

November 3, 2020

Mr. Mark White
Chief Executive Officer
Financial Services Regulatory Authority of Ontario
5160 Yonge Street, 16th Floor
Toronto, Ontario M2N 6L9

Re: Public consultation on proposed 2021-22 Statement of Priorities and Budget

Dear Mr. White:

On behalf of the Desjardins Group, I am pleased to respond to your request for comment on Financial Services Regulatory Authority of Ontario's (FSRA) proposed 2021-22 Statement of Priorities and Budget.

With assets of 350 billion dollars, the Desjardins Group is the 1st cooperative financial group in Canada and the 6th in the world. It is among the top 100 employers in Canada according to the ranking established by Mediacorp. To meet the diverse needs of its 7 million members and clients, individuals and businesses, it offers a full range of products and services through its vast network of service points, its virtual platforms and its subsidiaries present throughout Canada. It operates in the following areas: wealth management, life, health, home and auto insurance, and personal, business and institutional financial services such as payment processing.

Desjardins is the 6th safest financial institution in North America and the 40th in the world, according to Global Finance. More recently, Desjardins distinguished itself in the annual Top 1000 World Banks ranking of the prestigious magazine *The Banker*, positioning itself in 1st place among Canadian financial institutions for its performance in 2019. According to this study, Desjardins is ahead of the 5 major Canadian banks "by a good margin"¹ for 6 of the 8 indicators, namely: solidity, quality of assets, growth, profitability, return on risk and leverage. We are proud to be the leading auto insurer in Ontario and amongst the largest property and casualty insurers in the country. Also, the new Desjardins Ontario Credit Union is the second largest credit union in the province with 130,000 members, 50 branches, over \$8 billion in assets, and over \$16 billion in assets under management. 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.

We would like to highlight a few key points related to the proposed 2021-22 FSRA priorities and budget, specifically for the credit union and auto insurance sectors.

¹ Source : PAVONI, Silvia. « Top 1000 World Banks – Desjardins out in front of Canadian field », *The Banker*, July 2020.

Overall Priorities

We are pleased to see your continued commitment for regulatory efficiency and effectiveness, and we are in full agreement that Ontario consumers and the sectors regulated by FSRA both benefit from regulatory collaboration amongst Canadian regulators.

Desjardins particularly welcomes the second cross-sectoral priority pertaining to Innovation in order to identify cross-jurisdictional regulatory coordination and harmonization opportunities. It is indeed important that FSRA have at its disposal regulatory solutions that respond to the dynamic needs of the sectors it regulates.

We urge FSRA to continue to seek out stakeholder and consumer feedback and to incorporate these perspectives into future regulatory strategies and activities.

Credit Union Sector Priorities

In our view the three regulatory priorities that have been established for the credit union sector are reasonable and helpful.

Support Modernization of Credit Union Framework

Our full support for this priority remains as we recognize this requires the modernization of the Credit Union and Caisses Populaires Act of Ontario, 1994. The Ministry of Finance led a capable review and we trust that the next steps will allow credit unions to remain competitive in Ontario with a new, modern act adapted to present times. Furthermore, we believe that it is in all parties' best interest that the interdependencies that exist within the sector, including the partnerships and activities in other jurisdictions, be taken into account in order to avoid looking at a cooperative financial institution in isolation, particularly when it operates within an integrated financial group business model. We offer you our assistance towards the achievement of this important goal for our members and our sector.

Enhance Deposit Insurance Reserve Fund (DIRF) Adequacy Framework and Sector Liquidity Framework

We believe that modernizing the resolution strategy and the DIRF governance framework is very important for the future of the sector. The recent creation of FSRA was a good opportunity to reconsider DIRF capitalization targets and the insurance premium calculations. In conjunction with FSRA's integrated risk-based supervisory approach, we believe that insurance premium calculation that are more sensitive to the risk level of a credit union should be considered. Additionally, we note that the recognition of Desjardins Group's integrated financial group business model would alleviate the administrative burden for FSRA and Desjardins while at the same time increase the regulatory effectiveness.

Continue to Design and Develop the Integrated Risk-Based Supervisory Framework

We are encouraged that FSRA will continue its work on the Integrated Risk-Based Supervisory Framework and apply a cohesive, principles-based regulatory guidance framework for greater regulatory

effectiveness, transparency, accountability, and burden reduction. Changes to the framework should also highlight any resulting changes to the accountabilities of the regulated entities.

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 other Canadian jurisdictions and gaining the support and contributions of Ontario credit unions should be achieved before the framework is implemented.

The modern supervisory approach that FSRA has taken is beneficial to the sector, to credit union members, and to the public. We support FSRA's objective to continue the work to increase the focus on risk mitigation and offer our cooperation to do so because the current regulatory framework in Ontario prevents the Desjardins Group from utilizing the full arsenal of tools at its disposal for the benefit of the Desjardins Ontario Credit Union. It would be valuable for the Desjardins Ontario Credit Union, the Ontario credit union sector, and FSRA, to coordinate and harmonize regulatory activities with other Canadian regulators in order to reduce risks, reduce administrative formalities and, above all, ensure greater financial strength in the sector.

At a time when the government is going through an unpredictable economic and social context, close links with the entire financial services industry upstream before decisions are made seems essential to us. This approach will allow Ontario financial cooperatives to operate within a legal and regulatory framework that recognizes their reality and promotes their development, for the benefit of all Ontario communities and consumers.

To this end, the Desjardins Group is interested in exploring with FSRA a cross-jurisdictional regulatory opportunity for coordination and harmonization that aligns with your target outcomes, namely the recognition of an integrated financial group business model (IFG).

Considering the evolution of the financial services industry, this recognition would allow the development of common operational processes, share risks and, above all, ensure greater financial strength. It would also improve the overall financial system stability between the provinces, as well as provide more adaptability to the regulatory framework. This aligns with the following 2021-22 proposed target outcomes:

- A modernized framework to ensure better protection of credit union member deposits and promote member confidence, through stronger and more resilient credit unions. This will also result in more transparent, efficient and effective regulation;
- Improved depositor protection and sector stability;
- Greater regulatory confidence in the liquidity and capital resources of the sector; and,
- Confidence that statutory deposit insurance obligations will be honoured and that the sector will be resilient under a broad variety of defined scenarios.

Credit Union Sector Budget

Let us take this opportunity to express our appreciation for the information provided to the credit union sector and the opportunity given to us to provide feedback.

As expressed during the Stakeholder Advisory Committee consultation, we share the credit union sector's concerns with regards to the constant annual increases in dues the sector has experienced in the last five years. It is important to note that the proposed significant increase in dues will put additional financial pressure on credit unions at the same time as we continue to deliver essential services to Ontarians during a health crisis while navigating through a difficult and uncertain economic period. The timing of the proposed increase of credit union sector dues by approximately 20% during the COVID-19 pandemic was unexpected.

We recognize FSRA's mandate to be an independent, self-funding and effective regulator, we support its ultimate ambitions, and we understand its digital transformation need. Nonetheless, it is difficult to justify the constant increases and resulting financial pressure to our members.

In order to allow time for operational adjustments within credit unions to absorb these increases and for FSRA's actions to begin to show positive operational cost and system outcome benefits, we recommend that the regulator consider a fee cap on sector dues that moderates the annual increases.

Auto Insurance Sector Priorities

Desjardins supports FSRA's aims to enhance consumer choice, promote innovation and foster a more competitive and stable auto insurance marketplace. We are pleased to see that FSRA intends to publish its future internal service performance results. To ensure performance direction and transparency, we encourage the development of an auto insurance system performance dashboard of key performance indicators (KPI) that include themes related to: Consumer satisfaction; Affordability; Innovation; Regulated entity satisfaction; and Regulatory oversight cost.

The importance of insurance to our economy should not be underestimated. The availability of affordable insurance coverage allows people and organizations to take risks and grow, which ultimately creates greater economic value. Recent studies for the Ontario government have found that our system is inefficient in delivering these benefits to claimants with approximately \$1.4 billion, which is about one-third of the total accident benefit costs paid, going to injury assessments, disputes and legal fees. To support the government, we urge FSRA to consult stakeholders and present viable and detailed reform options that put the interests of Ontario drivers first.

It is comforting to see that rate regulation transformation is still a priority and that the upcoming Technical Advisory Committee will be used to gather input. We recommend allowing consumers making choices in a competitive market to regulate rates, as well as the streamlining of prohibited rate factors in Regulation 664 with a focus on human rights related discriminatory acts.

Auto Insurance Sector Budget

We encourage FSRA to consider the value proposition of their regulatory oversight activities and look for opportunities to decrease regulatory costs in the context of trying to make auto insurance more affordable for consumers (e.g. rate regulation). We encourage benchmarking against the cost of other leading Canadian (e.g. OSFI and AMF) and International financial services regulators.

As you look to increase regulatory efficiency and effectiveness, we encourage FSRA to consult small groups of regulated entities and consumers to determine the value of current regulation activities and to explore alternative approaches that can achieve the same regulatory intent but at a lower overall cost to FSRA and consumers.

Overall, the proposed 2021-22 FSRA Statement of Priorities appear logical and strategic and are an appropriate follow-up to the work that was done since the creation of the regulator. While we have some concerns with regards to the proposed budget for the credit union sector, we welcome the opportunity to discuss our fee cap recommendation with you, in addition to discussing our integrated financial group business model and how it could alleviate both our administrative burden and increase your regulatory effectiveness.

Thank you for the opportunity to provide our commentary.

Sincerely,



Bernard Brun
Vice-President, Institutional and Government Relations
Financial Sector Regulation
Desjardins Group

CC William Boucher, Chief Executive Officer, Desjardins Ontario Credit Union
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