Stephen Frank
President and CEO

December 18, 2018

Mr. Bryan Davies
Chair of the Board

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

Submitted via: http://fsrao.ca/en/consultations/form?rule=assessment-and-fees

Dear Bryan and Mark,

RE: FSRA Assessments and Fees Public Consultation

Thank you for the opportunity to comment on the proposed FSRA rules 2019-001 – Assessment and Fees and 2019-001B Fees and Assessments (Interim), which will establish the FSRA's funding model. We are pleased to provide feedback, and support the consultative approach that is being taken in determining the funding model.

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

Attached below is an analysis of the following four subject areas of the proposed funding model where we are seeking further clarification:

a) Calculating the assessment amount
b) Sharing common costs
c) Consultation with the life and health insurance industry
d) Calculating Interim-funding

Overall, we agree with the principles-based approach that FSRA is taking to develop its fee structure. Having a funding model that is fair and equitable underpins our shared support for the fair treatment of consumers.

Yours Sincerely,

Original signed by

Stephen Frank

CLHIA Comments on Proposed FSRA Rules

2019-001 Assessment and Fees and

2019-001B Fees and Assessments (Interim)

The life and health insurance industry supports the collaborative approach FSRA has taken in establishing its funding model, and would like to extend its support in any way possible during this formative stage and at any time in the future. We believe an equitable allocation is important given the impact that it will have on the life and health insurance industry, and on FSRA's ability to fulfill its mandate. Our feedback below covers 4 main subject areas:

a) calculating the assessment amount;
b) sharing common costs;
c) consultation with the life and health insurance industry; and
d) calculating interim-funding.

Overall, we would like to note that given the uncertainty around what the funding amounts will be, we support FSRA's proposition for another review of the funding model once fully operational.

a) Calculating the Assessment Amount

<u>Calculating market share</u>

The calculation of market share uses values reported under section 102 of the Ontario *Insurance Act,* which means that market share for the assessment period is based on prior year values. We would like to understand whether there will be an adjustment made if direct premiums are substantially different in the assessment period in comparison to the prior year. Additionally, it should be noted that basing fees upon direct written premiums, rather than net premiums, will result in greater costs than originally anticipated for some insurers.

<u>Stabilizing year-over-year increases</u>

To minimize any impact of fees, and to allow companies to plan for the cost, regulatory costs paid by the industry should be relatively stable. An increase in the value of direct written premiums may not necessarily mean that there are additional funds available to offset the increased expense. As such we trust that increases will be in line with the overarching principles set out in this consultation document, and that insurers would be given a clear understanding of the reason for any notable increase.

<u>Potential for overlap with the pension sector</u>

Many pension plan administrators are also insurers. As such we are concerned with the fees charges to pension plans. For example, investments in segregated funds are treated as premiums for insurer assessments. As those segregated funds may also be invested in by pension plans, there may be overlap in the fees that are paid. We are seeking further confirmation that the direct costs associated with pension plans are sufficiently distinguishable from the costs associated with the insurance sector. Additionally, in reviewing the tier-based structure of how the assessment cost is calculated for the pension sector, it appears that small and midsize pensions will pay most of the regulatory costs. While, regulatory costs do decline with additional beneficiaries, smaller pensions may have less capacity to bear the burden of these costs.

<u>Impact of penalties on the assessment amount</u>

As FSRA fulfills its oversight role, there may be occasions where administrative monetary penalties are charged to certain parties. We would suggest that some consideration be given to how to allocate such funds. For example, the monetary penalties could be used to fund financial literacy activities or create an indemnification fund for consumers.

b) Sharing Common Costs

<u>Reallocation of common costs among variable participants</u>

It is our understanding that there may be higher initial common costs, and greater variation of these costs in the first several years. Under the proposed funding structure, overages will be shared by larger regulated companies that are subject to the variable model. To stabilize year-over-year increases we would suggest that there be a cap on the amount that can be reallocated or a process for phasing in increases over a certain amount.

<u>Inter-sector allocation of common costs</u>

We are also unsure of how these costs will be shared among the participants from the different sectors and would appreciate some further clarification on this point.

<u>Contingency Reserve Amount</u>

We are seeking further clarification on how the contingency reserve amounts will be allocated between sectors. For example, will the fee charged be adjusted based on the need to maintain the $4-million-dollar balance? As well, we would like to better understand how long FSRA expects it will take to accumulate the reserve amount.

c) Consultation with the Life and Health Insurance Industry

<u>Board of Directors</u>

As stated in our pre-consultation submission, we believe that that it is important that the FSRA Board of Directors have representation from the life and health insurance industry. We believe such representation would support FSRA in fulfilling its mandate given the significance of our sector to the Ontario economy.

<u>Budget Consultation</u>

The consultation document notes that once the budget has been created and published FSRA will consult. We look forward to participating in those consultations.

<u>Agent Fee</u>

We agree that there should be relative stability among the fees that are charged to financial advisors. As small business owners they are sensitive to cost fluctuations. However, there are insurers that pay the licensing fees for their advisors. For those insurers, agent fees are a significant expense, and as a result we believe insurers could add a valuable perspective to the discussions of these fees.

d) Calculating Interim-funding

We would like to better understand this model. In particular:

- Why 30% of the amount expected to be recovered is chosen as the basis for the calculation?
- If the term "foreign jurisdiction" is referring to an insurance net premiums related operations of insurers incorporated or organized outside of Ontario but still in Canada?
- Why is there a different calculation for Ontario incorporated or organized insurers, and the corresponding deduction based on net premiums of insurers incorporated or organized in Ontario?