

# Proposed FY2022-2023 Statement of Priorities

October 7, 2021

# Contents

<b>Overview</b> .....	<b>3</b>
<b>1. Environmental Scan</b> .....	<b>4</b>
1.1 Economic outlook.....	4
1.2 Technological advancement and innovation.....	5
1.3 Consumer issues.....	6
1.4 Emerging issues and trends in FSRA's regulated sectors.....	7
<b>2. FSRA Proposed Statement of Priorities</b> ....	<b>8</b>
<b>3. Regulatory Efficiency and Effectiveness</b> .....	<b>10</b>
3.1 Strengthen consumer focus.....	10
3.2 Enable innovation.....	11
3.3 Modernize systems and processes.....	12
<b>4. Property and Casualty (Auto) Priorities</b> ....	<b>13</b>
4.1 Implement a new strategy for reforming the regulation of auto insurance rates and underwriting.....	13
4.2 Develop recommendations and act on reforms of the auto insurance system.....	14
4.3 Ensure the fair treatment of P&C/Auto consumers.....	15
4.4 Implement insurance prudential supervision.....	15
<b>5. Credit Unions</b> .....	<b>16</b>
5.1 Implement the new credit union legislative framework.....	16
5.2 Enhance financial stability structures.....	17
5.3 Implement risk based supervision.....	18
<b>6. Life and Health Insurance</b> .....	<b>19</b>
6.1 Enhance market conduct oversight to protect consumers.....	19
<b>7. Mortgage Brokering</b> .....	<b>20</b>
7.1 Implement recommendations from the review of the Mortgages Brokerages, Lenders and Administrators Act, 2006.....	20
7.2 Promote high standards of governance and business conduct.....	21
<b>8. Pensions</b> .....	<b>22</b>
8.1 Enable and empower plan beneficiaries...22	
8.2 Protect pension benefits in Ontario's pension sector.....	23
<b>9. Financial Planners / Financial Advisors</b> .....	<b>24</b>
9.1 Operationalize the title protection framework for financial planners / financial advisors.....	24
<b>10. Financial Outlook</b> .....	<b>26</b>
10.1 Sector fee assessments.....	28
10.2 FSRA financial plan.....	29
<b>Appendix 1: Financial Assumptions</b> .....	<b>31</b>
<b>Appendix 2: Sector Allocation Methodology Highlights</b> .....	<b>32</b>
<b>Appendix 3: FSRA Strategic Framework</b> .....	<b>33</b>

# Overview

The Financial Services Regulatory Authority of Ontario (FSRA) is pleased to present its proposed fiscal year 2022-2023 priorities and recommended financial plan. This view for the upcoming fiscal year is intended to generate feedback from stakeholders through a public consultation.

FSRA is an independent regulatory agency, created to improve consumer, credit union members, and pension plan beneficiary protections in Ontario. The agency was established to replace the Financial Services Commission of Ontario and the Deposit Insurance Corporation of Ontario.

FSRA protects Ontario consumers<sup>1</sup>, which includes the public, credit union members, pension plan beneficiaries, investors and other stakeholders, by regulating:

- Property and casualty insurance.
- Life and health insurance.
- Credit unions and caisses populaires.
- Loan and trust companies.
- Mortgage brokers.
- Health services providers (related to auto insurance).
- Pension plan administrators, agents of pension plan administrators, employers and pension fund trustees.

- Financial planners and advisors (proposed).

The proposed fiscal year 2022-2023 priorities continue to support FSRA's focus on regulatory efficiency (e.g., burden reduction) and effectiveness. In particular, FSRA's efforts to operationalize principles-based regulation<sup>2</sup> on a sector-by-sector basis will enhance the ability of regulated entities to deliver enhanced products and services to customers, while continuing to mitigate risks to their operations and meet compliance obligations. New or updated priorities reflect an enhanced focus on protecting consumers, while furthering our efforts to improve supervision capability and enhance/implement regulatory framework components. In support of these priorities, FSRA will also continue to promote a national dialogue on a harmonized approach to regulatory issues in the areas it regulates through its participation in several forums.

<sup>1</sup> For the purposes of this document, the term 'consumers' includes the public, credit union members, pension plan beneficiaries, investors and other stakeholders.

<sup>2</sup> Principles-based regulation relies on high-level, broadly stated principles to set the standards by which regulated sectors must conduct business. This is intended to replace more prescriptive rules/regulations or guidance, which emphasize specific requirements or processes.

# 1. Environmental Scan

FSRA continues to operate in an uncertain economic environment, as the COVID-19 pandemic continues. At its height, the pandemic caused significant disruption in nearly every sector of the Canadian economy. The immediate impact of the pandemic not only represented an unprecedented global health crisis but caused widespread financial hardship for business owners and individuals, contributed to a spike in unemployment and challenged how consumers accessed goods and services. The Bank of Canada reports that overall business sentiment continues to improve, as businesses overwhelmingly indicate that they are optimistic about the future as the economy reopens.<sup>3</sup> However, potential challenges to recovery include high inflation rates and labour shortages, as well as the possibility that new variants of COVID-19 could necessitate more shutdowns. FSRA has continued to monitor these impacts closely, particularly where they have affected the entities and individuals that it regulates, and the financial products and services offered to consumers. Throughout the pandemic, FSRA worked collaboratively with other regulators and regulated entities to identify solutions to emerging issues.

Uncertainty remains as to whether and how businesses, including financial services, will return to business-as-usual operations. What does “business-as-usual” for financial services look like in a post-pandemic Ontario? The pandemic has fundamentally changed the way in which FSRA regulated entities conduct their business, and the way in which consumers interact with them. As financial services are increasingly conducted in a virtual world, FSRA is similarly having to adapt its supervisory efforts and regulatory expectations to reflect the changing risk profile of these entities and their offerings. Though the full scope of changes ahead of it remains unknown, FSRA is committed to actively monitoring new and emerging risks to its regulated entities and consumers, gathering data to make evidence- and risk-based -decisions, and remaining adaptable to the changing environment in which it operates.

## 1.1 Economic outlook

FSRA monitors the key economic indicators in Ontario and Canada to identify trends affecting the sectors that it regulates.

Key highlights include:

- FSRA closely monitors the funding of defined benefit pension plans that are subject to solvency funding. As of June 30, 2021, pension plans are at their best funded position since the 2008 global financial crisis, with a median projected solvency ratio of 106%.<sup>4</sup> The risk of the pandemic to

the overall performance of markets accelerated the adoption of liability-driven investing and de-risking strategies for Ontario-based pension plans. Many pension plan administrators in Ontario increased their purchase of group annuities to ensure that their plans will meet all their future liabilities.

- In the credit union sector, profitability continues to be challenged due to low interest rates and the overall impacts of the pandemic. FSRA closely monitors credit unions from a prudential perspective to ensure sustainability in the sector. During the

<sup>3</sup> [Bank of Canada – Monetary Policy Report July 2021](#)

<sup>4</sup> [FSRA – Quarterly update on ‘Estimated Solvency Funded Status of Defined Benefit Pension Plans in Ontario’ – June 2021](#)

pandemic, overall liquidity in the credit union sector increased, due to higher deposits and lower lending activities. Growth in earnings has not kept pace with growth in assets, which is continuing to put pressure on credit unions in maintaining capital ratios.

- Overall profitability of the auto insurance sector has improved due to an unprecedented reduction in the number of collision and claims during the pandemic. Auto insurance companies provided rate rebates and discounts in 2020 and 2021 to reflect that trend. Other property and casualty (P&C) lines, such as commercial property and liability, continue to face pressure from a hard market. FSRA will closely monitor the availability and affordability in this space. Cyber insurance continues to face difficulties as the product line matures, with the pandemic contributing to increases in the frequency and severity of cyber-attacks.<sup>5</sup>
- The life and health insurance industry will continue to face pressure for the foreseeable future because of a challenging business environment. Insurers continue to benefit from large growth in group annuity sales.<sup>6</sup>
- Although home sales dipped in Q2/2020, they rebounded and grew in late 2020 despite province-wide shutdowns. The Canada Mortgage and Housing Corporation expects home sales to moderate to more sustainable levels through 2023.<sup>7</sup> As government income subsidies wind down and economic recovery begins to drive interest rates higher, some

consumers may find it difficult to meet monthly mortgage payments, renew mortgages at higher rates, or qualify for a new mortgage at a financial institution.

## 1.2 Technological advancement and innovation

Prior to the pandemic, many of FSRA's regulated entities had already adopted new digital technologies or had begun the process to do so. The pandemic has accelerated these developments across FSRA's regulated sectors.

Key trends in technological advancement and innovation include:

- Digital distribution of products – Digital sales of financial services were becoming more prevalent prior to 2020, and the pandemic greatly accelerated this trend. Regulated entities such as insurance companies/intermediaries and mortgage brokers had to implement or improve digital sales channels to reach customers.
- Digital platforms – Entities such as credit unions, insurers and licensed intermediaries have introduced new platforms or modified their existing platforms for their customers to receive services that would normally occur in person. Regulated entities have increasingly partnered with third-party providers to enhance their digital service offerings. In particular, the use of telemedicine platforms,

<sup>5</sup> [MSA Research](#)

<sup>6</sup> [MSA Research](#)

<sup>7</sup> [CMHC – Housing Market Outlook Report](#)

payment/banking apps and do-it-yourself investing platforms became much more prevalent.

- Increased use of telematics in auto insurance – Large segments of the population transitioned to working from home, which resulted in significantly fewer kilometers driven. As a result, consumers have become more interested in innovative methods to save money on auto insurance premiums. For example, there are some signs of increasing consumer interest in usage-based insurance.<sup>8</sup>

### 1.3 Consumer issues

FSRA actively performs scans of its operating environment to identify potential issues, which may impact consumers.

Key consumer issues include (but are not limited to):

- The pandemic undoubtedly will change consumers' perception of and relationship with financial services across FSRA's regulated sectors. While the long-term impacts of the pandemic on consumers are unknown, Ontario has experienced high levels of unemployment and significant increases in household indebtedness.<sup>9</sup> These negative impacts have also disproportionately impacted economically vulnerable groups,<sup>10</sup> which could potentially result in sustained economic and financial insecurity, and permanently alter consumer behaviours. FSRA will

continue to monitor the impact of the pandemic on the financial resiliency of consumers.

- The pandemic led to increased usage of digital technologies amongst consumers for financial products and services. FSRA will closely monitor the development of this trend to better understand if these digital technologies will be adopted on a permanent basis by consumers. Likewise, FSRA is interested in learning whether consumers are using digital technologies to support and enhance their interactions with financial service providers, or if these technologies are replacing more traditional relationships with expert professionals. Risks for FSRA to monitor in this space include improper disclosure and lack of transparency; consumers not fully understanding their options; and product suitability.
- Mortgage Brokers – The pandemic heightened affordability issues for consumers, which affect consumers' ability to find suitable financial products and services. The issue of housing affordability is particularly challenging in the mortgage industry. There are numerous trends and threats to positive consumer outcomes associated with the lack of affordability, including: increases in private mortgages and non-bank financial intermediaries such as Mortgage Investment Corporations, potential mis-selling of products to consumers, and fraud for shelter.<sup>11</sup>

<sup>8</sup> A [Capgemini global study](#) found that 51% of consumers in 2020 were interested in UBI, compared to just 35% in 2019. A study by [lowestrates.ca](#) found that 38% of respondents from Ontario were interested in a UBI program, compared to just 28% in 2019. CAA Insurance Company (CAA) [reported](#) that its MyPace program grew by approximately 300% between April and December 2020.

<sup>9</sup> [Bank of Canada – Financial System Review 2021](#)

<sup>10</sup> Households in Canada that already had high debt-to-income ratios were more adversely impacted by the economic consequences of the pandemic:

<sup>11</sup> Providing false information on a mortgage application to qualify a borrower for a mortgage that their income or credit history does not allow is called fraud for shelter.

- Insurance – Affordability continues to be a concern for insurance consumers. As consumers become more price conscious, there is an increased risk that they will opt for policies based solely on price as opposed to those that provide optimal coverage for their unique circumstances. FSRA will also continue to monitor the overall value-for-money insurance consumers receive from their products and whether the products consumers are being sold are suitable.

## 1.4 Emerging issues and trends in FSRA’s regulated sectors

FSRA performs ongoing scans of its regulated sectors, and the financial services sector more broadly, to identify emerging risks. In particular, FSRA is actively monitoring cyber/technology risk and climate change risk:

- The overall risk posed by climate change and natural catastrophes continues to be closely monitored by FSRA. The National Issues Report by Natural Resource Canada found that there are large gaps which remain in Canada’s preparedness for the effects of climate change. Severe weather has caused an average of \$1.4 billion in insured damage per year in Canada since 2009, and the total exposure to climate related losses is expected to increase in the future.<sup>12</sup> The increased likelihood and severity of natural catastrophes represents a risk to FSRA regulated entities,

particularly insurance companies, credit unions and pension plans. Risks associated with climate change include: the potential physical damage to property; disruption to essential services; consumers potentially being underinsured for risks; and liquidity/capital challenges.

- The pandemic has led to an increase in cyber-security and technology risks due to the increased use of digital and new technologies, the transition to remote work environments, outsourcing to third parties, and the overall state of the economy resulting in higher instances of fraud (e.g., ransomware). According to the Canadian Centre for Cyber Security, the risks related to cyber-attacks is expected to increase in the future. This includes increased risks to consumer privacy, access to essential services, critical infrastructure, operational resiliency of financial institutions, and the overall economic and financial wellbeing of Canadians.<sup>13</sup>

These two areas pose significant long-term risk to FSRA’s statutory objects. In addition to performing scans to better understand the potential impacts posed by climate and cyber risk, FSRA is also monitoring the development of guidance, regulatory requirements, and potential mitigation efforts by other regulators in these areas. FSRA continuously monitors the activity of peer and global regulators, especially as it relates to addressing new risks. FSRA will closely follow The Office of the Superintendent of Financial Institutions’ consultations on technology risk<sup>14</sup> and climate risk.<sup>15</sup> FSRA will harmonize its risk mitigation efforts with other regulators when possible.

<sup>12</sup> [Natural Resource Canada – National Issues Report](#)

<sup>13</sup> [Canadian Centre for Cyber Security – National Cyber Threat Assessment 2020](#)

<sup>14</sup> [OSFI – Technology risk consultation](#)

<sup>15</sup> [OSFI – Climate-related risks in the financial sector consultation](#)

# 2. FSRA Proposed Statement of Priorities

## Overview

Cross-sectoral priorities		
Regulatory efficiency and effectiveness		
<p><b>1. Strengthen consumer focus</b></p> <ul style="list-style-type: none"> <li>• Identify opportunities to respond to the needs of and risks to consumers in positions of vulnerability.</li> <li>• Strengthen FSRA’s baseline understanding of the current complaints resolution system, including consumer experiences.</li> <li>• Strengthen the Consumer Office’s consumer research agenda.</li> <li>• Enable the FSRA Consumer Advisory Panel and other consumer stakeholders to participate in more of FSRA rule development, guidance, and other policy work.</li> </ul>	<p><b>2. Enable innovation</b></p> <ul style="list-style-type: none"> <li>• Implement the Innovation Framework and innovation tools we have developed:               <ul style="list-style-type: none"> <li>➢ Scale our Test and Learn Environments, gather data and refine our approach to ensure they support responsible innovation in Ontario’s financial services ecosystem.</li> <li>➢ Implement the 5-stage innovation process.</li> <li>➢ Implement an engagement strategy that proactively engages sector participants and consumers to identify innovation opportunities and emerging trends, including the creation of a dedicated advisory body to FSRA.</li> <li>➢ Build our understanding and act as a center of expertise and information on innovation, championing an innovative culture.</li> </ul> </li> </ul>	<p><b>3. Modernize systems and processes</b></p> <ul style="list-style-type: none"> <li>• Implement technology solutions to reduce processing times, improve information sharing and provide self-service capabilities.</li> <li>• Implement advanced online/web-based information sharing and transactional processing tools.</li> <li>• Develop digital document processing and digital signature capabilities.</li> <li>• Enable data analytics for each of the regulated sectors.</li> </ul>

**Sector-specific: targeted high-impact priorities**

<b>Property &amp; casualty (auto) insurance</b>	<b>Credit unions</b>	<b>Life &amp; health insurance</b>
<p><b>4.1</b> Implement a new strategy for reforming the regulation of auto insurance rates and underwriting.</p> <p><b>4.2</b> Develop recommendations and act on reforms of the auto insurance system.</p> <p><b>4.3</b> Ensure the Fair Treatment of P&amp;C/Auto Consumers.</p> <p><b>4.4</b> Implement Insurance Prudential Supervision.</p>	<p><b>5.1</b> Implement new credit union legislative framework.</p> <p><b>5.2</b> Enhance financial stability structures.</p> <p><b>5.3</b> Implement Risk Based Supervision.</p>	<p><b>6.1</b> Enhance market conduct oversight to protect consumers.</p>
<b>Mortgage brokering</b>	<b>Pensions</b>	<b>Financial planners &amp; advisors</b>
<p><b>7.1</b> Implement recommendations from the review of the <i>Mortgage Brokerages, Lenders and Administrators Act, 2006</i>.</p> <p><b>7.2</b> Promote high standards of governance and business conduct.</p>	<p><b>8.1</b> Enabling Plan Beneficiaries.</p> <p><b>8.2</b> Protection of Pension Benefits in Ontario's Pension Sector.</p>	<p><b>9.1</b> Operationalize the title protection framework for Financial Planners/Financial Advisors.</p>

# 3. Regulatory Efficiency and Effectiveness

## 3.1 Strengthen consumer focus

### Overview

FSRA continues to prioritize meaningful engagement with consumer stakeholders. Through the work of the Consumer Office, FSRA has found the role of the Consumer Advisory Panel to be critical to FSRA in fulfilling its mandate to protect the public interest. The Consumer Advisory Panel has provided FSRA with valuable advice on all of FSRA's strategic priorities, and the Consumer Advisory Panel has participated in FSRA public consultations. FSRA has also created new opportunities to dialogue with other consumer stakeholders. Through the Consumer Office and with the support of Consumer Advisory Panel, FSRA has engaged and supported other consumer stakeholder participation in FSRA consultations. FSRA also convened the Residents' Reference Panel on Automotive Insurance in Ontario, which offered recommendations to FSRA from the perspective of everyday Ontario residents.

Building on the strong foundation established through the Consumer Office and the Consumer Advisory Panel, FSRA continues to look for opportunities to increase and deepen consumer stakeholder participation in its policymaking (i.e., rulemaking and guidance development).

FSRA is also seeking to strengthen its

consumer research agenda. Strengthening FSRA's evidence-base around consumers will support its growth as an outcomes-focused and consumer-centered regulator.

It is also important that FSRA brings an equity lens to its work. While a focus on vulnerable consumers is underpinned by FSRA's statutory objects of consumer protection, consumer vulnerability has come into sharper focus with Covid-19 and its disproportionate impact on the circumstances of many Ontario residents.

Building on the Consumer Office's research on and development of cross-sectoral, principles-based, guiding policy frameworks on Consumer Disclosures and Complaints Resolution, the Consumer Office will continue to work with internal partners, other regulators, and with industry, to apply the practices, guiding principles, and strategies from the frameworks.

Lastly, to explore cross-cutting consumer issues and to enhance protection of the public across multiple sectors, it will be important for FSRA to build its supervisory capacity to conduct thematic reviews across the regulated sectors. This capacity will further our regulatory efficiency and effectiveness objectives, as well as support the objectives identified in this priority as well as others described below.

### Key deliverables

- Identify opportunities for FSRA to respond to the needs of and risks to consumers in positions of vulnerability, to strengthen FSRA's focus on the protection of vulnerable consumers.
- Strengthen FSRA's baseline understanding of the current

complaints resolution system, including consumer experiences.

- Strengthen the Consumer Office's consumer research agenda and share insights from consumer research with consumers, industry, and other key stakeholders.
- Enable the FSRA Consumer Advisory Panel and other consumer stakeholders to participate in more FSRA rule development, guidance, and other policy work (e.g., more consumer stakeholder engagement with FSRA public consultations, more consumer panels, etc.) further strengthening FSRA's collaboration with consumer stakeholders in policymaking.

### **Planned outcomes**

- Protection of consumer rights and interests through a focus on vulnerable consumers.
- Better informed consumers through stronger consumer disclosure practices.
- Enhanced public knowledge and navigability of the complaints resolution system.
- Enhanced public confidence in the regulated sectors through a strong consumer research agenda and more opportunities for consumer stakeholders to participate in policymaking.

## **3.2 Enable innovation**

### **Overview**

The Innovation Office's start-up phase has to this point been focused on theory-building: gathering information, developing working relationships, and identifying where we can have an impact that supports FSRA's fostering of responsible innovation in Ontario's financial services ecosystem.

Over the last year we have held consultations with stakeholders and partners within FSRA, in government, at other agencies, consumers, innovation centers and with financial services sector innovators themselves. These consultations have happened in tandem with our efforts to develop and launch our innovation toolkit: we have developed our Innovation Framework, created our Innovation Process, designed our Test and Learn Environments to test innovation opportunities, and have begun work to identify how FSRA can better use its discretionary powers to support innovation.

The coming year will be focused on refining our approach as new data and context emerges, ultimately moving from theory to practice as we begin to wield the innovation tools we have been crafting within the statutes and objects of regulated sectors and applicable legislation.

### **Key deliverables**

Implement the Innovation Framework and innovation tools we have developed by:

- Scaling our Test and Learn Environments to gather data and refine our approach to ensure they support responsible innovation in

Ontario's financial services ecosystem  
Implementing the 5-stage innovation process.

- Implement an engagement strategy that proactively engages sector participants and consumers to identify innovation opportunities and emerging trends, including establishing a potential advisory body to FSRA.
- Build our understanding and acting as a center of expertise and information on innovation, championing a culture of innovation among FSRA's regulated financial services sectors.

### Planned outcomes

More innovative and competitive financial services through:

- Expanded and enriched access to markets for new market entrants and existing businesses across our sectors, encouraging innovators to bring their responsible innovations to the Ontario financial services market.
- Deepened and expanded relationships with our key stakeholders continuing our efforts to develop open, genuine, transparent lines of communication between FSRA and sector participants to ensure that FSRA's pursuit of responsible innovation is guided by data and perspective.
- Greater expertise and understanding of the changing financial services landscape both in Ontario and around the world, allowing the Innovation Office to confidently make recommendations regarding novel solutions proposed by innovators and

alternative policy approaches to regulating Ontario's financial services ecosystem.

- Greater awareness of innovation opportunities and development of innovation culture at FSRA through standardization of the innovation tools.

## 3.3 Modernize systems and processes

### Overview

FSRA continues to modernize its Information Management/Information Technology systems, and the processes they support, following a multi-year transformation roadmap (the "roadmap").

The roadmap incorporates both sector-specific business priorities and enterprise technology requirements. It also creates a flexible and adaptable business-operating model, supported by streamlined operational processes.

These workflow and system improvements will be key to delivering on the regulatory efficiency priority through:

- Optimized and streamlined data collection and filings.
- Improved service levels.
- Enhanced ability for FSRA to respond quickly to changing regulatory needs.

FSRA is committed to involving the sectors in the modernization work through communication, consultation, and collaboration. This includes outreach through FSRA's communication channels,

forums for discovery and user experience research, and ongoing opportunities for input and feedback as the modernization takes shape.

## Key deliverables

- Implement technology solutions to enable simplified and fully digitized operations, including a 360-degree view of regulated entities (customer information system), case management, content management and data analytics tools, with enhanced client portals.
- Implement advanced online/web-based information sharing and transactional processing tools on FSRA portals.
- Develop digital document processing and digital signature capabilities to support streamlined processing of all paper-based channels.
- Enable data analytics for each of the regulated sectors to empower FSRA policy and supervisory activities. Across the sectors, we will enhance infrastructure and establish new data interfaces (both new data sources and improved data exchanges) and implement advanced analytics and reporting systems to enable more efficient decision-making across all sectors.

## Planned outcomes

- Improved regulatory oversight through greater access to data and analytics tools across all sectors.
- Improved relationships with stakeholders through enhanced relationship and case, management

capabilities, and improved tracking and operational processing capabilities.

- Improved and, where possible, customized user experience with the FSRA online portal.
- Improved turnaround time for licensing, filing and registration processes.
- Improved access to information for consumers.

## 4. Property and Casualty (Auto) Priorities

### 4.1 Implement a new strategy for reforming the regulation of auto insurance rates and underwriting

#### Overview

FSRA's strategy for reforming the regulation of auto insurance rates and underwriting will make the oversight of auto insurance rates and underwriting rules more dynamic, flexible, and transparent to protect fair access to auto insurance for Ontario's consumers.

#### Key deliverables

- Explore opportunities to begin development of a rule and guidance to define fairness in rates, risk

classification and underwriting.

- Develop guidance to improve operational efficiency, including filing management and decision-making processes.
- Advance transition to a new supervisory framework that monitors and enforces compliance with requirements for rates and underwriting.
- Develop a consumer education strategy to promote informed decision making.
- Develop a transparency strategy that creates more accountability for consumer outcomes throughout the sector.
- Provide data analytics support for the regulatory reform of rates and underwriting by developing new supervisory tools and monitoring market health and consumer outcomes.
- Apply lessons learned from the Take All Comers Thematic Review.

### **Planned outcomes**

- Fairer treatment of consumers by holding insurers accountable for misconduct and treating consumers fairly through FSRA rulemaking, guidance and a new supervisory framework.
- Improved market health with more efficient regulation through FSRA process reforms that enable market entry, responsiveness, innovation and

delivering value-for-money to consumers.

- Empowered consumers to make more informed decisions by enhancing transparency and providing resources to enhance the consumer's understanding of auto insurance.
- Clear and consistent communication of FSRA's approach to principles-based regulation and supervision.

## **4.2 Develop recommendations and act on reforms of the auto insurance system**

### **Overview**

FSRA will continue supporting the implementation of legislative changes to reform auto insurance regulation and provide expert advice to government on key trends and opportunities to improve regulatory effectiveness, efficiency, and outcomes for consumers.

### **Key deliverables**

- Work with the Ministry of Finance to support the development and implementation of initiatives to reduce fraud and abuse in the system.
- Develop Health Service Provider supervisory reforms, including enhanced efficiency and more effective regulation through coordination with regulatory colleges and sector participants.
- Work with stakeholders to improve the Health Care for Auto Insurance

system, including the efficiency of billing and data practices to improve consumer outcomes.

- Act on next steps from the Three-Year Review of Auto Insurance.
- Collaborate with stakeholders on opportunities to improve consumer outcomes and evaluate trends.

### Planned outcomes

- Improved public confidence in regulated sectors by improving Health Service Provider supervision.
- Reduced fraudulent conduct, practice, and activity through initiatives to reduce fraud and abuse.
- Improved protection of consumer rights and interests by enhancing regulatory effectiveness and efficiency.

## 4.3 Ensure the fair treatment of P&C/auto consumers

### Overview

FSRA is taking an outcomes-focused approach to monitoring P&C/Auto conduct, including supervision, deterrence and encouraging high standards of conduct in the interest of public confidence and safety. To ensure the fair treatment of customers, FSRA will continue to apply a principles-based approach in setting conduct expectations.

### Key deliverables

- Explore opportunities in risk-based targeting to prioritize compliance initiatives and address consumer harms.
- Complete the Take All Comers Thematic Review.

### Planned outcomes

- Enhanced public confidence in regulated sectors through regulatory outcomes supporting the fair treatment of customers.

## 4.4 Implement insurance prudential supervision

### Overview

FSRA is responsible for the prudential regulation of Ontario-incorporated insurance companies. There are 54 Ontario-incorporated insurers primarily consisting of farm mutual insurers, but also including a limited number of conventional P&C and reciprocal insurers, as well as other types of insurance providers.

As part of its statutory mandate, FSRA has begun a review of its insurance prudential supervisory approach and framework. As part of this multi-year initiative, FSRA intends to engage with the sector to develop a new and enhanced framework which adheres to international best practices. The development of the revised approach will include review of supervisory practices, regulatory operations, recovery framework and key prudential supervisory principles. The new framework will support a vibrant financial services sector by fostering strong and resilient institutions,

better protecting policyholders, and promoting financial stability and choice for Ontarians.

The enhancements in the approach to supervision of Ontario-incorporated insurance companies will also result in increased operational demands within FSRA and initiate an open dialogue with the insurance sector on the implications of the change.

### Key deliverables

- Modernize supervisory approach and framework by appropriately aligning FSRA supervisory practices to relevant international standards.
- Implement the Insurance Prudential Supervisory Framework and related guidance.
- Collaborate with the Ontario-incorporated insurance sector to develop an agreed upon workplan for sector guidance and rules to support effective regulation.

### Planned outcomes

- Modern, effective, and forward-looking supervisory methodology and processes.
- A stronger, more sustainable, competitive, and innovative sector.
- Clear and consistent communication of FSRA's approach to principles-based regulation and supervision.

## 5. Credit Union Priorities

### 5.1 Implement the new credit union legislative framework

#### Overview

In December 2020, the new *Credit Unions and Caisses Populaires Act, 2020* received Royal Assent. The new legislation aims to create a modern, principles-based statutory framework for Ontario's credit unions and provides FSRA with new rule-making powers on approximately 60 topics. Over 2021-22, FSRA began work to implement the new legislative framework by developing and consulting on three rules for sound business and financial practices, capital adequacy and liquidity adequacy. FSRA will support the government to be able to proclaim the *Credit Unions and Caisses Populaires Act, 2020* into force. This includes continuing to work closely with the government, the credit union sector, and other stakeholders to implement the *Credit Unions and Caisses Populaires Act, 2020* and its regulations, as well as develop additional rules and guidance in order to further transition the sector to principles-based regulation.

#### Key deliverables

- Support the Ministry of Finance in the implementation of regulations under the *Credit Unions and Caisses Populaires Act, 2020* legislation.

- Develop, consult on, and issue high-priority principles-based guidance and rules identified in FSRA's existing work plan with the credit union sector. This includes those relating to FSRA's approval process for investments, business powers and Subsidiaries, operational risk management, as well as the unclaimed deposits framework under the *Credit Unions and Caisses Populaires Act, 2020*.
- Engage the credit union sector to create a workplan that contemplates all of the (approximately 60) areas for which FSRA has rule-making authority under the *Credit Unions and Caisses Populaires Act, 2020* and prioritizes the development of additional rules and guidance that have not already been developed or identified on FSRA's existing work plan with the sector.

### Planned outcomes

- Improved protection of member deposits, interests, and confidence.
- A stronger, better governed and more resilient credit union sector.
- More competitive, stable, and innovative credit union.

## 5.2 Enhance financial stability structures

### Overview

FSRA will continue to promote the resiliency of the credit union sector through the enhancement of safety net structures such as the Deposit Insurance Reserve Fund and the Differential Premium System

methodology, FSRA's resolution regime, and ensuring access to sufficient emergency liquidity. Safety net structures and tools ensure that deposits are protected during both day-to-day activities as well as stress events and promote sector stability.

### Key deliverables

- Initiate consultations with the sector on FSRA's new proposed Differential Premium System methodology and work with the Ministry of Finance to identify necessary amendments to regulations.
- Continue to enhance the Deposit Insurance Reserve Fund Adequacy Assessment Framework and work with the sector on the most effective way to gather required risk data for the benefit of credit unions, the sector, and FSRA. This includes delivering a report to the Ministry of Finance on the adequacy of the Deposit Insurance Reserve Fund, as required under the *Financial Services Authority of Ontario Act, 2016*, using an updated assessment framework.
- Continue work with various external partners on sectoral structural liquidity to secure the most efficient access to sufficient emergency liquidity for Ontario credit unions.
- Continue to work with the Ministry of Finance and the credit union sector to enhance FSRA's resolution regime.

### Planned outcomes

- Reduced Deposit Insurance Reserve Fund's exposure to loss.

- Improved depositor protection and sector stability.
- Greater public, sector, and regulatory confidence in the availability of liquidity sources for the sector.

## 5.3 Implement risk-based supervision

### Overview

Major changes and developments in the financial services industry have changed the nature of risks and risk management of financial institutions. Recognizing these changes, FSRA has developed a new Risk-Based Supervisory Framework, which integrates both prudential and market conduct supervision.

Implementation of the new Risk-Based Supervisory Framework is a multi-year initiative which aims to transform and modernize FSRA's supervisory methodology. This transformation will require substantial resources and close collaboration with the credit union sector that will greatly advance risk management practices at FSRA and credit unions, and ultimately reduce burden to the sector in the future.

The new methodology ensures that FSRA can respond proactively and effectively to changes in the Ontario credit union sector and improves the crisis readiness and resiliency of Ontario credit unions. FSRA will begin to supervise credit unions under the new Risk-Based Supervisory Framework and continue to transition to a principles-based and outcomes focused regime.

### Key deliverables

- Implement and operationalize new dynamic, outcomes-focused, and risk-based practices, and processes for assessing credit union risk profiles and determining FSRA's level of supervisory engagement. FSRA will determine the risk profiles for a subset of credit unions under the new Risk-Based Supervisory Framework methodology, with a plan to assess all institutions under the new framework over the coming years.
- Work with credit unions to implement recovery planning requirements.
- Refine the market conduct supervisory program to focus on high-risk activities that could result in unfair or poor outcomes for members and that pose risks to credit union sector stability and a credit union's viability.

### Planned outcomes

- Enhanced proportional and effective supervision that is forward looking and risk based.
- Enhanced sector resiliency and stability, and improved depositor protection.
- Clear and consistent communication of FSRA's approach to principles-based regulation and supervision.

# 6. Life and Health Insurance

## 6.1 Enhance market conduct oversight to protect consumers

### Overview

The International Association of Insurance Supervisors' globally accepted framework for insurance supervision requires insurers and intermediaries to treat customers fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.

Since the 2018 release of the Canadian Council of Insurance Regulators/Canadian Insurance Services Regulatory Organizations guidance on the Fair Treatment of Customers, FSRA and regulators across Canada have actively supervised against the guidance to assess if customers are being treated fairly. In response to regulatory findings, and to enhance trust and increase confidence in the sector, FSRA is actively taking steps to enhance its supervisory approach, improve consumer disclosure, and release guidance that will address consumer harms.

### Key deliverables

- Publish for consultation a proposed framework and supervisory approach for Managing General Agents.
- Working with insurance and securities regulators across Canada, develop harmonized total cost reporting

disclosure requirements for segregated fund contracts.

- Finalize guidance on segregated fund recommendations, working with insurance regulators across Canada.
- Publish for consultation guidance on Fair Treatment of Customers incentives, working with insurance regulators across Canada.
- In consultation with industry, build supervision capacity in insurance distribution under FSRA's supervisory framework for Life & Health Insurance, including Agent supervision.

### Planned outcomes

- High standards of business conduct are achieved by providing a clear understanding of FSRA's expectations of the relationship between insurers and Managing General Agents, to ensure that obligations under the Insurance Act, its regulations, and agent license requirements are being met.
- Consumers are better informed, as industry has a clear understanding of regulatory expectations regarding the information consumers will receive about the total cost of their segregated fund contracts.
- Customers are treated fairly, as industry has a clear understanding of:
  - Regulatory expectations with respect to the sale and administration of segregated fund contracts, help ensure customers

are treated fairly.

- Regulatory expectations for insurers and intermediaries for the appropriate assessment and management of customer risks, that could result from incentives paid for product sales and servicing.
- FSRA's expectations for agent and distribution channel oversight.
- Clear and consistent communication of FSRA's approach to principles-based regulation and supervision.

## 7. Mortgage Brokering

### 7.1 Implement recommendations from the review of the *Mortgage Brokerages, Lenders and Administrators Act, 2006*

#### Overview

FSRA will continue to work with the government to implement recommendations from the 2019 report on the review of the *Mortgage Brokerages, Lenders and Administrators Act, 2006*. The report's recommendations focus on:

- Improving consumer and investor protection.

- Modernizing and streamlining the *Mortgage Brokerages, Lenders and Administrators Act, 2006* to increase access to the mortgage market for homeowners, lenders, and investors, by improving regulatory efficiency and reducing burden.

#### Key deliverables

- Implement any government-approved regulatory amendments that introduce a licensing scheme with enhanced proficiency requirements that better reflect the unique practices of different segments of the mortgage market, and review sector fees to ensure alignment with the new licensing scheme.
- Explore and analyze data sources, including available market intelligence data, to determine the best information that would assist FSRA and other stakeholders in understanding and monitoring the private lending mortgage market.

#### Planned outcomes

- Protection of public interests by continuing to work with the sector and the Ministry of Finance to explore policy changes that could introduce an additional licence for dealing in activities that require additional proficiency from those obtained under the current licensing requirements.
- Enhanced efficiency and effectiveness of the licensing regime, especially for those dealing and trading in traditional types of mortgages.

- Enhanced regulation and supervision through an improved understanding of private mortgage lenders' participation in Ontario's housing market, to support effective evidence-based regulatory and policy decision making.

## 7.2 Promote high standards of governance and business conduct

### Overview

A key principle of FSRA's risk-based regulatory approach is to promote good governance, controls and internal processes to achieve high standards of business conduct in the mortgage brokering sector. This approach helps ensure that Principal Brokers and other licensees can effectively identify and manage risks, to ensure the fair treatment of consumers.

In 2020-21, FSRA surveyed 1,000 Principal Brokers about the environment under which they operate, an environment which is continuously adapting to trends. In August 2021, FSRA also adopted the Mortgage Broker Regulators' Council of Canada National Code of Conduct into its regulatory framework, directing Principal Brokers to ensure that the Mortgage Broker Regulators' Council of Canada Code is reflected in their governance documents and is used to promote high standards of business conduct. In 2022-23, FSRA intends to continue to assess governance practices, including as it relates to the adoption of the Mortgage

Broker Regulators' Council of Canada Code.

### Key deliverables

- Develop and start executing on a plan to support brokerages in enhancing governance, controls and internal processes, which would include ensuring effective implementation of the Mortgage Broker Regulators' Council of Canada National Code of Conduct.
- Through industry engagement and additional supervision reviews, identify potential governance challenges that brokerages and Principal Brokers face in effectively working with their brokers and agents, to achieve high standards of conduct and to ensure the fair treatment of consumers.

### Planned outcomes

- High standards of business conduct resulting from FSRA's strategic engagement with industry. Principal Brokers have the appropriate authority, resources, and supervision programs to promote strong business conduct and mindset among licensees to identify and manage risks to ensure the fair treatment of consumers.
- Clear and consistent communication of FSRA's approach to principles-based regulation and supervision.

## 8. Pensions

### 8.1 Enabling plan beneficiaries

#### Overview

FSRA will continue to work to ensure appropriate principles-based and outcomes-focused implementation of the regulatory framework while supporting vibrancy and good administration in Ontario's pension sector. This will happen by increasing regulatory efficiency and effectiveness, reducing costs, and facilitating sector evolution (e.g., around plan transactions, transfers, and consolidation). This builds on FSRA's efforts since launch focused on:

- Collaboration with other regulators to finalize Canadian Association of Pension Supervisory Authorities guidelines on topics such as leverage risk governance, capital accumulations plans and Environmental Social and Governance factors.
- Pilot benchmarking for defined benefit multi-employer pension plans against the leading practices identified in Guidance published in 2021.
- Execution on key Guidance documents issued since launch: missing members, asset transfer transactions, and marriage breakdown.

FSRA will work with the sector on issues around pension plan member communication and engagement strategies. The goals are to improve

outcomes in retirement, support FSRA's statutory objects, promote good administration of pension plans, and protect the pension benefits and rights of plan members within the context of the current legislative and regulatory framework. FSRA will also promote awareness of the value of a pension.

#### Key deliverables

- Consult and engage on a thought-leadership piece on leading practices in member communication and engagement strategies: FSRA would issue a discussion paper, based on evidence and experience of the sector for response.
- In 2022-23, begin development of new rules through the existing rule-making powers on Family Law, to act on the findings of the special purpose Technical Advisory Committee in F2020-2021.
- Support awareness of and provide neutral unbiased information on the value of pensions to plan members, employers and society, including through launching a Pension Awareness Day.

#### Planned outcomes

- Better educated and knowledgeable members and good pension plan administration through enhanced articulation of FSRA's view of leading practices on member engagement and communications. Adoption of these practices by more pension plan administrators will help support more members' awareness of their benefits, what decisions they must make, and

how their benefit rights and entitlements are protected.

## 8.2 Protection of pension benefits in Ontario's pension sector

### Overview

Since launch, FSRA has taken action to support the protection of pension benefits in Ontario's pension sector. This has included:

- A focus on single employer defined benefit plans where there may be a risk to security of benefits.
- Work with large public-sector pension plans to monitor and enhance FSRA's supervision of investment risks and understanding of governance and systemic risks in Ontario's largest pension plans.
- Work on the long-term viability and financial sustainability of the Pension Benefits Guarantee Fund, including enhancing FSRA's predictive analysis.

Moving forward, FSRA will promote transparency of the Pension Benefits Guarantee Fund. FSRA will continue to engage the sector through its existing standing Technical Advisory Committees and Retiree Advisory Panel. Building on its mandate to promote education and knowledge of the pension sector, FSRA will undertake to better support pension plan beneficiaries with information about their pension benefits and the pension

sector.

### Key deliverables

- Develop and consult on a Pension Benefits Guarantee Fund annual performance and financial report to:
  - Enhance transparency to stakeholders.
  - Outline risks and opportunities to support the long-term sustainability of the Pension Benefits Guarantee Fund.
  - Report on the ongoing management of the Pension Benefits Guarantee Fund.
- Consult on ways in which FSRA can continue to execute on its mandate to protect pension plan beneficiaries. This could include development of a resource center for members. FSRA will engage its standing Technical Advisory Committees to prioritize initiatives. Content development will begin in F2022-23.
- Pilot benchmarking for defined benefit multi-employer pension plans against the leading practices identified in Guidance published in 2021 with a view to issue a findings report in 2024.
- Continue to work on developing a common liquidity risk framework for the large public sector pension plans; FSRA expects to analyze results of its pilot liquidity framework over the fall of 2022.
- Continue to participate in the Canadian Association of Pension Supervisory Authorities'

Environmental, Social and Governance committee to produce guidance for the pension sector on Environmental, Social and Governance in pension risk management and investment decision-making; draft guidance is expected to be published for public comment in spring 2022 and finalized later in 2022. FSRA will also engage with the large public sector pension plans on Environmental, Social and Governance investment and risk management practices over 2022-2023.

### Planned outcomes

- Pension plan members who are better educated about how the Pension Benefits Guarantee Fund protects their benefits. These activities will provide a common understanding to the pension sector, including retirees, of the Pension Benefits Guarantee Fund, key risks, and FSRA initiatives focused on sustainability of the Fund. This, along with member-focused information, will support awareness and confidence.
- Enhanced confidence in the pension sector, together with a focus on beneficiaries, complements member engagement and efforts to heighten awareness of pensions as an employer-provided benefit to support retirement income in 8.1, will improve FSRA's visibility and credibility in the sector.

## 9. Financial Planners / Financial Advisors

### 9.1 Operationalize the title protection framework for financial planners / financial advisors

#### Overview

The goal of the Financial Professionals Title Protection Framework is to ensure that individuals using the “financial planner” and “financial advisor” titles are appropriately qualified through meeting minimum standards. This will promote confidence and professionalism in the sector and avoid confusion for investors/consumers who may see the titles used without assurance of qualifications and adequate oversight of conduct.

Under the framework, FSRA will establish:

- Minimum standards for Financial Planner/Financial Advisor credentials.
- Criteria that entities must meet to obtain approval as a credentialing body.
- A supervisory framework for the oversight of credentialing bodies.

Organizations seeking approval as credentialing bodies under the *Financial Professionals Title Protection Act, 2019* will need to meet certain standards with

respect to their curriculum, monitoring of Financial Planner/Financial Advisor title users, compliance, and enforcement.

Under the framework, FSRA will implement procedures to approve credentialing bodies and Financial Planner/Financial Advisor credentials, as well as implement a supervisory approach for the oversight of credentialing bodies and enforcement processes for non-credentialed Financial Planner/Financial Advisor title users.

FSRA will operationalize the title protection framework in preparation for the proclamation of the *Financial Professionals Title Protection Act, 2019*.

### **Key deliverables**

- Accept applications from entities seeking approval as credentialing bodies under the *Financial Professionals Title Protection Act, 2019* and approve those that meet the minimum standards.
- Execute a consumer education campaign to increase consumer knowledge and awareness of the title protection framework.
- Implement an effective supervisory framework to ensure that credentialing bodies have the necessary policies and procedures in place to protect consumers.

### **Planned outcomes**

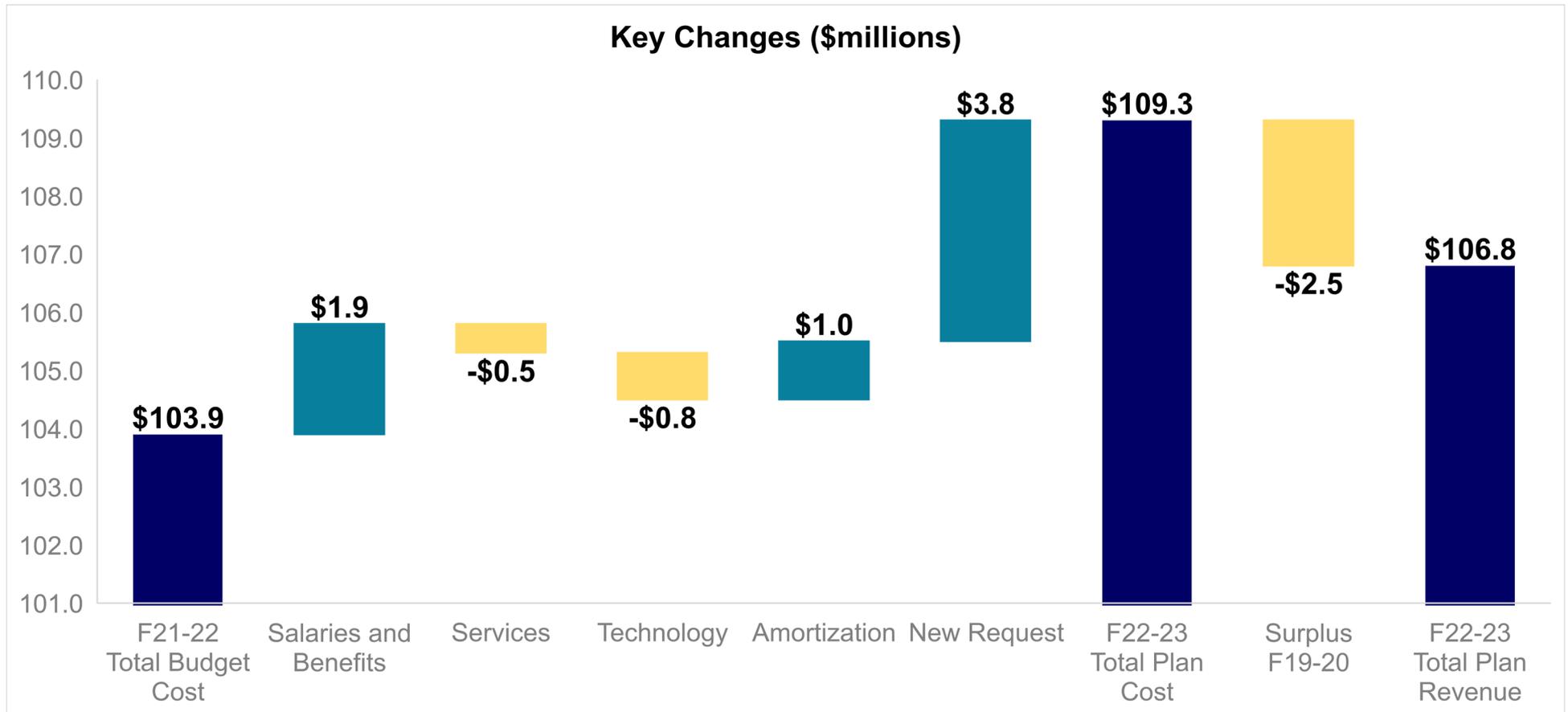
- Effective operation as a high-performing regulator by implementing an effective approval process for

credentialing body and Financial Planner/Financial Advisor credential applications.

- Establish an effective framework for monitoring credentialing bodies to ensure they protect customers.
- Enhanced public confidence in the regulated sector by successfully implementing the framework.
- More educated and knowledgeable public and sector through the development of effective industry and consumer education campaigns to support the implementation of the title protection framework.

# 10. Financial Outlook

- FSRA proposes a \$109.3 million cost financial plan for F2022-2023 to achieve its mandate and stated priorities. This is 5.2% higher than the F2021-2022 budget and 2.6% higher than F2022-2023 in the F2021-F2024 ABP. The table below analyzes the net increase of proposed plan costs compared to the F2021-2022 cost and revenue financial plan.



- The \$1.9 million cost increase is primarily due to mandatory collective bargaining agreements, and to Bill 124 1% mandate for non-union staff.
- The efficiencies of \$0.5 million and \$0.8 million in Services and Technology are primarily due to a reduction of one-time investments as well as absorption of activities into the base.
- Overall amortization increased by \$1.0 million, of which FSRA will incur digital transformation amortization cost increase of \$1.6 million (\$9.0 million current year investment, of which \$7.2 million will be deferred and amortized over five years).
- New request investments of \$3.8 million primarily to close regulatory gaps and prepare for new regulatory activities.
- Regulatory gaps:
  - Build new Life and Health team to address critical regulatory gap to protect consumers including consumer guidance support (Priority 6.1).
  - Increase P&C Prudential and Regulatory supervision (Priority 4.4).
  - Invest in Auto Product Insurance data acquisition (Priority 4.3).
  - Investment in resource to address Environmental Social Governance and enhance engagement with DC pension plan administrators (Priority 8.1).
- Prepare for new regulatory activities:
  - Build and ongoing support new *Credit Unions and Caisses Populaires Act, 2020* Framework (Priority 5.1).
  - Implement recommendations from *Mortgage Brokerages, Lenders and Administrators Act, 2006* review including raising professional standards for agents and brokers (Priority 7.1).
  - Support the execution of core research functions in Consumer Office engagement efforts (Priority 1).
  - Support legal service for Rule Making and Policy.
  - Investment in Public Affair to increase public awareness and transparency of misconduct (Priority 1).

## 10.1 Sector fee assessments

- FSRA proposes total sector revenues showing a net increase of 6.7% or \$6.7 million over the F2021-2022 budget. The variable sectors fee assessment component of these total revenues increases by 2.0% after accounting for the anticipated increase in revenues for fixed fee/activity fees. The assessment fee increase is limited to 2.0% by crediting \$2.5 million of cumulative surplus as per Board approved in the F2021-2024 ABP and \$1.6 million from Mortgage Broker revenue overage back to the sectors in F2022-2023.
- The fee assessment is \$0.7 million below the committed year 2 in the F2021-2024 ABP.

Sector (\$000's)	Insurance								Pensions (Fixed and Variable)	Credit Unions (Variable)	Mortgage Brokers (Fixed)	Loans & Trusts (Variable)	Financial Advisor & Financial Planner	Total
	Auto Products	Health Service Providers (Fixed)	P&C Conduct	P&C Prudential Regulation	Total Auto/HSP/ P&C	Life & Health Conduct (Variable)	Life & Health Conduct (Fixed)	Total Life & Health						
<b>F2022-2023 Revenue</b>														
Activity Fees		3,800	1,300		5,100		6,400	6,400					300	11,800
Fee Assessment	17,000		8,900	2,000	27,900	7,100		7,100	26,000	17,200		100	700	79,000
Licensing Fees					-			-			16,000			16,000
<b>F2022-23 Proposed Rev</b>	<b>17,000</b>	<b>3,800</b>	<b>10,200</b>	<b>2,000</b>	<b>33,000</b>	<b>7,100</b>	<b>6,400</b>	<b>13,500</b>	<b>26,000</b>	<b>17,200</b>	<b>16,000</b>	<b>100</b>	<b>1,000</b>	<b>106,800</b>
Direct Cost	9,900	2,100	6,000	1,200	19,200	4,200	3,600	7,800	15,400	10,700	8,100	100	600	61,900
Common Cost	7,900	1,700	4,700	900	15,200	3,300	2,800	6,100	12,000	7,400	6,300	-	400	47,400
<b>F2022-2023 Cost</b>	<b>17,800</b>	<b>3,800</b>	<b>10,700</b>	<b>2,100</b>	<b>34,400</b>	<b>7,500</b>	<b>6,400</b>	<b>13,900</b>	<b>27,400</b>	<b>18,100</b>	<b>14,400</b>	<b>100</b>	<b>1,000</b>	<b>109,300</b>
Expected Fixed Fee Over Contribution to Common Costs	(300)	-	(200)	-	(600)	(100)	-	(100)	(500)	(400)	1,600	-	-	-
Recovery Over/(Under)	(500)	-	(300)	(100)	(900)	(200)	-	(200)	(800)	(600)	-	-	-	(2,500)
<b>Funding from Cumulative Surplus</b>	<b>500</b>	<b>-</b>	<b>300</b>	<b>100</b>	<b>900</b>	<b>200</b>	<b>-</b>	<b>200</b>	<b>800</b>	<b>600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,500</b>
<b>F2021-22 Budget Revenue</b>	<b>19,360</b>	<b>3,327</b>	<b>10,234</b>	<b>524</b>	<b>33,444</b>	<b>4,395</b>	<b>5,627</b>	<b>10,023</b>	<b>26,105</b>	<b>15,551</b>	<b>12,332</b>	<b>106</b>	<b>2,500</b>	<b>100,061</b>
<b>Revenue Variance Increase/(Decrease)</b>	<b>(2,360)</b>	<b>473</b>	<b>(34)</b>	<b>1,476</b>	<b>(444)</b>	<b>2,705</b>	<b>773</b>	<b>3,477</b>	<b>(105)</b>	<b>1,649</b>	<b>3,668</b>	<b>(6)</b>	<b>(1,500)</b>	<b>6,739</b>
	<b>-12.2%</b>	<b>14.2%</b>	<b>-0.3%</b>	<b>281.3%</b>	<b>-1.3%</b>	<b>61.5%</b>	<b>13.7%</b>	<b>34.7%</b>	<b>-0.4%</b>	<b>10.6%</b>	<b>29.7%</b>	<b>-5.5%</b>	<b>-60.0%</b>	<b>6.7%</b>
<b>F2021-2022 Cost</b>	<b>19,974</b>	<b>3,327</b>	<b>10,586</b>	<b>542</b>	<b>34,428</b>	<b>4,546</b>	<b>5,627</b>	<b>10,174</b>	<b>27,003</b>	<b>16,132</b>	<b>13,597</b>	<b>109</b>	<b>2,500</b>	<b>103,943</b>
<b>Cost Variance Increase/(Decrease)</b>	<b>(2,174)</b>	<b>473</b>	<b>114</b>	<b>1,558</b>	<b>(28)</b>	<b>2,954</b>	<b>773</b>	<b>3,726</b>	<b>397</b>	<b>1,968</b>	<b>803</b>	<b>(9)</b>	<b>(1,500)</b>	<b>5,357</b>
	<b>-10.9%</b>	<b>14.2%</b>	<b>1.1%</b>	<b>287.1%</b>	<b>-0.1%</b>	<b>65.0%</b>	<b>13.7%</b>	<b>36.6%</b>	<b>1.5%</b>	<b>12.2%</b>	<b>5.9%</b>	<b>-8.6%</b>	<b>-60.0%</b>	<b>5.2%</b>

- Several sub-sectors or sectors will see increased fees:
  - Build new team to address critical regulation gap to protect consumer in Life and Health Conduct sector.
  - Continue investment in P&C Prudential sub-sector due to review of existing oversight and regulatory framework, ongoing participation/support on the Canadian Council Insurance Regulation Property and Casualty Insurance Compensation Corporation Committee, work regarding the international standards of solvency regulation criterion and analysis of the potential updates to the minimum capital test guideline for P&C insurance companies.
  - Credit union sector driven by conduct supervision, specific regulatory effectiveness initiatives and the IT 5 years transition costs.
  - Transition to risk-based priority regulatory framework for Health Services Provider sector.
- Several sub-sectors or sectors will see decreased fees:
  - Investment in data acquisition in Auto Insurance Product to improve regulatory effectiveness. Offset from lower Health Service Provider revenue shortfall and savings from legal and Policy allocations.
  - FP/FA sector moving from start up to sustain regulation.

## 10.2 FSRA financial plan

- The draft financial plan below presents the forecasted financial activities for the period April 1, 2022 to March 31, 2023. Subject to revisions after stakeholder feedback, it will form the basis of FSRA's proposed F2022-2025 Annual Business Plan. See the appendices for assumptions and methodologies on which the budget is based.
- This financial plan reflects the estimated resources FSRA requires to fulfill its regulatory requirements and to continue the transformation into a principles-based, independent and transparent regulator through its priorities and operating activities.
- Total revenue increased 6.7% year over year. Proposed fee assessment is 2.0% increased over prior year and \$0.7 million lower in fee assessment than F2022-2023 in the F2021-2024 ABP.

- Fixed or activity fee sector volumes are projecting a higher renewal and emerging applications primarily driven from Covid impacts, the amount increase is 31.8% for HSP and Life & Health Conduct and 29.7% for Mortgage Brokers.

(\$000's)	FSRA 2022-2023 Proposed Plan	FSRA 2021-2022 Budget	Variance (\$)
Revenue:			
Activity Fees <sup>1</sup>	11,800	8,954	2,846
Fee Assessment <sup>2</sup>	78,800	77,272	1,528
Licensing Fees <sup>3</sup>	16,000	12,332	3,668
Other <sup>4</sup>	200	1,503	(1,303)
<b>Total Revenue</b>	<b>106,800</b>	<b>100,061</b>	<b>6,739</b>
Direct Costs	61,900	58,489	(3,411)
Common Costs	47,400	45,454	(1,946)
<b>Total Costs</b>	<b>109,300</b>	<b>103,943</b>	<b>(5,357)</b>
Recovery Over /(Under)	(2,500)	(3,882)	1,382
Utilization of F19-20 Surplus	2,500	3,882	
<b>Net Balance</b>	<b>0</b>	<b>0</b>	
Notes: the following items were restated for comparison purposes			
1. Includes HSP and Life & Health Conduct fixed revenue			
2. Includes all variable sector revenue			
3. Includes Mortgage Brokers revenue			
4. Includes HSP under/(over) recovery			

# Appendix 1: Financial Assumptions

- All FSRA financial information assumes 12 months of activity.
- Comparable figures are based on the April 1, 2021 – March 31, 2022 budget approved by the FSRA Board and used to charge F2021-2022 fee assessments.
- Technology operating investments made during the year are recovered over five years from the sectors rather than expensed in the year paid, to better match the cost and benefit.
- No allocation methodology changes from prior year.
- With more than a year since the merger of FSRA and Deposit Insurance Corporation of Ontario, we have seen the declining relevance of the Credit Union sector IT facilities inherited from Deposit Insurance Corporation of Ontario, and the start of digital transformation and other IT benefits starting to accrue to the Credit Union sector. Therefore, Credit Union IT costs are being transitioned over five years to bear their pro rata share of common IT costs. This is reflected in the cost allocations.
- The Financial Planners/Financial Advisors sector costs will commence its fee collection, this includes amortization start-up costs and its share of current budget year expenses.
- FSRA regulates Health Service Providers as part of its Auto Insurance regulation activities, Health Service Providers, as a fixed fee payer under the FSRA fee rule, are merged into the Auto Insurance sub-sector and any revenue under recovery/overage is charged to/credited to the variable fee assessment auto sectors.
- Life Conduct for Life and Health agents is a fixed fee sub-sector. Any cost overage/underage will be charged to life insurers as a variable sub-sector.
- FSRA will recover expenses for its review of Co-Op offering statements.

# Appendix 2: Sector Allocation Methodology Highlights

**Direct cost allocation: includes insurance, pension, credit union, market conduct, legal, policy, lease and IT direct (project-specific expenses).**

- Pension, Credit Union and Insurance Division costs: allocated 100% to their respective sectors (with minor exceptions, i.e., one full time equivalent from Credit Union is allocated to the P&C Prudential Regulation sector).
- Market Conduct and Policy Division: based on dedicated full time equivalents to specific sectors. Full time equivalents that are not dedicated to specific sectors are allocated based on Market Conduct and Policy direct allocation rates.
- Legal Division: allocation based on anticipated use of service considering full time equivalents allocated to each sector and historical activity.
- Lease costs: allocated based on full time equivalent.
- IT costs for Credit Union sector: being transitioned from credit union-specific (Deposit Insurance Corporation of Ontario) costs to the proportionate costs of shared IT. The Deposit Insurance Corporation of Ontario IT architecture inherited in the merger with FSRA become less relevant given investments in IT and the move towards a fully integrated, secure and reliable digitally transformed FSRA IT environment. The transition will be complete in F2024-25.
- IT specific sector projects: charged to sectors directly. Additional IT costs are allocated to sectors proportionately based on their direct costs

**Common cost allocation: includes CEO office, corp services (which included IT non-specific project costs), public affairs, interest, amortization.**

- Based on the overall direct costs allocation rates.

# Appendix 3: FSRA Strategic Framework

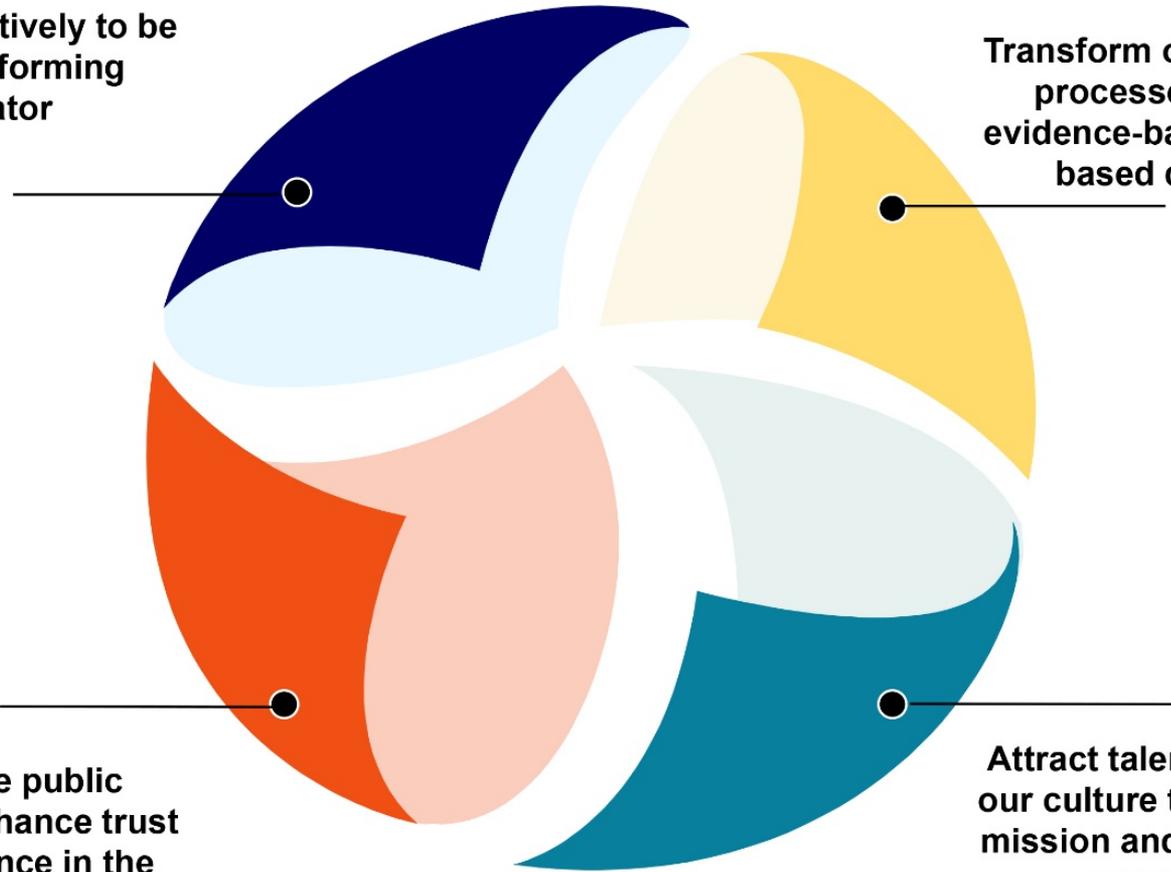
FSRA developed a Strategic Framework which will act as the foundation for our strategic planning through 2025. The Framework reflects FSRA’s legislative objects, as well as its Vision and Mission. It consists of four main pillars, which articulate on what FSRA will focus its efforts over the next three years.

**Operate effectively to be a high-performing regulator**

**Transform our regulatory processes to make evidence-based and risk-based decisions**

**Protect the public interest to enhance trust and confidence in the sectors we regulate**

**Attract talent and evolve our culture to achieve the mission and vision of the organization**



## **Pillar #1 - Operate effectively to be a high-performing regulator.**

- We will consistently deliver on our core business functions.
- We will apply continuous improvement methodologies to review operations.
- We will modernize tools and processes with a continued focus on digitization and automation.
- We will create an improved experience for stakeholders interacting with FSRA.
- We will communicate our expectations clearly to increase understanding among stakeholders on the regulatory approaches and activities taken by FSRA.
- We will continue to work with government partners to maintain an alignment on priorities.

## **Pillar #2 - Transform our regulatory processes to make evidence-based and risk-based decisions.**

- We will apply a consistent and transparent approach to regulatory oversight and decision making.
- We will collect more data and increase our internal capabilities to make data-driven and risk-based decisions.
- We will be responsive to the regulatory environment and adapt our approach to regulation, as needed.
- We will continue transitioning to principles-based regulation to focus our efforts on desired outcomes.
- We will build stronger relationships with other regulators through cooperation, collaboration and sharing of best practices.

## **Pillar #3 - Attract talent and evolve our culture to achieve priorities.**

- We will retain and develop top talent with deep expertise, and invest accordingly.
- We will foster a culture that is inclusive and exemplifies our values.

- We will organize and support our talent to effectively deliver on FSRA's strategic priorities and regulatory operational requirements.
- We will promote a culture where staff are actively empowered to lead, are held accountable, and are rewarded for outcomes.

## **Pillar #4 - Protect the public interest to enhance trust and confidence in the sectors we regulate.**

- We will embed a consumer lens in our guidance and rules.
- We will thoughtfully engage with regulated sectors, consumers, credit union members, and pension plan beneficiaries to understand their current and future needs.
- We will enable innovation and greater choice for consumers.
- We will conduct research to better understand risks to and opportunities for consumers, credit union members and pension plan beneficiaries.
- We will support efforts to enhance consumer, credit union member, and pension plan beneficiary education and knowledge.

The Strategic Pillars are designed to inform FSRA's regulatory activities, some of which will be outlined in the statement of priorities.