a broad view of the regulatory regime governing the insurance marketplace. We work with government and regulators (primarily provincial/territorial) to develop a legislative and regulatory framework for the insurance sector that helps ensure Canadian consumers get the insurance products that suit their needs. Our aim is to ensure appropriate standards are in place for the distribution and marketing of all insurance products and services.

CAFII is currently the only Canadian Association with members involved in all major lines of personal insurance. Our members are the insurance arms of Canada's major financial institutions – BMO Insurance; CIBC Insurance; Desjardins Financial Security; RBC Insurance; ScotiaLife Financial; and TD Insurance – along with major industry players American Express, Assurant, Canadian Premier Life Insurance Company, CUMIS Services Incorporated, Manulife (The Manufacturers Life Insurance Company), and The Canada Life Assurance Company.