FSRA
Financial Services Regulatory Authority of Ontario

**FSRA Response to Canadian Life and Health Insurance Association**

| Question | Response |
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| 1. 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.<br><br>We would like to understand whether there will be an adjustment made if direct written premiums are substantially different in the assessment period in comparison to the previous year. | 1. With the proposed FSRA Rule 2019-001, FSRA is not planning to do a reconciliation between budgeted and actual expenses.<br><br>As detailed in Proposed FSRA Rule 2019-001:<br>• Funding for FSRA will guided by the principle that "Where appropriate, funding should be based on forward looking estimates within which FSRA manages its budget, rather than retrospective cost recovery once costs are known" (2019-001, p. 3).<br>• In addition, "…FSRA will not undertake an annual reconciliation of actual costs against budgeted costs (i.e. implement a refund/credit mechanism)…" (2019-001, p. 3-4).<br><br>However, as outlined in principle 5.1 FRSA will take into account direct costs experienced in a sector, and drivers of common cost increases, when setting future assessments and fees. This move to a Proposed Fee Rule based on budgeted expenses and expenditures rather than actual expenses and expenditures aligns FSRA with how other regulators including the Ontario Securities Commission conduct assessments. |
| 2. Many pension plan administrators are also insurers. 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. | 2. To provide additional clarification - investments in segregated funds are not treated as premiums for insurer assessments. The investment component is not an insurance premium and is not used in the fee assessment. The current treatment under the FSCO funding fee mechanism carries through the proposed FSRA Fee Rule (as well as the interim rule). Further, the direct costs to regulate pension plans are sufficiently distinguishable from the direct costs associated with the insurance sector - there is confidence that each sector bears its costs and that there will be no double billing by FSRA. |
| 3. We are also unsure of how these costs will be shared among the participants from the | 3. FSRA will determine the allocation of common costs across the sectors which it regulates as part of the budget |



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| different sectors and would appreciate some further clarification on this point. | preparation. FSRA "shall allocate the common costs in respect of the assessment period covered by the budget among the regulated sectors on such basis as the Authority determines appropriate; provided that unless otherwise specified by the Authority in the budget, common costs remaining after the fixed rate sector common cost contribution estimate is deducted from the overall common cost estimate in respect of the assessment period covered by the budget shall be allocated in the budget among the variable rate sectors based on their pro rata share of the aggregate direct costs of the variable rate sectors in respect of that assessment period" (2019-001, p. 34).<br><br>Transparency around the allocation of common costs will be provided during the budget preparation as FSRA "will prepare a draft budget with respect to each assessment period to be posted on FSRA's website to enable consultation with the regulator sectors" (2019-001, p 19). This will include the "estimated total expenses and expenditures in respect of an assessment period, a description of the direct costs estimated for each regulated sector, and the common costs estimated for FSRA" (2019-001, p. 19). |
| 4. 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-milliondollar balance? As well, we would like to better understand how long FSRA expects it will take to accumulate the reserve amount. | 4. FSRA will be guided by a principle of flexibility, which will include an effort to "…build and maintain a reasonable contingency reserve amount to cover expenses and expenditures which may arise from unforeseeable events or circumstances, and will consider how best to replenish such reserve amount from future assessments considering the sector and/or participants driving such unanticipated expenses and expenditures" (2019-001, pp. 3-4). "It is important to note that FSRA will have strict governance mechanisms in place to set and monitor the level of the contingency reserve amount. The contingency reserve amount in respect of an assessment period will be capped at $4 million in aggregate and can only be used if approved by the FSRA Board. This amount was established based on an analysis of FSCO and DICO historical |

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| | financial activity and budgeted amounts for contingencies" (2019-001, p. 10).<br><br>Contingency reserve funds would be included as common costs in a budget prepared by FSRA. The timeline for building the Contingency reserve fund to a balance of $4 million will be determined through the FSRA budgeting process. FSRA "will prepare a draft budget with respect to each assessment period to be posted on FSRA's website to enable consultation with the regulator sectors" (2019-001, p 19). This will include the "estimated total expenses and expenditures in respect of an assessment period, a description of the direct costs estimated for each regulated sector, and the common costs estimated for FSRA" (2019-001, p. 19). |
| 5. We would like to better understand this model. In particular:<br>• Why 30% of the amount expected to be recovered is chosen as the basis for the calculation?<br>• 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?<br>• 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? | 5. The 30% represents the historical FSCO 70/30 split between P&C and Life. The FSRA interim funding fee rule carries these percentages unchanged. The FSRA new funding fee rule will no longer have this static split. To reiterate, the interim funding fee rule has been developed as a status quo option should the Proposed Fee Rule not be adopted prior to the 2019 launch.<br><br>The term "foreign jurisdiction" used in the Interim Fee Rule has the same meaning as it is defined in the Insurance Act and "means a jurisdiction other than Ontario". For further clarity, premiums reported are always only those premiums related to Ontario business.<br><br>The adjustment accounts for the prudential component of Ontario incorporated or organized insurers that are not a member of the Fire Mutual Guarantee Fund. This provided some equity to all other insurers in not carrying the prudential costs that were not initiated by them. |