Canadian Life & Health Insurance Association
Association canadienne des compagnies d'assurances de personnes

Stephen Frank
President and CEO

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Mark White
Chief Executive Officer
Financial Services Regulatory Authority of Ontario (FSRA)
25 Sheppard Avenue West, Suite 100
Toronto, ON M2N 6S6

Re: FSRA's Proposed 2024-25 Statement of Priorities and Budget

Dear Mr. White,

Thank you for the opportunity to provide feedback on the Financial Services Regulatory Authority's (FSRA) *Proposed 2024-25 Statement of Priorities and Budget*. Overall, we support FSRA's planned priorities for the life and health insurance industry. FSRA's focus on innovation, fostering competition, and consumer protection is well aligned with the industry's goals.

About the CLHIA

The Canadian Life and Health Insurance Association (CLHIA) is a voluntary association whose member companies account for 99 per cent the life and health insurance business in Canada. These insurers are significant contributors to Ontario and its economy. In 2022 they provided financial security to 11 million Ontarians and made nearly $50 billion in benefit payments (of which 90 per cent goes to living policyholders as annuity, disability, supplementary health or other benefits). In addition, life and health insurers have more than $350 billion invested in Ontario's economy. A large majority of life and health insurance providers are licensed to operate in Ontario, with sixty-two headquartered in the province.

Supporting FSRA's Strategic Framework

Overall, the life and health industry supports FSRA's strategic plan. We agree that promoting high standards of business conduct and the rights and interests of consumers should be priority outcomes for FSRA. These areas align well with the industry's support for consumer-centred regulation. The industry is pleased to continue working collaboratively with FSRA to promote a strong, sustainable, competitive, and innovative financial services sector.

FSRA's environmental scan highlights a number of key issues—such as inflationary pressures, the cost of living, unemployment levels, and risks of a potential recession in 2024-25—which the industry is also watching closely.

Technological advancement and innovation are quickly moving areas with many provincial, federal and international regulatory bodies issuing new guidance and expectations related to artificial intelligence and cyber security, including FSRA. The industry is actively engaged in work related to information technology risks and opportunities and looks forward to continuing to collaborate with FSRA on these issues in the coming years.

We appreciate that one of FSRA's four pillars to its Strategic Framework is to make evidence-based and risk-based decisions. We agree that a risk-based approach that focuses on areas where there is the greatest risk of consumer harm occurring is the best approach to regulation because it balances the need for consumer protection with regulatory burden reduction, which promotes innovation.

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Strengthening the MGA regulatory framework

CLHIA members support FSRA's initiatives to ensure consumers are treated fairly when they buy insurance. We appreciated that FSRA launched a new Life Agent Misconduct Report Tool in March 2023, which makes it easier for insurance companies and MGAs to provide evidence when reporting unsuitable agents.

We look forward to providing the industry's feedback on FSRA's new MGA regulatory framework—including a new Rule and enhanced and targeted Guidance—when it is released.

As FSRA progresses with this work, it is important that stakeholders have a better understanding of, and continued input on the regulatory requirements regarding the role and obligations of insurers, MGAs and advisors in relation to the distribution of life and health insurance products. This clarity will ultimately lead to a stronger distribution system that better serves and protects consumers.

Protecting consumers who invest in segregated fund contracts

We have been working with regulators, including FSRA, on segregated fund initiatives such as Total Cost Reporting (TCR) for several years and will continue to do so. The TCR initiative is progressing well. The industry has also implemented the DSC ban for new segregated funds contracts.

However, the way this priority is drafted – 'Protecting consumers who invest in segregated fund contracts' – suggests that consumers need protecting from segregated funds. Segregated funds are important products for consumers and provide benefits as insurance products that securities investments may not. We recommend that FSRA reconsiders the language used to describe this priority to not risk undermining the confidence consumers have in the industry and the products offered.

We acknowledge that FSRA's goal is to ensure customers understand the products they are sold, receive suitable advice and make suitable choices in relation to segregated fund contracts. We support this outcome. To achieve this, it will be crucial that the industry has a clear understanding of the regulatory requirements relating to the design, distribution and administration of segregated fund contracts. The reformed requirements also need to be applied to the insurance industry in a way that makes sense having regard to insurance distribution structures. FSRA's new MGA regulatory framework will impact the implementation of the enhanced standards for the distribution of segregated funds.

Pensions

The regulatory framework and guidance are important aspects of managing systemic and other risks with regards to Ontario's private and public sector pension plans. We support FSRA's focus on defined benefit (DB) pension plans, and its plans to identify risk management processes to enable plans to better mitigate risks and protect assets and call for these to be principles-based and proportional to the risks faced in the respective type of pension plans.

On the development of the new target benefit (TB) framework for DB multi-employer pension plans (DB MEPPs), it is crucial that the framework has clear governance requirements, clear rules on disclosure to customers and a rigorous standard for financial and risk management. Defined contribution (DC) plans are highly regulated in Ontario and are required to meet rigorous standards. It is vital that we ensure TB plans are held to similarly high standards to protect members and foster fair competition.

The initiative to review the long-term viability and sustainability of the province's pension benefit guarantee fund (PBGF) is an important backstop to protect Ontario pensioners. We understand FSRA's efforts to review the long-term viability and financial sustainability of the PBGF and would be pleased to support this work.

While FSRA has released guidance on automatic features in DC Pension Plans, the legislative and regulatory landscape to introduce automatic features is cumbersome for employers and employees alike. This is especially true for existing employees compared to new recruits. It's important for FSRA to work with relevant Ontario Ministries (Finance and Labour) to get this on track, so that hundreds of millions of matching contributions to employees is not left on the table unused. Encouraging employers to incorporate automatic features into their voluntary workplace savings and pension plans, such as automatic enrolment and contributions, will improve outcomes in retirement and benefit Ontarians.

Finally, we note that the federal *Pooled Registered Pension Plans* (PRPP) Act and the related regulations to accommodate variable life payments, is being reviewed to include decumulation only PRPPs. Allowing decumulation only PRPPs will facilitate a broad based decumulation solution to Ontario retirees. Ultimately, we trust as the changes are made federally, the Ontario PRPP Act and the regulations will also be amended accordingly. The life and health insurance industry would greatly appreciate if this work could be prioritized, given the pressing need for adequate decumulation solutions in retirement.

Understanding budget increases over time

FSRA is proposing a total sector budget increase of 8.3 per cent in 2024-25 compared to 2023-24. As part of the increase, FSRA anticipates spending $9.7 million in new initiatives, including strengthening the MGA regulatory framework.

With this increase, the FSRA budget will have gone up three times, amounting to a total increase of 20.9 percent for all sectors (and a total increase of 56.4 percent for the life and health insurance sector) since 2022. The industry would appreciate clarity on whether annual increases will generally be consistent over time and at what level. The industry is concerned that budget increases for FSRA of 7-9% annually will become unsustainable.

Also, as the FSRA budget related to the life and health insurance industry grows, FSRA should examine the assessment methodology to ensure that the cost of supervision is being allocated appropriately across participants.

Conclusion

Thank you again for the opportunity to share the industry's feedback on FSRA's Proposed Priorities and Budget for 2024-25. We are looking forward to continuing to work together as FSRA focuses on its priorities. We would be pleased to discuss any questions or concerns you may have.

Sincerely,

Stephen Frank

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