

February 8, 2019

Mr. Mark White  
Chief Executive Officer  
Financial Services Regulatory Authority (FSRA)  
130 Adelaide Street West, Suite 800  
Toronto ON M5H 3P5

**Re: Request for comment on proposed FY 2019-20 FSRA Priorities and Budget**

Dear Mr. White:

On behalf of Desjardins Group, I am pleased to respond to your request for comment on the proposed FY 2019-20 FSRA priorities and budget.

Desjardins Group is the leading cooperative financial group in Canada serving over 7 million members and clients and with \$295 billion in assets. Desjardins provides Canadians with wealth management, life and health insurance, property and casualty insurance, and personal, business and institutional services such as payment processing. We are one of the largest employers in the country and benefit from the talents of more than 4,800 employees in Ontario who serve the needs of over 2 million clients in communities across the province.

Since Desjardins General Insurance Group (DGIG) acquired State Farm's Canadian businesses in 2015, we have become the 3<sup>rd</sup> largest property and casualty insurer in the country and a personal use auto insurance leader in Ontario.

Recently, members from our 11 Ontario caisses populaires and delegates of the Fédération des caisses populaires de l'Ontario (FCPO) voted overwhelmingly in favour of an amalgamation. The new Desjardins Ontario Credit Union will officially open on January 1, 2020. With 50 branches, the new credit union's nearly 650 employees will serve 130,000 members and have more than \$13.6 billion in assets under management.

As members of the Insurance Bureau of Canada (IBC) and Canadian Association of Direct Response Insurers (CADRI) we have contributed to their comments on this topic. We have collaborated with the Canadian Credit Union Association (CCUA) during your past industry advisory group consultations.

We would like to build upon those comments and highlight a few key points related to FSRA priorities and budget and the auto insurance and credit union sectors.

## **Overall Priorities**

We are pleased to see your commitment that FSRA will not simply be a continuation of existing Ontario regulators; committed to doing the right things and doing things right; and that you will build on the strengths of both FSCO and DICO.

The selection of regulatory burden reduction and regulatory effectiveness as your two overall priorities during your first year of operations is appropriate.

### Burden Reduction

We agree that regulated entities and the public are best served when guidance is necessary (e.g., provides necessary consumer protection; produces more benefit than the costs it imposes), consistent, and actionable, and when its intended effect is well understood.

We are encouraged that FSRA will develop and apply a cohesive, principles-based regulatory guidance framework to streamline and update current guidance for greater regulatory effectiveness, transparency, accountability, and burden reduction. We suggest that the framework used by OSFI may be interesting to consider as we determine what regulatory supervision in a principles-based regulatory framework may look like in the province. Changes to the framework should also highlight any resulting changes to the accountabilities of the regulated entities.

Completing a cost-benefit analysis to evaluate whether guidance is necessary or could be improved or eliminated is welcomed and we offer our assistance as you develop this approach.

### Regulatory Effectiveness

Consulting to gain further insights on consumer perspectives and priorities, including engaging consumer stakeholders in the regulated sectors is an important step to protect the public interest. Discovering and validating consumer perspectives will guide FSRA and regulated entities to allow the development of products and services that are desired and appropriate. We believe that consumer insights will lead to regulatory guidance that welcomes innovation and choice; and provides a broader impact perspective on issues that may benefit a segment of consumers but at the eventual detriment of most consumers.

We are encouraged that FSRA will retain, recruit and empower individuals with regulated sector and professional expertise. This is of importance when regulating the many unique characteristics of the credit union sector. As part of this effort we encourage FSRA to consider secondment opportunities within regulated sectors to build and maintain current knowledge of the realities of the marketplace.

In addition to operational performance metrics we encourage the development of consumer-centric outcome targets for the regulated sectors themselves that include key measures related to product availability, affordability, satisfaction and innovation. These strategic performance measures can serve as the system's performance scorecard and help align the expectations and contributions of the regulated entities.

## **Credit Union Sector Priorities**

In our view the four regulatory priorities that you have established for the credit union and caisses populaires sector are reasonable and helpful.

### Integrate Credit Union Prudential and Conduct Supervision

During recent industry advisory consultations, we understand that credit union supervision will be managed by a specialized unit. This is comforting to us as specialized knowledge is critical for effective and fair regulation. This is particularly important as FSRA aims to integrate the prudential and market conduct regulatory functions and may choose to integrate some aspects of oversight responsibilities across its corporate units.

### Support Modernization of Credit Union Regulatory Framework

We fully support this priority and recognize that it will also require the modernization of the Credit Union and Caisses Populaires Act of Ontario, 1994. We offer you our assistance towards the achievement of this important goal for credit union members.

### Adopt Industry Code of Conduct

As a member-based organization, we believe in the importance of having strong policies and procedures to make sure that we always act in the interest of our members. Ensuring harmonization with similar codes in other jurisdictions and gaining the support and contributions of all Ontario credit unions should be achieved before the code of conduct is implemented.

### Ensure Appropriate Resolution and Deposit Insurance Reserve Fund (DIRF) Framework

We believe that updating the resolution strategy and the DIRF governance framework is very important for the future of the sector. The creation of FSRA is a good opportunity to do this evaluation including DIRF capitalization targets and the insurance premium calculations.

## **Credit Union Sector Budget**

Let us take this opportunity to express our appreciation for the proposed revisions you announced to the FSRA fee rules on February 4, 2019, that continue deposit-based assessments, in accordance with DICO practices, for a transitional year.

As discussed during industry advisory consultations, we are concerned with the sharp increase to the expected fees for credit unions to \$13.5 million or a 6.6% increase from the previous combined FSCO and DICO fee level.

Despite our support for the ultimate ambitions of FSRA, it is difficult to justify this immediate increase to our members. We recommend that a fee cap be considered that moderates the annual increases to 3% to allow time for operational adjustments within credit unions to absorb the short term increases; and for FSRA's actions to begin to show positive operational cost and system outcome benefits as offsets.

## **Auto Insurance Sector Priorities**

We agree that FSRA's creation offers immediate opportunities to streamline the rate regulation process. We believe that can be achieved by greater recognition of the power of consumers in a competitive marketplace to regulate auto insurance rates.

When considering auto insurance reforms, we recommend looking for inspiration at the competitive market driven regulatory framework used successfully with property insurance.

The continued [unacceptable market conduct compliance results of health service providers](#) found by FSCO confirms that a review of the effectiveness of Health Service Provider regulation is necessary.

The creation of standard treatment programs for common traffic injuries could not only produce better health outcomes but lessen the health service provider oversight effort required of FSRA. Standard treatment programs can ensure that treatments may be quickly approved without dispute. Within the programs medical/rehabilitation provider financial incentives should focus on promptly achieving desired back-to-function outcomes, instead of the volume of treatments. The design of standard treatment programs must be detailed and include the type and number of treatments, who is authorized to treat, return to function objectives and the cost of treatments.

## **Auto Insurance Sector Budget**

As we have stated in the past, it is reasonable to incur some additional costs to attract and retain the right talent to achieve a transformation. We are encouraged by some of the new leadership selections made by FSRA. The start-up period will create some cost pressure for your new organization.

While recognizing the need for some temporary additional start up costs, insurance consumers should expect a "least cost" regulatory mindset to achieve consumer-focused outcomes. We encourage FSRA to continuously benchmark itself to similar leading financial services regulatory bodies in Canada and internationally from a cost and performance perspective.

Overall, the proposed FY 2019-20 FSRA Priorities and Budget consultation document appears logical and strategic. It further strengthens our belief that FSRA is on the right path.

Thank you for the opportunity to provide our commentary.

Sincerely,



**Bernard Brun**  
Vice-President, Government Relations - Canada  
Desjardins Group