

June 11, 2024

Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, Ontario M2N 6S6

Dear Sir/Madame.

Proposed Guidance on Operational Risk and Resilience of Ontario Incorporated Insurance Companies and Reciprocal Insurance Exchanges

Thank you for the opportunity to comment on the proposed guidance: Operational Risk and Resilience of Ontario Incorporated Insurance Companies and Reciprocal Insurance Exchanges as published on April 17.

We have made separate comment on the Corporate Governance for Ontario Incorporated Insurance Companies and Reciprocal Insurance Exchanges but do note that these guidances are closely integrated in many respects and many of our comments will take into account this integration.

As the Ontario Mutual Insurance Association, we are providing feedback on behalf of our 34 member companies, all of whom are property-casualty insurers organized as mutual insurers and incorporated under Ontario statute.

Our members underwrite farm, home, automobile, and commercial insurance policies. Each of our mutuals is over 100 years old, with the oldest having been established in the 1850s. Our companies are predominantly located in small towns and cities across the province. Each of our members' policyholders is a fully participating mutual member. The boards of directors of our mutuals are composed of policyholders and all policyholders are eligible to vote at annual general meetings and participate in any refunds granted from surplus.

Our member mutuals are small insurers in a rapidly consolidating property-casualty insurance sector and we have seen a consolidation trend among our members. Our mutuals, when premium volume is aggregated, write a significant volume of farm, home, and auto insurance in the province. When regionality is considered, many of our mutuals are a vital market in their region and provide essential capacity, availability, and choice for Ontario consumers.

As our members are assessed under the Risk Based Supervisory Framework for Ontario Incorporated Insurance Companies and Reciprocal (RBSF-I), it will be important for FSRA as the regulator assessing the entities to ensure that the assessment process simplifies as much as possible the integration and interrelationship of these two guidances.

We also believe that there is an opportunity for the regulator to continue to clarify the guidances. As an example, the definition of operational risk on page 4 of the guidance is an important one and does put certain parameters around the category as it excludes strategic and reputational risks. We believe that coming to a common understanding of risk categories and how to monitor and report on complex risks will be a work in process. We encourage FSRA to continue to provide thematic commentary as assessments under RBSF-I evolve.

During that assessment process we also believe that from a practical standpoint the assessment team should be able to effectively apply a proportionality and consider innovative or unique ways in which smaller insurers may build and monitor risk frameworks.

We believe that in some instances a relatively simple risk management framework when well executed and where risks are thoughtfully prioritized can be more effective than a highly complex or administratively intricate framework.

It is our understanding that FSRA has monitored and will continue to monitor how to regulate the climate related risks. We believe that FSRA has taken the right approach in taking the time necessary to determine what would be appropriate standards for its regulated entities.

We are in the early days of standards being published and/or approaches being developed.

We believe that the best outcomes for Ontario policyholders will follow if there is a measured approach to arriving at a standards regime that is proportional, and which simplifies as much as possible the intended outcomes.

We believe that international regulators have shown little concern for the cost and practical implications of some of the standards adopted over the past several years, including IFRS-17 as an accounting standard. We acknowledge that these are not FSRA's responsibility, but we believe FSRA can play an important leadership role in supervising Ontario-based companies in ensuring that outsized reporting requirements are not adopted.

We also believe that regulators can collectively play an important role in helping separate environmental, social, and governance elements in order to ensure that within any set of standards there is an appropriate focus. As an example, if environmental sustainability and climate risk is the primary intended outcome regulators can help sustain that.

The cost of adapting to standards such as IFRS-17 should not be underestimated not only within the P&C sector but within all the auxiliary organizations that test support this type of reporting. The cost of these changes is all borne directly by policyholders as there is a direct line of sight to the cost of doing business.

We urge FSRA to continue to coordinate and streamline wherever possible the assessment process under RBSF-I and to wherever possible streamline the guidances to help all stakeholders understand where both efficiencies and effectiveness may lie within the guidance.

We also note that FSRA as an integrated regulator will at any given time have multiple approaches, frameworks, guidances, and approaches under development or in implementation. As an example, we know that a number of supervisory initiatives arise from a non-automobile insurance technical advisory committee. These activities generate the need for data and information and responses on a mandatory basis from the sector. Given that many of the resources at an insurer may have to respond in some cases to multiple requests we urge the regulator to a coordinate wherever possible and to continue to ensure requests for information are both reasonable and likely to be used productively in the assessment process.

We are confident that smaller organizations will be able to adapt to operating under these guidances, but we believe that a period of evolution will be required to become fluent and comfortable with some of these new requirements.

We thank you for the opportunity to provide comments.

Yours truly,

A handwritten signature in blue ink that reads "John L. Taylor". The signature is written in a cursive style with a large initial "J" and "T".

John L. Taylor BBA, FCIP, FCLA, CHRL
President